



# Focus

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## Changing poverty and changing antipoverty policies

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It is not surprising that the severe economic downturn that began in late 2007 reduced employment and earnings and raised the official poverty rate.<sup>1</sup> What many readers may find surprising, however, is that even during the long economic expansions of the 1980s and 1990s, the official poverty rate remained higher than it was in 1973. Since the early 1970s, dramatic changes in the economy, in social conditions that affect the demographic composition of the population, and in public policies have combined to reduce the antipoverty effects of economic growth. Even though gross domestic product per capita has grown substantially since the early 1970s, the antipoverty effects of this growth were substantially lower than they were in the quarter century that followed the

end of World War II. Economic growth is now necessary, but not sufficient, to significantly reduce poverty. Antipoverty policies must be reformed and expanded to address these new demographic and economic realities.

The articles in this issue examine changing poverty and changing antipoverty policies in the United States since the early 1970s. The authors consider both how economic and demographic changes have changed which individuals and families are poor, and how antipoverty programs and policies have, and have not, changed in response. Poverty rates have declined for some demographic groups and increased for others. The authors address the range of economic, social, and public policy factors that contribute to changing levels of poverty and examine how changes in existing programs and policies and the implementation of new programs and policies might reduce poverty in the future. Some of these poli-

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cies would supplement the incomes of today’s low-income families, while others aim to prevent poverty by raising employment and earnings—either in the near future, or in the next generation.

Many researchers consider the current income-based poverty measure to be outdated. However, the official poverty rate remains one of our nation’s most important social indicators. Despite its flaws, it provides valuable information on how far the nation still has to go to reach President Johnson’s goal, set out in 1964, when he declared “War on Poverty”—the elimination of income poverty.

A more contentious debate involves how to best understand the range of factors that lead some people to become poor or remain poor. Some explanations suggest poverty is primarily the consequence of an individual’s own choices concerning investments in education, job search and work effort, and family formation and childbearing decisions. Other explanations emphasize structural factors that shape the set of choices available to an individual and that differ systematically by, for example, parental socioeconomic status, race, and gender. Structural factors include changes in the nature of available jobs brought about by technological changes, globalization, and economic policies, and unequal access to good schools and employment opportunities due to residential segregation or discriminatory practices.

In this article, we review three cross-cutting factors that shape the extent and nature of poverty and how those factors affect prospects for reducing poverty: the changing role of race and ethnicity in the labor market and society; changing gender roles that influence both trends in labor force participation of women and patterns of family formation and childbearing; and the recent history of social welfare programs and policies.

## **The changing role of race and ethnicity: Uneven progress and persistent disparities**

The large and persisting differences in poverty rates between racial and ethnic groups are an enduring and troubling aspect of our nation’s social and economic history. In 1950, about three out of four black Americans had incomes below the level specified by the official poverty line; in contrast, about 35 percent of whites were poor. Both the high absolute level of black poverty and the disparity between the economic status of whites and blacks, challenged the American ideal of equal opportunity. The second half of the twentieth century was a period of great, but uneven and incomplete, progress. Overt, legally sanctioned discrimination explicitly based on race and ethnicity has largely been eliminated, but public

policies and institutional practices continue to have effects that differ by race and ethnicity, disadvantaging minorities. Moreover, the lingering effects of past discrimination in schooling, housing markets, and labor markets reduce the ability of racial and ethnic minorities to take full advantage of contemporary opportunities. Although the absolute gap in poverty rates between whites and racial and ethnic minorities has narrowed since the 1960s, continuing large disparities raise challenges for antipoverty policies.

The progress in reducing the official poverty rate and the narrowing of racial and ethnic disparities reflect overall economic growth during the last half of the twentieth century, expanded income support policies, especially for the elderly, and the elimination of most explicit discriminatory policies and practices. Remaining disparities reflect the vulnerability engendered by a history of disadvantage, as well as more subtle forms of discrimination—institutional structures, policies, and attitudes that have been more resistant to change.

The persistent disparity in poverty rates across racial and ethnic groups reflects both race-specific and race-neutral factors. Because about half of all the 37 million poor Americans are either black or Hispanic, race-neutral economic changes and public policy changes that broadly affect low-wage workers and low-income families will disproportionately affect racial or ethnic minorities. But race and ethnicity also directly shape the context and content of public policies and other factors in ways beyond those associated with the disproportionate representation of minorities among the poor.<sup>2</sup>

There is a long history of contentious debate among social scientists, policymakers, and the public about the factors that account for declines in marriage, increases in nonmarital childbearing, and racial and ethnic differences in these patterns. Dramatic changes in norms have occurred across racial and ethnic and socioeconomic groups concerning premarital sexual activity, nonmarital fertility, cohabitation, divorce, and nontraditional family formation. Changes in women’s employment and related changes in the timing of marriage and childbearing have had differential effects by education level, and therefore by race.<sup>3</sup> Some analysts also attribute the relatively low rates of marriage and high rates of nonmarital childbearing among blacks to declines in the number of black men who earn enough to support a family.<sup>4</sup> The relatively low proportion of black men with family-supporting earnings reflects a decline in the relative wages of less-educated men, the declining availability of jobs, and higher incarceration rates. Moreover, the decline in the work and earnings of black men, especially young black men, stands in contrast to growing employment and earnings for black women.<sup>5</sup> These changing economic realities interact with changing societal norms and expectations regarding

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marriage and parenting.<sup>6</sup> Regardless of causal factors, large differences in family structure have implications for labor market behaviors and the receipt of government benefits, which have their own independent effects on the racial or ethnic disparity in poverty rates. Moreover, some scholars suggest that the racial and ethnic composition of the poor and of potential program beneficiaries influences the generosity of public programs.

Because minorities account for more than half of all poor people, reducing the overall poverty rate requires a reduction in the high rates of poverty among racial or ethnic minorities. Race-neutral antipoverty policies that increase labor market prospects for all less-educated workers and supplement the incomes of all workers with low earnings, and that address the challenges faced by single-parent families, can have a substantial effect. However, given the lasting effects of discriminatory practices, additional policies will be needed to reduce racial and ethnic disparities in opportunities and outcomes.

### **Changing gender roles and expectations**

Since the 1960s, the U.S. and most other advanced economies have experienced dramatic changes in gender roles and expectations concerning women's choices in the domains of education, marriage, childbearing, and employment. Growth in women's employment reflects large increases in married mothers' work in the 1970s and 1980s, and in the employment of single mothers in the 1990s. In part because of changing gender roles and in part because of increased labor market opportunities, women are staying in school longer, marrying at later ages, and having fewer children.

A large increase in the percentage of children who reside with only one parent has also occurred. This reflects higher divorce rates after the 1960s, a delay in the age of first marriage, a decline in the percentage of women who marry, a lower birth rate for married women, and a somewhat higher birth rate for unmarried women. Declines in marriage and increases in nonmarital childbearing have increased women's risk of poverty, whereas increased educational attainment and employment and declines in the number of children per woman have contributed to reductions in poverty.<sup>7</sup>

These profound changes in gender roles and market work have important implications for the design of public policies and employer practices. Issues of family leave, access to affordable child care, and child support payments from noncustodial parents have become widespread concerns that affect the resources available to children and families across the distribution of income. In general, low-wage jobs offer fewer family-friendly benefits than do higher-wage jobs. Moreover, most public policies designed to help parents balance work and family responsibilities are not well-designed for low-income families.

The increased employment of mothers and changes in family-formation patterns have directly influenced changes in policies and programs focused on low-income women. Although Aid to Families with Dependent Children (AFDC) was designed in the 1930s to allow poor mothers (particu-

larly, white widows) to stay home and care for their children, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (welfare reform) mandated work requirements for almost all cash welfare recipients, even the mothers of infants. This change in expectations about the market work of welfare recipients in part reflects the increased work of mothers not receiving welfare.

Most mothers of young children work for pay at some time during the year, but most do not work full time, all year. Nonetheless, many states have Temporary Assistance for Needy Families (TANF) work requirements that expect such mothers to work full time. Moreover, public policies do not adequately address the reality that many poor women live in less-stable housing, in less-safe neighborhoods, and have fewer options to purchase acceptable child care than their middle-class counterparts. This makes it more difficult for poor mothers to find and hold jobs. Effective antipoverty policy will need to better respond to the challenges associated with changes in family structure and the increasing employment of mothers.

### **Changing social programs and policies**

When, in January 1964, President Lyndon Johnson declared War on Poverty, his economic advisors thought that the programs and policies that were being launched, together with a growing economy that raised the wages of most workers and generated low unemployment rates, would eliminate poverty as officially measured within a generation. Their expectations were incorrect—the official poverty rate was as high in 2007 as it was in 1968. However, given the economic conditions of the 1960s, their optimistic projections were reasonable ones. Poverty had fallen in the 1950s and 1960s, and Johnson's economists were confident that their fiscal and monetary policies could moderate the business cycle and keep the economy growing.<sup>8</sup>

They also expected that the enactment of the Economic Opportunity Act of 1964, which increased federal spending on education and training, and the implementation of additional policies to break down discrimination in schools and the labor market would raise the employment and earnings of the poor, especially racial or ethnic minorities and women. Among the many programs launched by the Economic Opportunity Act and the Higher Education Act of 1965 that still operate today are Head Start, the Job Corps, Pell Grants for college tuition, subsidized Stafford loans, and the work-study program for college students. Johnson's advisors expected that these new programs and policies would increase the ability of future generations of high school graduates to earn enough to escape poverty and would increase the likelihood that children from poor families would graduate from high school and enroll in college.

Many among the poor in the mid-1960s were not expected to work—the elderly, disabled, and single mothers with young children—and many poor adults were too old to productively invest in education and training. As a result, in the decade following declaration of the War on Poverty, there was rapid

growth in social security and welfare benefits designed to raise the incomes of those not benefiting from economic growth.

A growing economy, expanding economic opportunities, and more generous public benefits all contributed to a rapid decline in poverty from 19 percent to 11 percent between 1964 and 1973. However, the poverty declines came to an end in 1973, and since that time the official poverty rate has never fallen below 11 percent. The following decades, for the most part, have been characterized by slower economic growth than in the quarter century following World War II. Even this modest economic growth would have reduced poverty, had it not been accompanied by rising earnings and family income inequality, with those at the bottom of the income distribution falling further behind those at the top. For most groups at high risk of poverty (except the elderly), growth in government benefits also slowed after 1973.

Our reading of the evidence is that poverty has not fallen below the 1973 level in large part because of economic changes that led the real annual earnings of working male high school graduates to fall in the three decades after 1973.<sup>9</sup> The poverty rate would be somewhat lower today if fewer low-skilled men had withdrawn from the labor market and if marriage rates had not declined so much over these decades. However, these effects are small compared to the poverty-increasing effects of a labor market that shifted from a quarter century of rapid economic growth that benefited all workers to a quarter century of declining wages and employment prospects for workers with no more than a high school degree.

Poverty persists, not because the ideas of the War on Poverty planners were fundamentally mistaken, but because the changing economy increased economic hardships for many workers and existing antipoverty policies did not respond sufficiently to offset market-generated increases in poverty. Policies also failed to respond adequately to largely unanticipated changes in family organization. However, it is important to note that poverty need not remain high—the historical evidence and the new analyses described in this issue document that promising antipoverty policies can be undertaken to reduce poverty far below its current level.

## **Changing policies to reduce poverty in the twenty-first century**

Given current economic, demographic, and public policy contexts, poverty is not likely to fall substantially in the near future. This was evident even before the severe recession that began in December 2007 and the world economic crisis that began in fall 2008. Although the authors agree on this pessimistic near-term forecast, they are optimistic that poverty can be reduced significantly in the long term if the public and policymakers can muster the political will to pursue a range of promising antipoverty policies. The policies proposed by the authors would bring about changes in the labor market, in family policies, in schools, and in the health care system that would raise the employment and earnings and reduce the expenses of low-income families and increase opportunities for

their children. Our own high-priority antipoverty policies, a subset of the policies discussed in the articles that follow, are based on three fundamental assumptions about trends in work effort, patterns of family formation, and continuing changes in how the globalized economy affects the employment and earnings prospects of less-educated workers.

First, our proposals are based on the assumption that earnings, and not government cash benefits, will remain the primary source of family income for most adults who are not elderly and not disabled. We do not anticipate that an income-tested cash entitlement program like Aid to Families with Dependent Children will be reinstated. Since the early 1980s, and especially in the aftermath of the 1996 welfare reform, public policy changes have increased the extent of income support for the working poor and reduced cash benefits for the nonworking poor who are not elderly or disabled. We see no evidence to suggest that this pattern will be reversed.

The elderly and persons with disabilities are generally not expected to work to support themselves. However, the expectation of work has evolved so that it now includes most other adults. The 1996 welfare reform allows states to set their own expectations for work; some states now require new mothers to participate in work-related activities once their child is three months old. Even though Magnuson and Votruba-Drzal and Waldfogel document that requiring mothers to return to work shortly after giving birth has negative implications for child development, the evolution of public policy since the 1980s suggests that work will be expected of these women and exemptions from the work requirement will continue to be restricted.<sup>10</sup> Thus, as we prioritize antipoverty policy proposals, we assume that most adults, including the parents of young children, will work for pay.

Our second assumption relates to changes in societal attitudes about marriage and childbearing and the changes in family structure that have occurred since the 1960s. We assume that many children will continue to be born to unmarried parents or will spend part of their childhood living with a divorced parent. Children who spend all or most of their childhood living with only one biological parent (usually their mother) have a much higher risk of poverty than children living with two parents. Reducing nonmarital births, especially teen births, is a longstanding social policy goal, and marriage promotion policies are a recent policy innovation. However, even if these public efforts to change family formation patterns and fertility behaviors have effects that are larger than we expect, it is likely that they will only modestly reduce the total number of families with children that are poor. In part, this is because the noncustodial fathers of unmarried mothers tend to have poor labor market prospects and low annual earnings, so even if these parents marry, they are likely to have a poverty rate that is much higher than the rate for currently married couples.<sup>11</sup>

Our third assumption deals with the labor market prospects of workers with no more than a high school degree. Even though the economy has produced a substantial increase in the number of jobs since the 1970s, the inflation-adjusted wages of the least-educated workers, especially men, were



no higher in 2006 than in 1973, and their employment rates were lower.<sup>12</sup> We see little reason to expect dramatic growth in wages for workers at the bottom of the labor market. Indeed, the recession that began in December 2007 has already led to significant job loss and put downward pressure on wage rates. We thus assume that for the foreseeable future, many less-educated workers will continue to have difficulty earning enough on their own to support a family. The uneven economic growth of the past 35 years will continue, and hence, on its own, will not significantly reduce poverty.

Given these three assumptions about trends in work, family structure, and the antipoverty effects of economic growth, we conclude that an antipoverty policy agenda for the twenty-first century should pursue three fundamental goals.<sup>13</sup> The first is “to make work pay.” This requires that government regulations concerning wages and working conditions (such as the minimum wage or the ability of workers to unionize) and government benefits for low-wage workers (such as the Earned Income Tax Credit or subsidized child care) should allow most workers to avoid poverty. Because the 1996 welfare reform greatly reduced access to cash welfare, there is an additional need for policies to provide work opportunities for those who are willing to work but cannot find steady employment either because of poor economic conditions or because they face substantial employment barriers (such as physical health and mental health problems and learning disabilities) that make it difficult for them to work steadily.

The second goal has received less attention in the United States than in other industrialized nations—to provide sufficient support to parents so that those in both one-parent and two-parent families can work not only steadily, but also flexibly. This would help working parents to devote sufficient time to parenting and care-giving. Balancing responsibilities as a parent and a worker is a challenge for all families—one- and two-parent families, low-income and high-income families. However, work-family balance issues are particularly difficult to resolve for single parents who have less time for family responsibilities than married couples, and for most parents with limited financial or community resources.

The third goal reiterates a key goal of the War on Poverty—increased investments in education and training over the life course to raise employment and earnings. We need changes in our early childhood and K–12 educational policies to raise the educational attainment and abilities of poor children, and policy changes in “second-chance” workforce development programs to raise the skills of disadvantaged young adults. Americans have always favored providing a “hand up” to promote labor market opportunities instead of a “handout” to reduce poverty. However, disparities in educational opportunities persist and support for education and training programs for disadvantaged youth and adults has fallen dramatically since the early 1980s.

## Conclusion

Taken as a whole, the articles that follow provide a careful review of the evidence concerning economic changes,

demographic changes, and public policy changes since the declaration of War on Poverty. They demonstrate that, in the absence of a comprehensive expanded antipoverty strategy, there is little reason to expect substantial progress in reducing poverty. In the quarter century following the election of President Reagan in 1980, the public and policymakers were unwilling to spend more on antipoverty programs. Today, in part because of dissatisfaction with the policies of the prior quarter century and in part because the economic crisis of 2008 has justified increased government spending, the Obama administration has endorsed many of the policies that are analyzed in the articles that follow. These include policies that can raise the employment and earnings of low-income parents, help parents better balance their work and family obligations, and raise the educational attainment and skills of the next generation. Despite the challenges created by the economic downturn that began in late 2007, there are reasons for optimism about prospects for reducing poverty. ■

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<sup>1</sup>This article draws upon “Changing Poverty and Changing Antipoverty Policies,” in *Changing Poverty, Changing Policies*, eds. M. Cancian and S. Danziger (New York: Russell Sage Foundation, 2009).

<sup>2</sup>A. C. Lin and D. R. Harris, eds., *The Colors of Poverty: Why Racial and Ethnic Disparities Persist* (New York: Russell Sage Foundation, 2008).

<sup>3</sup>D. T. Ellwood and C. Jencks, “The Spread of Single-Parent Families in the United States since 1960,” in *The Future of the Family*, eds. D. P. Moynihan, T. Smeeding, and L. Rainwater (New York: Russell Sage Foundation, 2004).

<sup>4</sup>W. J. Wilson, *When Work Disappears* (New York: Alfred A. Knopf, 1996).

<sup>5</sup>H. Holzer, “The Labor Market and Young Black Men: Updating Moynihan’s Perspective,” *The Annals of the American Academy of Political and Social Science* 621 (2009): 47–69.

<sup>6</sup>K. Edin and M. Kefalas, *Promises I Can Keep: Why Poor Women Put Motherhood Before Marriage* (Berkeley and Los Angeles, CA: University of California Press, 2005).

<sup>7</sup>See M. Cancian and D. Reed, “Changes in Family Structure, Childbearing and Employment: Implications for the Level and Trend in Poverty,” in *Changing Poverty, Changing Policies*.

<sup>8</sup>J. Tobin, “It Can Be Done! Conquering Poverty in the U.S. by 1976,” *New Republic*, June 3, 1976, pp. 14–18.

<sup>9</sup>R. Blank, “Economic Change and the Structure of Opportunity for Less-Skilled Workers,” in *Changing Poverty, Changing Policies*; and S. Danziger and P. Gottschalk, *American Unequal* (Cambridge, MA: Harvard University Press, 1995).

<sup>10</sup>K. Magnuson and E. Votruba-Drzal, “Enduring Influence of Childhood Poverty;” and J. Waldfogel, “The Role of Family Policies in Antipoverty Policy;” both in *Changing Poverty, Changing Policies*.

<sup>11</sup>M. J. Carlson, S. McLanahan, and P. England, “Union Formation in Fragile Families,” *Demography* 41, No. 2 (2004): 237–262.

<sup>12</sup>R. Blank, “Economic Change and the Structure of Opportunity for Less-Skilled Workers.”

<sup>13</sup>For more detail on our policy proposals, see “Changing Poverty and Changing Antipoverty Policies.”

# ***Changing Poverty, Changing Policies***

Maria Cancian and Sheldon Danziger, Editors

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Maria Cancian and Sheldon Danziger

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# Poverty levels and trends in comparative perspective

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## Introduction

In his 1964 State of the Union address, President Lyndon Johnson said, “This administration today, here and now, declares unconditional war on poverty in America... It will not be a short or easy struggle, no single weapon or strategy will suffice, but we shall not rest until that war is won.”<sup>1</sup> Yet, as we will show, total official poverty rates are not much different today than they were in the late 1960s. Johnson predicted the struggle would not be “short or easy”—but why has it been so long and so difficult?<sup>2</sup>

In this article, we review the way poverty is officially measured in the United States. We use this official definition to present poverty rates in 2006 and answer several questions about poverty: Which types of individuals and families have the highest risks of poverty? What are the characteristics of those who live in poverty? What types of income sources do they have? We then examine trends over the 1968–2006 period, identifying groups that have made the most progress, and looking for clues as to why. Finally, we try to put the U.S. story in perspective. Do our conclusions change if we use a different definition of poverty? How do poverty rates in the United States compare to those of several other countries, and what explains these differences?

## The official U.S. poverty measure

A person or family is usually defined as “poor” if their resources fall below a particular level or threshold. This simple definition highlights three issues:<sup>3</sup>

- What should be counted as resources? For example, should we count only cash, or should “near-cash” sources like food stamps count? Should assets play a role? Should anything be subtracted from resources, such as taxes, health care expenses, or other nondiscretionary expenditures?
- Whose resources should count? Should we add up all the resources in a household, or only those from individuals linked to each other by blood or marriage (the Census Bureau’s definition of “family”), or should we try to determine each individual’s resources separately without adding across other household members?

- What should the threshold be, and for whom should it vary? Should the threshold be higher for large families or those living in more expensive locations? How should the threshold vary over time—only as prices change, or as the general standard of living changes, or by some other criteria?

The official definition used in calculating U.S. poverty rates answers these questions by including total pre-tax money income (ignoring near- and noncash sources, assets, and all expenditures) for all individuals related by blood or marriage (a family) and comparing this to a threshold that varies by the family’s size and age composition but not their geographic location. Each year, the U.S. Census Bureau reports the official poverty rate based on data gathered in the March Current Population Survey (CPS), which interviews over 50,000 U.S. households. The threshold changes over time only with changes in prices.<sup>4</sup> The United States is unusual among developed countries in having a single official method of calculating poverty.

## Poverty in the United States in 2006

In 2006, 12.3 percent of all persons living in the United States were poor by the official poverty measure. If we were to use a more comprehensive measure of resources, including the cash value of food stamps and the Earned Income Tax Credit (EITC) and subtracting an estimate of payroll and state and federal income taxes paid, 11.4 percent of all persons would be below the poverty threshold. The alternative poverty rate is lower because food stamps and the EITC provide more to the poor than they lose in the taxes they pay.

Table 1, which focuses on the official measure, shows that the official poverty rate varies dramatically for different demographic groups. The rate for children is substantially higher than the rate for adults between the ages of 18 and 64 and the rate for the elderly. Among those less than age 65, people of color have particularly high poverty rates—with the rate for both non-Hispanic African Americans and Hispanics more than twice the rate of non-Hispanic whites.<sup>5</sup> Individuals in female-headed families have by far the highest poverty rates at nearly 32 percent.

Poverty is closely tied to the education and employment levels of the primary person in the unit. Poverty rates for those in which the primary person has less than a high school education are more than twice as high as those whose primary person has just a high school diploma. Those living in units in which the primary person has a college degree have particularly low rates. The differences in poverty rates by work status of the primary person are also dramatic: fewer than 5 percent of those living in units in which the primary person works full time year-round are poor, but nearly half of those living in a unit in which the primary person did not work during the last year are poor.

**Table 1**  
**U.S. Poverty in 2006**

	Poverty Rate	Share of the Poor	Average Poverty Gap
<b>All</b>	12.3%	100.0%	\$8,113
<b>By Age Group</b>			
Children	17.4	35.3	\$9,919
Aged 18–64	10.8	55.4	\$7,593
Elders	9.4	9.3	\$4,378
<b>For Those Less than Age 65</b>			
<b>All Less than Age 65</b>	12.7%	90.7%	\$8,496
<b>By Race</b>			
White	8.4	42.2	\$7,748
Black	24.2	24.2	\$9,338
Hispanic	20.7	26.5	\$8,738
Other	13.0	7.1	\$9,175
<b>By Family Type</b>			
Married-Couple Family	5.9	29.8	\$8,590
Male-Headed Family	14.7	5.4	\$8,301
Female-Headed Family	31.9	40.8	\$9,839
Male (non-family)	18.4	11.9	\$6,107
Female (non-family)	23.7	12.1	\$6,144
<b>By Family Size</b>			
One	20.8	24.1	\$6,126
Two	9.5	15.1	\$7,025
Three	10.8	16.8	\$7,988
Four	9.8	18.2	\$9,020
Five	12.0	12.1	\$10,022
Six or More	19.3	13.8	\$12,784
<b>By Education of Head</b>			
Less than High School Degree	31.4	34.6	\$9,051
High School Degree	14.8	34.9	\$8,170
Some College	10.6	22.4	\$8,094
College Degree	3.5	8.2	\$8,758
<b>By Work Status of the Head</b>			
Not Working	47.2	46.0	\$10,320
Working, Not Full Time Year-Round	24.3	30.5	\$7,493
Working, Full Time Year-Round	4.2	23.6	\$6,310

**Source:** Authors' calculations based on the 2007 Current Population Survey.

**Note:** The poverty "gap" is the mean amount of income needed to surpass the official poverty line or threshold.

### The "face" of poverty: Characteristics of those below the poverty line

Poverty rates provide information on the risk of being poor. A related, but different, question examines the characteristics of those below poverty. Returning to Table 1, the second column presents information on the composition of those below the poverty line, enabling us to examine the characteristics of a typical person below poverty. Whites constitute a larger share of the poor than blacks or Hispanics. Fewer than half the poor live in a family in which the primary person did not work at all last year. And the "feminization of poverty" is clear: more than half the poor come from one of two

groups, those who live in female-headed families or female non-family individuals.

### How poor are those below poverty?

The poverty rate is a relatively crude measure of disadvantage: individuals are either above or below the line. The public and policymakers may feel very differently about the extent to which poverty is a problem depending not only on how many people are classified as being poor, but also on how close they are to the poverty line. The third column of Table 1 shows the average poverty "gap," defined as the difference between the poverty line and income for those who are below the line. Most poor families are not clustered just below the line, but would need a significant increase in their income (\$8,113 on average) to move over the line.

### Income sources of the poor

Table 2 shows the income sources of the poor, differentiating between those in which the head was either below or at or above age 65. Earnings are the main source of income for most nonelderly families, and key reasons for poverty among nonelderly heads are unemployment and low wages. None of the cash income sources other than earnings are common for the nonelderly who are poor. The other income sources and taxes paid that are not considered in the official poverty calculation are received by many of the poor. Accounting for these other sources increases mean and median incomes, but still leaves most families far below the poverty line.

### Trends in poverty

About one in eight Americans was poor in 2006. As we have seen, poverty rates are substantially higher for children than

**Table 2**  
**Income Sources for Those Below the Poverty Line, 2006**

	Percent with Source	Mean Income	Median if Present
<b>Nonelderly Heads</b>			
Earnings	50%	\$3,874	\$7,002
Social Security	11	869	8,022
Public Assistance	7	223	2,507
Child Support	7	190	2,400
Supplemental Security Income	11	656	7,200
Other	25	673	1,524
Family Income	79	6,485	7,950
Poverty Gap		7,197	
Food Stamp Value	29	725	1,860
EITC	36	653	1,225
Net Family Tax	25	232	-383
Net Family Income	91	6,646	8,082
Poverty Gap (Net income)		4,112	

**Source:** Authors' calculations based on the 2007 Current Population Survey.



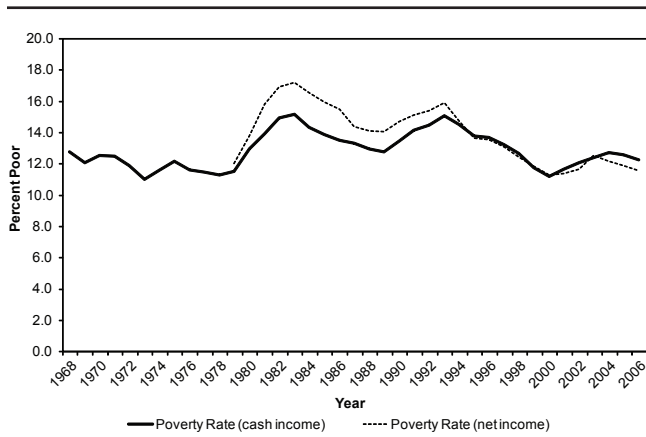


Figure 1. Poverty trends 1968–2006, two measures of poverty.

elders, for people of color than non-Hispanic whites, and for those in single-parent families than those in married-couple families. To provide additional perspective, we also consider the progress, or lack of progress, made in fighting poverty. Even in periods of fairly stable total poverty rates, we find that some groups have made remarkable progress, while others have lost ground.

We comment first on long-term patterns. Several conceptual and measurement issues make it difficult to calculate comparable poverty rates for previous generations.<sup>6</sup> A key difficulty is that research has shown that the public's ideas about what a family needs to escape poverty increases as the country's standard of living increases.<sup>7</sup> Notwithstanding these difficulties, some researchers have calculated historical poverty rates based on thresholds that change only with prices. Robert Plotnick, Eugene Smolensky, Erik Evenhouse, and Siobhan Reilly report a poverty rate in 1914 of 66 percent, a high of 78 percent in 1932, and a rapid decline in poverty during World War II to a level of 24 percent in 1944.<sup>8</sup> Gordon Fisher's series begins in 1947 at 32 percent and declines during the post World War II boom to 24 percent in 1958.<sup>9</sup> The official governmental series then begins in 1959, with poverty at 22 percent, declining to 13 percent in 1968; our analyses begin in 1968.

In Figure 1, we show poverty trends from 1968 to 2006 using the official poverty measure, which is based on cash income, and using an alternative poverty measure, which is based on net income that incorporates taxes paid and food stamps and EITC received, as proposed in 1995 by a National Academy of Sciences panel.<sup>10</sup> When we compare the official rate to our adapted measure, we find that in 1979 (data limitations preclude starting this series earlier) the rate was 12.0 percent (compared to the official rate of 11.6 percent). In the next several years, poverty rates under this alternative measure were higher than under the official measure because taxes on low-income families were higher than they now are and EITC payments were lower.<sup>11</sup> With the expansion of the EITC in 1986, 1990, and 1993, fewer low-income families pay net income taxes, with federal and state EITCs (and food stamps) generally offsetting taxes. Thus, poverty under the alternative income measure fell more than under the official measure, and the two rates were quite similar in the years after 1995.

## Poverty trends for subgroups, using the official measure

Table 3 shows poverty rates under the official measure in 1968, 1990, and 2006. Several important policy changes occurred over this 1968–2006 period. Spending on social insurance programs increased much faster than spending on means-tested programs (except for Medicaid), and spending on in-kind programs increased more rapidly than cash programs. New programs included SSI, the EITC, child care subsidy programs, and TANF; all except SSI, a newly federalized program for people with disabilities, were focused on encouraging or helping people to work. The policy changes that provide additional in-kind benefits, benefits through the tax system, or other work supports do not directly affect the official poverty rate, because these sources are not counted in gross cash income.

Poverty rates for people of color were substantially higher than for non-Hispanic whites throughout this period, and show contrasting patterns. Poverty rates for non-Hispanic blacks improved slightly between 1970 and 1990 and more substantially between 1990 and 2006. The rates for Hispanics increased during the first period before showing substantial reductions in the second. Poverty declines for Hispanics during the second period are particularly remarkable given the increase in immigration. For both groups, poverty rates in 2006 were less than in 1970, especially so for African Americans.

## Trends in characteristics of the poor

Over the nearly 40-year period between 1968 and 2006, the composition of the poor has shifted dramatically. For example, Hispanics now make up a substantially larger share of the poor than they did in 1970 (27 percent, compared to 10 percent), with declines in shares for both non-Hispanic whites (from 55 percent to 42 percent) and African Americans (from 33 percent to 24 percent). Changes in the composition of the overall population caused much of this shift. A combination of population changes and changes in underlying poverty rates has also resulted in a larger fraction of the poor in 2006 living in central cities and other urban

Table 3  
Poverty Rates in 1968, 1990, 2006

	Poverty Rates		
	1968	1990	2006
<b>All</b>	12.8%	13.5%	12.3%
<b>By Age Group</b>			
Children	15.4	20.6	17.4
Aged 18–64	9.0	10.7	10.8
Elders	25.0	12.1	9.4
<b>For Those Less than Age 65</b>			
<b>All Less than Age 65</b>	11.5%	13.7%	12.7%
<b>By Race<sup>a</sup></b>			
White	7.5	8.7	8.4
Black	32.8	31.6	24.2
Hispanic	23.8	28.3	20.7

<sup>a</sup>The first column of poverty rates by race are for 1970, not 1968.

**Table 4**  
**Income-Source Trends for the Poor, 1968 & 2006**

	1968	2006
Nonelderly poor families with earnings	62%	50%
Share of income attributable to earnings	67	60
Families receiving public assistance	20	7
Share of total income from public assistance	15	3
Elderly poor families with earnings	14	6

areas and a substantially smaller fraction living in rural areas (22 percent, compared to 49 percent in 1968).<sup>12</sup>

Overall, the change in the “face” of poverty has been dramatic: in 1968, a picture of a non-Hispanic white individual who was part of a married-couple family, lived in a rural area, and whose head had less than a high school degree would have accurately represented characteristics associated with about half or more of those below poverty. By 2006, none of these characteristics would have accurately reflected the characteristics of more than half of those below poverty.

### Trends in income sources for the poor

Table 4 shows the results of these analyses in which we examine two time points, 1968 and 2006, use the official measure of poverty, and consider cash income sources. For both elderly and nonelderly poor families, the significance of earnings as an income source has declined over time. This change, consistent with other research that shows that the pre-transfer poverty gap is growing, means that governmental transfers would have had to become more generous over time to bring families above poverty.<sup>13</sup> Yet the data show that this has not occurred: cash transfers have become substantially less important for nonelderly families as we have moved more toward a policy system that requires and supports work.

### Putting poverty in perspective

An important criticism of the official poverty measure is that the poverty thresholds have not been updated since the 1960s to reflect increasing standards of living, but instead are based on an absolute standard. Even in the eighteenth century, the man often described as the “father of economics,” Adam Smith, pointed out that the standard of living of a society is closely related to how we think about what is necessary: “By necessities I understand not only the commodities which are indispensably necessary for the support of life, but what ever the customs of the country renders it indecent for creditable people, even the lowest order, to be without.” One traditional way to measure this construct is to take a particular percentage (often half) of median income as a measure that is more closely linked to the “customs of the country.” This type of measure is often called a “relative” measure because the incomes of others matter in the setting of the poverty threshold.

In this section we use the National Academy of Sciences proposed resource measure that we introduced before (accounting for near-cash sources of income and taxes), and compare

this measure of resources to a threshold based on half the median income. This resource measure reflects growth in standards of living over time. More specifically, we compare equivalized household income to 50 percent of equivalized median household income in that year.<sup>14</sup>

We use 50 percent of median household income in part because it is often used in other countries, though the European Union now recommends 60 percent of median income as a preferred poverty threshold, and in part because the U.S. official measure was approximately half the median income when it was set in 1963.<sup>15</sup> Because net incomes have risen substantially faster than prices over the last 40 years, a poverty threshold based on half median incomes is substantially higher than the official measure.<sup>16</sup> Poverty under this measure was 14.4 percent in 1979, when the official rate was 11.6 percent; in 2006, this measure shows a rate of 15.7 percent, compared to 12.3 percent for the official measure.

### Poverty in the United States compared to selected other countries

The Luxembourg Income Study allows researchers to compare poverty rates in the United States to those in other countries. The most recent data available from this source are from about 2000 (specific years of data vary somewhat across countries). The economist Timothy Smeeding has recently compared poverty rates in the United States with ten other countries (Canada and nine European countries) using a measure of resources similar to our “net income” measure<sup>17</sup> and a threshold based on half the median income within each country. As shown in the first column of Table 5, poverty in the United States is the highest of the countries examined when a relative measure is applied, at 17.0 percent. Poverty rates in Canada are substantially lower and rates are particularly low in the Scandinavian countries Finland and Sweden. The next column shows that the United States has particularly high poverty rates for households with children.

**Table 5**  
**Poverty Rates in Eleven Rich Countries**

	Relative Measure			Absolute Measure
	All	Households with Children	Age 65 or Older	All
United States	17.0%	18.8%	28.4%	8.7%
Ireland	16.5	15.0	48.3	NA
Italy	12.7	15.4	14.4	NA
United Kingdom	12.4	13.2	23.9	12.4
Canada	11.4	13.2	6.3	6.9
Germany	8.3	7.6	11.2	7.6
Belgium	8.0	6.0	17.2	6.3
Austria	7.7	6.4	17.2	5.2
Netherlands	7.3	9.0	2.0	7.2
Sweden	6.5	3.8	8.3	7.5
Finland	5.4	2.9	10.1	6.7

**Notes:** Data are from 2000 except from the United Kingdom and Netherlands, where data are from 1999. The relative measure compares cash and near-cash household income to 50 percent of median equivalized household income. The absolute measure uses the U.S. poverty threshold, converted to each country’s currency.

Here the contrast with the Scandinavian countries is most stark, as their rates for households with children are much lower than their overall poverty rates.

In the final column, we report Smeeding's analysis of a measure roughly comparable to the U.S. official poverty measure. Note that this analysis is substantially different from the earlier columns, in which the poverty threshold for each country is set based on its own income distribution in recognition that part of the concept of poverty is having less than what "the custom of the country" deems it needful to have. In the absolute measure used in this table, the approximate amount that could be purchased in the United States with an income equal to the U.S. threshold is taken and the equivalent amount of income is calculated in other countries. Under this measure, poverty in the United States is lower than that in the United Kingdom, and closer to other countries. Thus, the United States has higher poverty rates than most other rich countries under both measures, but especially so under relative measures.

Why does the United States rank so poorly in comparisons with other wealthy nations? A substantial literature has explored this question.<sup>18</sup> Because so few elders work, the primary factors related to their poverty are unearned income, primarily the generosity of public pensions and other governmental supports. Even though great strides have been made in reducing poverty among elderly Americans in the last 40 years (see Table 3), the United States still ranks second only to Ireland for poverty among elders in the 11 countries surveyed by Smeeding using the relative measure of poverty. The United States does not fare any better in poverty among elders according to an absolute measure that applies the U.S. threshold adjusted for purchasing power to other countries. Here the United States ranks second only to the United Kingdom among the nine countries for which these calculations were made. These results suggest that while policy in the form of Social Security and SSI have been successful in reducing poverty, the generosity of these old age retirement and income support programs in the United States lags behind those of industrialized European countries.

Among the nonelderly, the story is somewhat more complicated, but explanations center on differences in taxes, social insurance (benefits that are not means-tested), social assistance (means-tested benefits including the EITC in the United States and the Family Tax Credit in the United Kingdom), differences in labor supply, and differences in earnings in the United States compared with wealthy European countries.

One way to assess the poverty-reducing effects of taxes, social insurance, and social assistance is to compute poverty rates first based on gross-market income and second based on net-disposable income, and then to compare the results of the two measures. Timothy Smeeding as well as Janet Gornick and Markus Jäntti have performed this exercise using LIS data from around 2000 for slightly different sets of countries.<sup>19</sup> The results indicate that the tax and transfer policies of other countries do far more to reduce poverty than similar policies in the United States. Among the 11 countries for which Smeeding performed this exercise, the United

States achieved the lowest percentage reduction in poverty as a result of tax and transfer policy, at 26.4 percent. The next lowest country was Ireland at 44.1 percent.

These results suggest policy in the United States is doing far less to reduce poverty than in most other countries. The primary reason for the ineffectiveness of U.S. policy has to do with the level of expenditures. Among the 11 countries surveyed by Smeeding, the United States ranks the lowest in nonelderly cash and near-cash social spending as a percentage of GDP, and it has the highest nonelderly poverty rate. Across the 11 countries, the correlation between the percentage of nonelderly poor and nonelderly social expenditures is very high at 0.78 (on a scale from zero to 1.0, at which zero would be no correlation and 1.0 would be perfect correlation).

To what extent do relatively high poverty rates in the United States have to do with differences in labor supply or wages? Smeeding also examines this question, finding that average annual hours worked by the head and spouse in poor households in the United States exceeds that of the six other countries for which comparable data are available. In most cases the differences are quite striking. For instance, using a net-disposable income measure and a relative (50 percent of median household income) poverty threshold, poor U.S. household heads and their spouses worked an average of over 1,200 hours per year in 2000, compared with only 489 in the Netherlands, 371 in Germany, and 463 in Belgium, all countries with dramatically lower poverty rates. Thus, high poverty rates in the United States are not merely the result of low levels of labor supply. In fact, quite the contrary is true, as nonelderly poor in the United States work more hours than their counterparts in other wealthy nations.

While differences in labor supply do not provide an explanation for the relatively high poverty rates in the United States, low wages do. As shown by Smeeding, the correlation between the percentage of full-time workers earning less than 65 percent of median earnings and the nonelderly poverty rate among the eleven countries he surveyed is 0.92.<sup>20</sup>

## Summary

In 2006, 42 years after the War on Poverty was proclaimed, poverty according to the official measure was 12.3 percent, about the same as it was in the late 1960s. A poverty measure that incorporates additional income sources shows somewhat lower poverty, 11.4 percent, but if a relative measure (that incorporates changes in the standard of living over time) is used, poverty in 2006 would be 15.7 percent.

When the War on Poverty was proclaimed, its architects thought that poverty could be eradicated, but they had no temporal or cross-national comparisons to provide context. We can now compare the poverty level to two benchmarks: poverty in the United States in previous years, and poverty in other countries. On both comparisons, the United States fares poorly. Over the 1968–2006 period, even during the best economic times, with substantial governmental efforts, and with



a poverty threshold that many consider too low, the official poverty rate has never been as low as 10 percent, and there is no strong trend toward lower poverty rates over time. Moreover, not only are poverty rates high compared to the recent historical record, the rates in the United States are also quite high when compared to rates in other developed countries.

Substantial differences in poverty rates across demographic groups have persisted over the study period. Using the official measure, the highest poverty rates, all above 20 percent, are for those living in female-headed families, those living in a family whose head does not have a high school degree or was not working, and people of color. The first two characteristics highlight the critical importance of the labor market. Part of the reason single-parent families have higher rates of poverty is that only one adult is available to work, and that adult must provide both economic support and nurturing.<sup>21</sup> Part of the reason individuals with low education have such high poverty rates is that their earnings are low. Finally, the fact that people of color have such high poverty rates highlights the extent to which race is still strongly connected to opportunity and outcome in the United States.

Nonetheless, we do note that the economic boom in the 1990s was associated with increased willingness of employers to hire minorities and other groups that have traditionally faced disadvantages,<sup>22</sup> and a strong link persists between macroeconomic performance and the poverty rates of various disadvantaged groups. The trends also suggest that policy can make a difference in fighting poverty. The prime example is that most analysts credit increases in Social Security benefits as the primary cause of the dramatic declines in elderly poverty.<sup>23</sup>

As President Johnson predicted, the struggle against poverty has not been “short or easy.” He also realized that no “single weapon or strategy” would be sufficient. Despite a variety of social policy changes, the official measure, as well as our alternative measures, shows that very little progress has been made. Perhaps it is time for a renewed war on poverty, this time fought with new commitments and different policy weapons. ■

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<sup>1</sup>This article draws upon “Poverty Levels and Trends in Comparative Perspective,” in *Changing Poverty, Changing Policies*, eds. M. Cancian and S. Danziger (New York: Russell Sage Foundation, 2009).

<sup>2</sup>Johnson’s speech is available at <http://www.americanrhetoric.com/speeches/lbj1964stateoftheunion.htm>.

<sup>3</sup>We focus here only on poverty in a single time period, rather than persistent or permanent poverty. For simplicity, we also ignore other issues, including whether income or consumption is the best measure of resources and whether there should be a single measure or multiple measures.

<sup>4</sup>Through 1969, the thresholds were indexed using the price of food. Up until 1980, the poverty thresholds were indexed using the consumer price index for urban wage earners and clerical workers. Since 1980, it has been indexed by the consumer price index for all urban consumers (CPI-U).

<sup>5</sup>Our categories are focused on race and ethnicity, but not on immigrant status because immigration is covered in more detail in the article in this issue by Steven Raphael and Eugene Smolensky.

<sup>6</sup>The U.S. Census Bureau calculates official poverty rates back to 1959, using a threshold that is back-dated for changes in prices. Gordon Fisher

has back-cast the official threshold even further, to 1947, in *Estimates of the Poverty Population under the Current Official Definition for Years before 1959*, mimeograph, Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services, 1986; and Robert Plotnick and colleagues have created a poverty series that dates back to 1914. R. Plotnick, E. Smolensky, E. Evenhouse, and S. Reilly, “The Twentieth-Century Record of Inequality and Poverty in the United States,” in *The Cambridge Economic History of the United States*, Vol. 3, eds. S. L. Engerman and R. E. Gallman (Cambridge: Cambridge University Press, 2000), 249–299. All of these series are back-cast only for changes in prices and do not reflect increases in the general standard of living.

<sup>7</sup>For example, Rebecca Blank shows that responses to the minimum amount needed to “get along” track 50 percent of median income through the late 1980s, suggesting that as the general standard of living increases, so does the amount reported as needed, in R. Blank, “How to Improve Poverty Measurement in the United States,” *Journal of Policy Analysis and Management* 27, No. 2 (2008): 233–254. Since the late 1980s, with increases in inequality, responses to the amount needed to “get along” increase by more than median income, and seem more closely related to half the mean income. Thus, if median or mean incomes are increasing, updating a poverty line by prices only will eventually be an underestimate of what most people think of as amounts needed to “get by.”

<sup>8</sup>R. D. Plotnick, E. Smolensky, E. Evenhouse, and S. Reilly, “The Twentieth-Century Record of Inequality and Poverty in the United States,” in *The Cambridge Economic History of the United States*, Vol. 3, eds. S. L. Engerman and R. E. Gallman (Cambridge: Cambridge University Press, 2000), 249–299.

<sup>9</sup>G. Fisher, “Estimates of the Poverty Population under the Current Official Definition for Years before 1959,” mimeograph, Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services, 1986.

<sup>10</sup>Citro and Michael, *Measuring Poverty*.

<sup>11</sup>J. K. Scholz, “Taxation and Poverty: 1960–2006,” *Focus* 25(1): 52–57.

<sup>12</sup>The figures for 1968 examine only those whose status has been classified; 15 percent of the poor were not classified into central city, other urban, or rural.

<sup>13</sup>J. P. Ziliak, “Filling the Poverty Gap: Then and Now,” in *Frontiers of Family Economics* Vol. 1, ed. P. Rupert (Bingley, UK: Emeerald Group, 2008).

<sup>14</sup>Unlike the official measure, poverty status is computed for all household members, regardless of their family membership. We thus assume that all household members, whether related or not, share their incomes. Because this assumption is not likely to hold for persons living in noninstitutional living arrangements for groups (such as college dormitories), we excluded these persons from this measure. We use the household rather than the family because this procedure is roughly equivalent in concept and construct to how many industrialized countries measure poverty. Income is equalized using the scale.

<sup>15</sup>European Union Social Protection Committee, *Report on Indicators in the Field of Poverty and Social Exclusion*, 2001, accessed at [http://ec.europa.eu/employment\\_social/spsi/docs/social\\_protection\\_committee/laeken\\_list.pdf](http://ec.europa.eu/employment_social/spsi/docs/social_protection_committee/laeken_list.pdf).

<sup>16</sup>A higher poverty threshold is also appropriate given that food expenditures are now a much lower portion of overall expenditures, which suggests that food costs should be multiplied by a much larger multiplier than three to be consistent with the original methodology. Based on the 2006 Consumer Expenditure Survey, food expenditures for consumer units averaged slightly more than 10 percent of before-tax income.

<sup>17</sup>A key difference is that Timothy Smeeding’s measure includes cash housing benefits. See T. M. Smeeding, “Poor People in Rich Nations: The United States in Comparative Perspective,” *Journal of Economic Perspectives* 20, No. 1 (2006): 69–90.

<sup>18</sup>See, for example, G. Burtless, “What Have We Learned about Poverty and Inequality? Evidence from Cross-National Analysis,” *Focus* 25, No. 1 (2007): 12–17. <sup>19</sup>Smeeding, “Poor People in Rich Nations”; and J. C. Gornick, and M. Jäntti, “Child Poverty in Upper-Income Countries: Lessons from the Luxembourg Income Study,” in *From Child Welfare to Child Well-*



being: *An International Perspective on Knowledge in the Service of Making Policy*, eds. S. B. Kamerman, S. Phipps, and A. Ben-Arieh (forthcoming).

<sup>20</sup>Smeeding, "Poor People in Rich Nations."

<sup>21</sup>For most single-parent families, there is a living parent who does not reside with the child, making child support an important potential income source. In addition, in theory, single-parent families could live with other adults, which would lessen the burden on a single adult to provide both economic support and care.

<sup>22</sup>H. J. Holzer, S. Raphael, and M. A. Stoll, "Employers in the Boom: How Did the Hiring of Less-Skilled Workers Change During the 1990s?" *Review of Economics and Statistics* 88, No. 1 (2006): 283–299.

<sup>23</sup>See, for example, G. Burtless and J. Quinn, "Retirement Trends and Policies to Encourage Work among Older Americans," in *Ensuring Health and Income Security for an Aging Workforce*, eds. P. Budetti, R. Burkhauser, J. Gregory, and A. Hunt (Kalamazoo, MI: The W.E. Upjohn Institute for Employment Research, 2001), 375–415.

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# Economic change and the structure of opportunity for less-skilled workers

Rebecca M. Blank

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Because the primary source of support for most nonelderly adults comes from their employment and earnings, understanding the jobs and wages available to less-educated workers is key to understanding changes in the well-being of low-income populations.<sup>1</sup> Expansions and contractions in the macroeconomy influence unemployment rates, wages, and overall economic growth, all of which are important determinants of the economic circumstances facing low-income families.

Low-income families are more reliant on jobs and earnings in the 2000s than they were in past decades. This is particularly true for less-skilled single mothers, who greatly increased their earnings following welfare reform in the mid-1990s. Maintaining a high employment economy, with stable or growing wages and jobs that are readily available to less-educated workers, continues to be the most important anti-poverty policy for this country. The deep recession that began in 2008, with unemployment rates at their highest levels in 25 years, is likely to cause significant increases in poverty.

## Work behavior among less-educated persons

The economy primarily affects individuals who are working or actively looking for work. Trends in labor force participation since 1980 have differed between less-educated men and women. Employment declined markedly among less-educated men between 1979 and 2007, although more of this decline occurred between 1979 and 1995 than in the more recent decade. Figure 1 shows the trends over this period by education level in the share of men between the ages of 18 and 54 who report themselves as either working or looking for work.<sup>2</sup> Men with more than a high school degree have always been highly likely to work, with about a 90 percent labor force participation rate throughout this period. (The slight decline is due to growing years of school and earlier years of retirement within this group.) In contrast, men with only a high school degree or less have experienced substantial declines in labor market involvement.

Juhn indicates that virtually all of the decline in less-skilled men's labor force participation over the 1980s can be ex-

plained by declining wages.<sup>3</sup> More recent declines are less easily understood. While labor force participation has risen slightly among the least-educated, it continues to decline among those with just a high school education. This is true even though unemployment rates remained relatively low throughout the 1990s and early 2000s. Increased incarceration (making men less employable upon release) and increased child support enforcement (making work less lucrative) explain some, but not all, of the decline in labor force participation among young black men.<sup>4</sup> There appears to have been a behavioral change in labor market involvement among less-skilled young men, especially black men, that was unrelated to measurable economic variables. It is unclear whether the deep recession that started in 2008 will exacerbate these trends as even fewer jobs are available.

Figure 2 shows labor force participation changes among women between 1979 and 2007, differentiating between the same three education groups as in Figure 1. In general, all women increased their labor force involvement since 1979, although the patterns differ across groups. Women with post-high school training show steady increases in work, from 1979 to 1998, after which the rate falls slightly. High school graduates show a similar pattern.

In contrast, women who are high school dropouts have labor force participation rates just over 44 percent from 1979 to 1994. Their rate increases to over 50 percent by 2000, then declines slightly. The increase in work among the least-educated women in the mid-1990s was related to the policy changes in welfare and in work subsidies that were enacted at that time. Cash welfare support became much less available and those on welfare were required to participate in

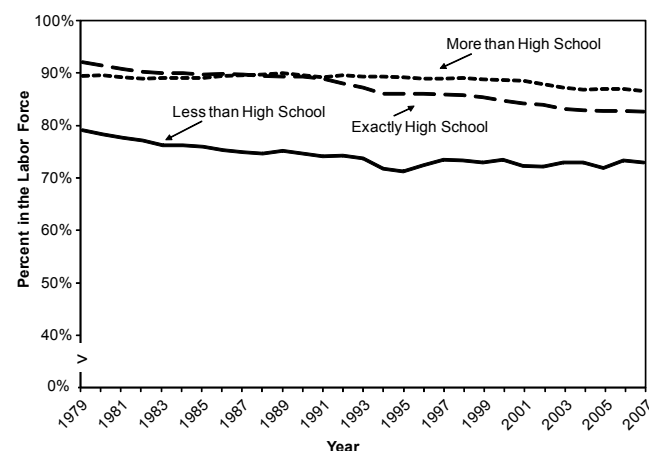


Figure 1. Male labor force participation by skill level, 1979 to 2007.

Source: Author's tabulations from Current Population Survey Outgoing Rotation Group data. Based on all noninstitutionalized civilian adults ages 18–65.

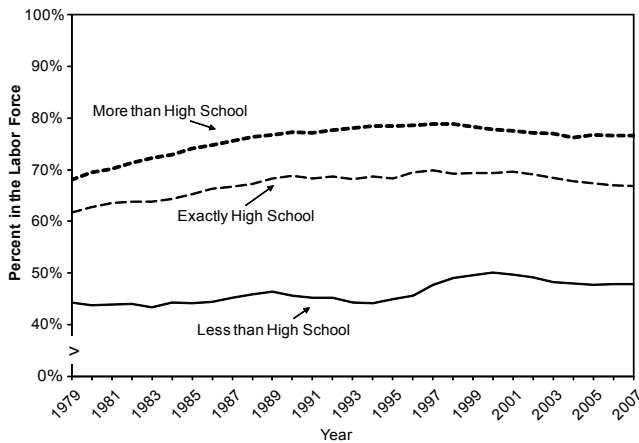


Figure 2. Female labor force participation by skill level, 1979 to 2007.

Source: Author's tabulations from Current Population Survey Outgoing Rotation Group data. Based on all noninstitutionalized civilian adults ages 18–65.

welfare-to-work programs. A very large number of single mother families left welfare and increased their earnings. At the same time, expansions in the Earned Income Tax Credit made work more lucrative. Research has linked work expansions among less-skilled women with both these EITC expansions and with the welfare reform changes.<sup>5</sup>

A growing number of women have left welfare but have not found employment. Blank and Kovak document increases in the number of “disconnected women,” single mothers who are neither working nor on welfare.<sup>6</sup> A high share of these women face barriers to employment, such as learning disabilities, mental and physical health problems, past histories of domestic violence or sexual abuse, or other issues that limit their ability to hold full-time steady employment. This population will require much more extensive interventions in order to move them to economic self-sufficiency.

The share of the less-skilled labor force that is composed of immigrants rather than the native-born has also increased. Among those without a high school degree, the share of men who are immigrants increased from 11 percent to 41 percent between 1980 and 2000; among similar women, the immigrant share rose from 12 percent to 35 percent.<sup>7</sup> While the groups with more education also show substantial increases in immigrant share, the numbers are much lower. For both men and women with a high school degree or with higher levels of schooling, the immigrant share was around 10 percent in 2000. Most of these immigrants are Hispanic workers; a much smaller share are Asian, black, or white. All else equal, rising immigration has helped to raise labor force participation over time. Of course, all else may not be equal. Labor force participation among natives may be reduced by immigration.<sup>8</sup>

Similar to less-skilled men, immigrants are a growing share of women without a high school degree. In 2000, 35 percent of these women were born outside the country. Immigrant shares remain lower among women than among men, in part

because single men are more likely to immigrate. Immigrant women are also less likely to be in the labor force than are native-born women.

Since 1979, men’s labor force participation has fallen, but women’s has risen. A primary reason for this is different wage trends among less-skilled men and women. We turn to that issue after a discussion of job availability.

## Job availability, unemployment, and the business cycle

Labor force participation measures the share of the population that is working or looking for work. If a high share of those in the labor force is without a job, but searching, this indicates lower well-being than when employment is high. Thus, the overall unemployment rate is an important indicator of economic well-being, particularly for lower-wage workers, who generally face higher unemployment rates than more-skilled workers.

### Changes in unemployment

Figure 3 plots unemployment rates by education level between 1979 and 2007.<sup>9</sup> Unemployment rates were relatively low from the mid-1990s to the mid-2000s, in contrast to the early 1980s when unemployment rose steeply. Even as overall unemployment fell, unemployment rates among the less skilled exceeded 8 percent in every year between 1979 and 2007, even during the booming years of the 1990s. Those with less than a high school degree had an unemployment rate of nearly 9 percent in 2007, well above the 5 percent for high school graduates and the 3 percent for those with post-high school training. Unemployment rose sharply over 2008 as the economy moved into recession, and overall unemployment rates in 2009 are expected to rival or exceed those of the early 1980s. The historical pattern is clearly being repeated

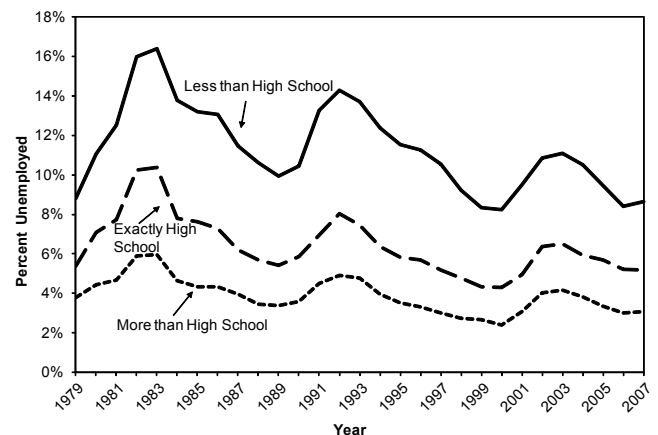


Figure 3. Unemployment rates by skill level, 1979 to 2007.

Source: Author's tabulations from Current Population Survey Outgoing Rotation Group data. Based on all noninstitutionalized civilian labor force participants ages 18–65.

in the recession of the late 2000s, as unemployment among the least skilled is rising much more rapidly than unemployment among more highly skilled workers.

### **Changes in jobs and job availability**

Since the mid-1980s, the labor market has absorbed a large increase in less-skilled immigrant workers and a large increase in less-skilled native-born women workers, while experiencing relatively low and stable unemployment rates through most of this period. Even with some decline in male labor force participation among less-educated workers, discussed above, the U.S. economy has been the envy of many other countries that have faced much higher unemployment and lower labor force participation over the past two decades. This reflects strong overall U.S. economic growth during these decades, which created a growing number of jobs.

There has been much concern about the declining number of “good jobs” that pay high wages and fringe benefits for less-educated workers. Manufacturing jobs have declined dramatically—among all male workers, the share employed in manufacturing has fallen from 29 percent in 1985 to 17 percent in 2007.<sup>10</sup> Among less-educated men, this decline has been even faster, from 34 percent in 1985 to 20 percent in 2007. Women have always been less likely to work in manufacturing; by 2007, less than 10 percent of all women workers were in this industry. The manufacturing employment of less-educated women declined from 22 percent to 12 percent between 1985 and 2007.

The decline in manufacturing jobs has not meant fewer available jobs for less-skilled workers; rather it has meant that different jobs are available. For instance, the share of less-educated men in retail trade and selected service jobs, including hotels, restaurants, and entertainment/tourism grew from 24 percent to 28 percent between 1985 and 2007; the share of less-educated women in these jobs grew from 36 percent to 40 percent. There has also been substantial employment growth among less-educated workers in health care and in clerical jobs. These industry shifts, reducing manufacturing jobs but increasing other job opportunities, can cause severe short-term disruptions for individuals who find themselves seeking work in very different sectors of the economy. Particularly among less-educated men, the jobs they used to hold have become much less available. In aggregate, however, there have been jobs available to less-skilled workers over the past three decades. The problem has not been job availability, but the wages that these jobs pay.

### **The effect of the economic cycle on less-skilled workers**

Less-educated workers are more affected by cyclical movements in economic growth than are more-educated workers. When unemployment rises, less-educated workers are more likely to lose their jobs, to move into part-time work, or to leave the labor force entirely. A glance at unemployment trends among more and less-educated workers (Figure 3) indicates that unemployment among the less-educated is much more cyclical than among more-educated workers.

An interesting question is whether the economic situation of less-educated workers has become more or less sensitive to changes in unemployment over time. One group that has become more vulnerable to economic fluctuations, in part as a result of welfare reform, is low-income single-mother families. Prior to welfare reform, unmarried women with children were less affected by unemployment because they had ready access to cash assistance. As this has changed, their reliance on the labor market has risen and, hence, their exposure to unemployment and economic cycles has grown.

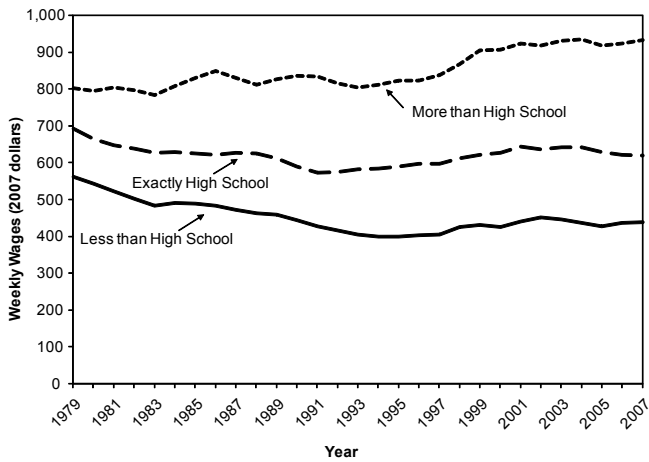
A mild recession in 2001 appeared to have little effect on single mothers, but this recession was concentrated in manufacturing and traded good industries, sectors where few less-skilled women are employed. In 2001, consumer spending remained strong, continuing to create demand for low-skilled workers in retail trade and in hotel and food services. Unfortunately, the recession that started in 2008 is much more widespread and has affected all sectors of the U.S. economy. By the end of 2008, unemployment among women had risen sharply and cash public assistance caseloads began to rise for the first time since the welfare reforms of the 1990s. Food stamp usage increased sharply as well. This recession will test whether states are able or willing to provide cash assistance to growing numbers of non-working single mothers when unemployment is high, and it will test the federal government’s willingness to assist states in funding caseload increases during a recession.

### **What do less-educated workers earn and why has this been changing?**

The U.S. economy has long been praised for its very flexible labor market, which has led to substantial job creation and relatively low unemployment rates in comparison to many European nations. This flexibility also means a larger number of lower wage jobs. Figure 4 graphs the trends in real median weekly wage rates among men between 1979 and 2007, by level of education.<sup>11</sup> As has been widely noted, substantial wage losses for less-skilled men occurred after 1979. Among those with post-high school education, wages rose slightly from 1979 to 1994 (there were much larger increases among men with a college education). Since the early 1990s, wages have risen at all skill levels. By 2007, full-time weekly wages were \$439 for high school dropouts, \$619 for high school graduates, and \$934 for those with more than a high school degree. For the two less-educated groups, these levels are still well below where they were in 1979, however.

In contrast to less-educated men, less-educated women experienced little drop in wages over the 1980s. Figure 5 shows trends in real median weekly wages for full-time work among women by education group between 1979 and 2007. High school graduate women experienced significant wage increases over this period, whereas wages grew much less among those with less than a high school degree. More skilled women experienced quite steep growth. These changes narrowed the wage gap between less-educated women





**Figure 4. Real median weekly wages among men by skill level, 1979–2007.**

**Note:** Adjusted to full-time equivalents. Inflation adjusted to 2007 dollars using the PCE deflator from the Bureau of Economic Analysis.

**Source:** Authors’ tabulations from Current Population Survey Outgoing Rotation Group data, 1979 to 2007. Based on all noninstitutionalized civilian labor force participants ages 18–65.

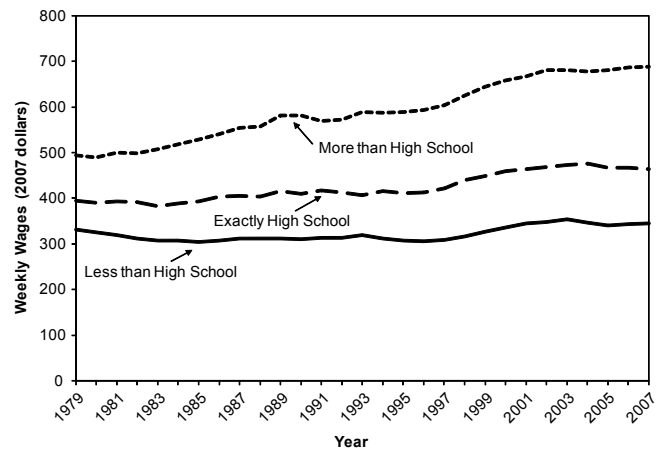
and men from 59 percent in 1979 to 78 percent in 2007. The wage gap among more-skilled men and women narrowed as well because more-skilled women’s wages are rising faster than equivalent men’s wages.

### Explaining these wage shifts

The period since 1979 has been a period of rising wage inequality. There is general agreement that the rise in inequality (and the decline in real wages) in the bottom half of the wage distribution occurred primarily in the 1980s. Little change in relative wages in the bottom part of the distribution occurred after that decade. In contrast, inequality in the top half of the wage distribution has risen steadily throughout this period, as wages among the highest-skilled workers continue to rise rapidly.<sup>12</sup>

The evidence suggests that wages among the least-skilled and the most-skilled have grown slightly faster over the past 15 years, while wages in the middle have stagnated. Lemieux indicates that wages grew most rapidly below the 20<sup>th</sup> percentile and above the 60<sup>th</sup> percentile of the wage distribution between 1989 and 2004.<sup>13</sup> This pattern is particularly noticeable for men. Thus, while less-skilled men lost earnings power over the 1980s, they experienced more wage growth in recent years, even if this more recent wage growth has not brought them back to the same level of real wages.

The wage losses among less-skilled workers in the 1980s appear to stem from numerous forces.<sup>14</sup> A primary factor is what economists call “skill-biased technological change,” or SBTC, which occurs when changes in technology increase labor demand for workers at a particular skill level.<sup>15</sup> Technological changes in the 1980s led to SBTC, with increased computer use in a growing number of applications, from robotics to just-in-time inventory systems. This increased de-



**Figure 5. Real median weekly wages among women by skill level, 1979–2007.**

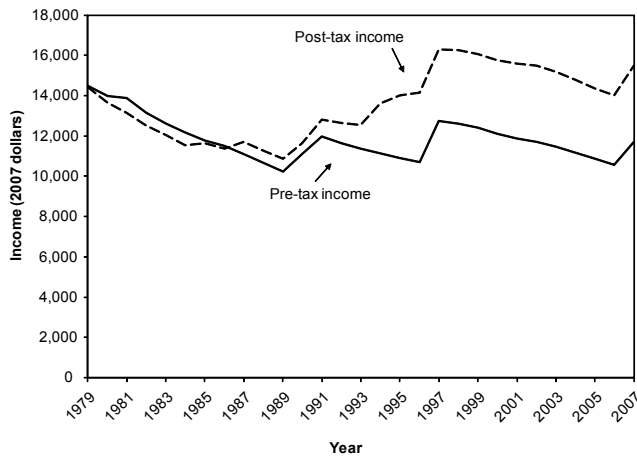
**Note:** Adjusted to full-time equivalents. Inflation adjusted to 2007 dollars using the PCE deflator from the Bureau of Economic Analysis.

**Source:** Authors’ tabulations from Current Population Survey Outgoing Rotation Group data, 1979 to 2007. Based on all noninstitutionalized civilian labor force participants ages 18–65.

mand for more-skilled workers outstripped supply increases, driving up wages. At the same time, demand for less-skilled workers fell. SBTC continues to affect the labor market in the 1990s and 2000s, but is primarily driving widening wages in the top half of the wage distribution as information technology continues to increase demand for the most-skilled workers, while displacing moderately skilled workers who perform more routine tasks.<sup>16</sup>

The popular discussion of stagnating wages often emphasizes growing trade and the internationalization of the economy. Less-skilled workers in less-developed countries typically earn much lower wages than less-skilled workers in the United States. Outsourcing production components that require only limited skill inputs can save a company money and will reduce their demand for less-skilled labor in the United States. The research literature has downplayed the importance of trade in rising wage inequality and falling wages among less-skilled workers, suggesting that declining wages would have occurred even without growth in global markets.<sup>17</sup> Recent work does suggest that trade in intermediate inputs, leading to changes in industrial organization, can be important.<sup>18</sup> Krugman provides reasons why trade shifts since the mid-1990s (particularly the rise of China) might make trade a more important factor for the evolution of less-skilled wages in the United States, although this effect is very difficult to measure.<sup>19</sup>

Some researchers have noted that institutional changes contributed to the declining wages of less-skilled workers, in addition to changes due to trade or technology. For instance, Card notes that the rapid decline in unions over this period explains about 20 percent of the wage decline among the least skilled.<sup>20</sup> Unions often raise wages at the bottom of the distribution, and the decline of unions has left less-skilled jobs that previously were somewhat protected by union bargaining ef-



**Figure 6. Pre-tax and post-tax income for a single mother working at the minimum wage, 1979–2007.**

**Notes:** This single-mother family is estimated to have one full-time worker at the minimum wage (for a total of 2000 annual hours of work) and two children. Federal income tax, FICA payroll taxes, and Earned Income Tax Credit included in post-tax calculations. Figures inflated to 2007 dollars using the PCE deflator.

**Sources:** Minimum wage data from the Department of Labor, *History of Federal Minimum Wage Rates Under the Fair Labor Standards Act, 1938–2007*, available at <http://www.dol.gov/esa/minwage/chart.htm>. Tax liabilities and credits for all years calculated using the NBER TAXSIM Model, Version 8.0, available at <http://www.nber.org/~taxsim/>.

forts more open to market vicissitudes. Unionization declined rapidly among all workers between 1985 and 2007, but fell faster among the less-skilled. Among less-skilled men, collective bargaining coverage declined from 28 percent to 15 percent between 1985 and 2007. Fewer women are in jobs covered by bargaining—their coverage decline over the same period was from 14 percent to 9 percent by 2007.<sup>21</sup>

In addition, the minimum wage remained constant throughout the 1980s, and its declining real value was an important factor in pushing wages downward among the less-skilled.<sup>22</sup> Female workers were particularly affected, since a disproportionately large number of them work in minimum wage jobs.<sup>23</sup> Of course, changes in minimum wages and in unionization may not be completely independent from changes in technology or in trade. Increasing global competition in U.S. manufacturing was one cause of declining unionization. Falling demand for less-skilled workers may have strengthened resistance to minimum wage increases over the 1980s.

The declines in minimum wages in the 1980s were partially made up by minimum wage increases in 1989 and 1996, and, for workers with children, by increases in the Earned Income Tax Credit (EITC). The EITC was greatly expanded in 1993 so that a growing share of low-wage workers could receive tax refunds, even if they owed no taxes. Figure 6 shows pre-tax and post-tax income, inflation adjusted, for a single mother with two children working full time at a minimum wage job from 1979 through 2007. During the 1980s, her real wages fall steadily with inflation erosion in the minimum wage. The minimum wage increases of 1989, 1996, and 2006 are clearly visible in the graph. Even more important, how-

ever, is the expansion in the EITC, which by 2007 increases her income by over three thousand dollars.<sup>24</sup> It is clear that policy (a non-inflation-indexed minimum wage) worked to lower wages in the 1980s, but minimum wage increases and EITC expansions helped raise earnings in the 1990s.

Lemieux describes the 1980s as a “perfect storm,” in which multiple factors resulted in an expansion in inequality across the wage distribution.<sup>25</sup> This includes technological, institutional, and policy changes. These forces, however, appear to be more quiescent in the past 15 years. Since the early 1990s, changes in demand and wages have benefited highly-skilled workers and flattened wages for middle-range workers. Less-skilled workers have experienced moderate wage gains.

Of course, wage changes have to be compared to price changes. If prices are falling, then lower wages may not leave families worse off. A recent paper by Broda and Romalis argues that increased trade over the past three decades has resulted in substantive price declines in the non-durable goods bought by lower-income families.<sup>26</sup> This paper, however, does not look at the total market basket of goods. Housing prices, which constitute a substantial share of lower income family budgets, have risen substantially over the past three decades in many areas and the share of budgets going to housing has increased.<sup>27</sup>

The long-term wage outlook for less-skilled workers is not rosy. All predictions for the future suggest that global demand for more-skilled workers will increase; it is hard to tell a story in which the demand for less-skilled workers increases within the United States. The labor market for the less-skilled has been relatively robust for the past 15 years, however, with low unemployment and slowly rising wages. At best, one can hope that demand does not fall and that a growing U.S. service sector continues to need workers in low-skill jobs.

## Poverty and the macroeconomy

A family of four with an income below \$21,000 is considered poor in 2007 in the United States. Analysis of data through the 1970s indicated a very large effect of rising unemployment on rising poverty; however, this relationship deteriorated in the 1980s, with unemployment and poverty becoming more disconnected. Recent evidence suggests the link between unemployment and poverty strengthened again in the 1990s.

I revisit the question of “how is poverty related to the macroeconomy?”<sup>28</sup> Overall, I find that poverty remains very responsive to the economic cycle. Although falling unemployment in the mid- to late-1980s had little effect on poverty because of an offsetting decline in real wages, lower unemployment in the 1990s and 2000s significantly reduced poverty for most groups. In contrast, inflation has virtually no effect on poverty.

The recession that began in 2008 promises to be extremely deep. As this is written in early 2009, many economists are predicting that unemployment will reach 10 percent. The

most recent poverty data we had available was for 2007, when the poverty rate for all persons was 12.5 percent and the average unemployment rate was 4.6 percent. If the unemployment rate rises from 4.6 percent to 10.0 percent and everything else remains unchanged, poverty could increase from 12.5 percent to 14.8 percent over the long term. This would be just below the high poverty rates that followed the recessions of 1990–1991 and 1980–1982. While many other factors could limit such a sharp rise in poverty, this estimate provides evidence of how important the labor market is to the economic well-being of low-income families.

Finally, it is worth commenting that growth in the macroeconomy alone will not eliminate poverty. Even when the economy recovers, unemployment is not likely to fall below its level in the late 1990s and early 2000s, when it was between 4 percent and 5 percent. Hence, rises in unemployment above this level will increase poverty, but unemployment is not likely to fall to a level that pushes poverty down substantially below where it was in 2000 at 11.3 percent. Declines in poverty below this level are likely to require targeted efforts to expand resources for those who can't work and to expand earning opportunities for less-skilled workers.

## Conclusions

There is both good news and bad news regarding the effects of the economy on the earnings opportunities of less-skilled workers. The good news is that low unemployment rates continue to benefit low-income persons. Poverty rates in the 2000s appear to be highly responsive to lower unemployment. Unemployment has been relatively low over the past two decades. Furthermore, at least since the early 1990s, wages have not fallen among less-skilled workers and have even risen somewhat. Wages among less-skilled women are higher than at any previous point in history.

The bad news is that wages among less-skilled men remain below where they were in the 1970s. And overall wage growth among all less-skilled workers has been limited. Although the economy has been in a period of sustained growth, this has benefited higher-skilled workers much more than less-skilled workers. And the period of growth has ended with a serious economic recession, with much worse economic prospects for low-income families, especially female-headed families who now rely more heavily on earnings and less on cash welfare.

These results suggest several important policy issues in the years ahead. Maintaining a strong economy and low unemployment is most important for the long-term economic well-being of low-wage workers. I have written previously and have documented in this article that the best policy we can pursue for the poor is to keep unemployment low and the economy strong.<sup>29</sup>

Given the forces that have shifted demand toward higher-skilled workers, however, economic growth by itself may

not be enough to reduce poverty or substantially improve the economic well-being of low-income families. Maintaining a reasonable level of the minimum wage is also important. When the minimum wage deteriorated in the 1980s, the real earnings of less-skilled workers declined. The decline of unions has also accelerated wage losses among lower-wage workers, suggesting that effective forms of worker organizations in a global economy may also prevent wage losses for some groups of workers.

We must also maintain the level of the Earned Income Tax Credit as a subsidy to lower-wage workers in low-income families. At present the EITC is primarily available to families with children. Expanding this to other low-wage workers in low-income families without children would help reduce poverty, as others have noted.<sup>30</sup> Such an EITC expansion might help reverse the falling labor force participation of less-skilled men shown in Figure 1. Other articles in this issue discuss other relevant policies, such as available child care and health insurance, or revisions to the unemployment insurance system.

Finally, any long-term solution to these problems will require increasing skill levels. Reforming and improving the public school system is critical, as is increasing opportunities for post-secondary education. Given the rapidly growing immigrant population among the less-skilled, the educational achievements of the children of these immigrants will be quite important for the future of the economy. If these children are able to reach higher educational levels than their parents, this adds to intergenerational mobility and assures that these families escape poverty over time.

The labor market has had a plentiful supply of low-wage jobs available, but the long-term outlook for jobs is uncertain. At best, there will continue to be a large low-wage employment sector; at worst, depending on broader trends in technology and economic globalization, the number of these jobs could shrink relative to the supply of low-wage workers. Or the wages on these jobs could fall, as they did in the 1980s. There is little prospect, however, that there will be substantial wage gains in low-skill jobs. Shifts in demand away from less-skilled work, combined with the large supply of less-skilled workers, will keep wages down.

Nonetheless, most families headed by less-skilled adults rely primarily on earnings. Assuring these families of stable and sufficient incomes is important in order to keep poverty low and to keep these families attached to the labor market rather than idle or engaged in less-socially-desirable activities. This requires ongoing public subsidies to less-skilled workers and ongoing attention to the problems faced by low-wage workers. ■

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<sup>29</sup>This article draws on "Economic Change and the Structure of Opportunity for Less-Skilled Workers," in *Changing Poverty, Changing Policies*, eds. M. Cancian and S. Danziger (New York: Russell Sage Foundation, 2009).

<sup>2</sup>The data in Figure 1 come from the Outgoing Rotation Groups (ORG) in the monthly Current Population Survey (CPS), a representative national sample of the population. The ORG includes data from one-fourth of the CPS in each month. The monthly samples are combined to produce annual averages.

<sup>3</sup>C. Juhn, "Decline of Male Labor Market Participation: The Role of Declining Market Opportunities," *Quarterly Journal of Economics* 107, No. 1 (1992): 79–121.

<sup>4</sup>H. J. Holzer, P. Offner, and E. Sorensen, "Declining Employment among Young Black Less-Educated Men: The Role of Incarceration and Child Support," *Journal of Policy Analysis and Management* 24, No. 2 (2005): 329–50.

<sup>5</sup>See for example, M. Cancian and D. Reed, "Family Structure, Childbearing, and Parental Employment: Implications for the Level and Trend in Poverty," In *Changing Poverty, Changing Policies*.

<sup>6</sup>R. M. Blank and B. Kovak, "The Growing Problem of Disconnected Single Mothers," in *Making the Work-Based Safety Net Work Better*, eds. C. J. Heinrich and J. K. Scholz (New York: Russell Sage Foundation, 2009).

<sup>7</sup>G. J. Borjas, "Wage Trends among Disadvantaged Minorities," In *Working and Poor: How Economic and Policy Changes Are Affecting Low-Wage Workers*, eds. R. M. Blank, S. H. Danziger, and R. F. Schoeni (New York: Russell Sage Foundation, 2006). It is widely believed that these data do not fully count undocumented immigrants, many of whom are working. If undocumented workers are more likely to be less-skilled, then the cited numbers undercount the effects of immigration on the low-skilled labor market.

<sup>8</sup>See S. Raphael and E. Smolensky, "Immigration and Poverty in the United States," in *Changing Poverty, Changing Policies*.

<sup>9</sup>Data are not shown separately for men and women, in part because their unemployment rates move together very closely. Women's unemployment is slightly higher than men's in most years, particularly among high school dropouts.

<sup>10</sup>The numbers in this section were tabulated by the author from the March Current Population Survey.

<sup>11</sup>These data are in 2007 dollars, adjusted for inflation and expressed in "full-time equivalents," so that differences in hours of work over time do not affect them. The data are deflated using the GDP deflator for Personal Consumption Expenditures. To adjust for differences in hours of work, I take average hours of work among full-time men (those working more than 35 hours/week) in each year and scale up wages among men who do not work full time using the ratio of average full-time hours to their actual hours. Figure 5 makes the same calculation for women.

<sup>12</sup>See, for example, D. H. Autor, L. F. Katz, and M. S. Kearney, "Trends in U.S. Wage Inequality: Revising the Revisionists," *Review of Economics and Statistics* 90, No. 2 (2008): 300–323.

<sup>13</sup>T. Lemieux, "The Changing Nature of Wage Inequality," *Journal of Population Economics* 21, No. 1 (2008): 21–48.

<sup>14</sup>While affected by all the same forces, less-educated women did better than less-educated men in the labor market over the past 25 years. Women's accumulating labor market experience and increasing returns to experience offset declines in the returns to education. Furthermore, the negative effects of children and marriage on women's wages appear to have abated over this period.

<sup>15</sup>One criticism of SBTC is that it is a hard theory to prove since technological change is a difficult concept to measure.

<sup>16</sup>See, for example, D. H. Autor, L. F. Katz, and M. S. Kearney, "Trends in U.S. Wage Inequality: Revising the Revisionists."

<sup>17</sup>E. Berman, J. Bound, and Z. Griliches, "Changes in the Demand for Skilled Labor within U.S. Manufacturing: Evidence from the Annual Survey of Manufactures," *Quarterly Journal of Economics* 109, No. 2 (1994): 367–397.

<sup>18</sup>R. C. Feenstra, and G. H. Hanson, "Global Producing Sharing and Inequality: A Survey of Trade and Wages," In *Handbook of International Trade*, eds. E. K. Choi and J. Harrigan (Oxford: Blackwell Publishing, 2003).

<sup>19</sup>P. R. Krugman, "Trade and Wages, Reconsidered," *Brookings Papers on Economic Activity* 2008, No. 1: 103–143. Krugman's empirical work, however, suggests that trade remains a relatively less important factor in the determination of U.S. wages, although the increasing complexity of intermediate component outsourcing make it difficult to measure this effect.

<sup>20</sup>D. Card, "The Effects of Unions on the Structure of Wages: A Longitudinal Analysis," *Econometrica* 64, No. 4 (1996): 957–80.

<sup>21</sup>These numbers were tabulated by the author from the March Current Population Survey.

<sup>22</sup>D. S. Lee, "Wage Inequality in the U.S. During the 1980s: Rising Dispersion or Falling Minimum Wage?" *Quarterly Journal of Economics* 114, No. 3 (1999): 977–1023.

<sup>23</sup>J. Dinardo, N. M. Fortin, and T. Lemieux, "Labor Market Institutions and the Distribution of Wages, 1973–1992: A Semiparametric Approach," *Econometrica* 64, No. 5 (1996): 1001–1046.

<sup>24</sup>The pattern in Figure 6 is not unique to a single mother. If you plot the equivalent lines for a married couple family with children in which the father works full time at the minimum wage and the mother works part time, the pattern looks very similar.

<sup>25</sup>T. Lemieux, "What Do We Really Know About Changes in Wage Inequality?" Unpublished paper, University of British Columbia, 2008.

<sup>26</sup>C. Broda and John Romalis, "Inequality and Prices: Does China Benefit the Poor in America?" Unpublished paper. University of Chicago, 2008.

<sup>27</sup>M. Brennan and B. J. Lipman, *The Housing Landscape for America's Working Families, 2007* (Washington, DC: Center for Housing Policy, 2007).

<sup>28</sup>Full analysis shown in the book chapter.

<sup>29</sup>R. M. Blank, "Fighting Poverty: Lessons from Recent U.S. History," *Journal of Economic Perspectives* 14, No. 2 (2000): 3–19.

<sup>30</sup>See, for example, G. Berlin, "Rewarding the Work of Individuals: A Counterintuitive Approach to Reducing Poverty and Strengthening Families," *The Future of Children* 17, No. 2 (2007): 17–42.



# Family structure, childbearing, and parental employment: Implications for the level and trend in poverty

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## Introduction

Changes in family structure and changes in poverty are closely related.<sup>1</sup> Single-mother families are about five times as likely to be poor as married-parent families.<sup>2</sup> Although they are less likely to be poor than they were 50 years ago, single-parent families are more common, accounting for a larger share of all poor families. Moreover, eligibility for income support programs, including cash welfare, food stamps, and the Earned Income Tax Credit, are tied to family composition. In recent years, policymakers have sought not only to respond to family changes, but also to influence the decisions people make about marriage, divorce, and childbearing. Thus, poverty policies and family policies are increasingly tied.

If the apparent strength of the link between poverty and family structure seems obvious, its nature is less clear. For example, having a child before getting married is associated with an increased likelihood of poverty. However, living in poverty also raises the likelihood of nonmarital childbearing.<sup>3</sup> In addition, decisions about work, marriage, and childbearing are increasingly disconnected. Women are now more likely to work, regardless of marital or parental status. Women are also more likely to have children independent of marriage, and married couples with children are more likely to divorce. Overall, there is greater variety in family forms, the members of any given family are increasingly likely to experience changes in household structure over time, and children are increasingly likely to spend time in families that do not include both biological parents and that may include half siblings or step-siblings.

In addition to its relationship to economic well-being, family structure is of interest because children who do not live with both biological parents may be more vulnerable to other risks, even after taking economic factors into account. Recent discussions have emphasized the potential importance of fathers, who are less likely to be part of their children's lives when parents are divorced or were never married. Moreover, poverty creates challenges that may be difficult to manage with only one available parent, especially as more

single mothers work outside the home. Thus, changes in family structure not only place more individuals at greater risk of poverty, but also may increase their vulnerability to challenges associated with poverty.

Poverty reflects insufficient resources relative to needs. Income poverty in the United States is measured by comparing cash income to a needs standard. For example, a single woman in 2008 will be considered poor if her income is below \$11,201. If she has two children, becoming a single mother and part of a family of three, she will be considered poor if her family income is below \$17,346. Thus, even putting aside the demands of motherhood and the potential reduction in hours worked and earnings, the increased financial needs of a larger family will increase the chance of poverty. If she marries, becoming a married couple family of four, the needs standard rises to \$21,834. However, a second adult in the household increases the likelihood of a second earner. The potential poverty reduction associated with a second adult also reflects the relatively modest increase in the needs standard with each person added to the household. Economies of scale mean that each additional person adds less than proportional needs.

We use this simple model of income and needs to help structure the discussion that follows. The implications for poverty of changes in marriage, childbearing, and work depend on the interrelationships among these factors and their net effects on income and on economic needs. As we will show, the decline in marriage has increased poverty, all else equal. But all else has not remained equal; although women are less likely to be married, they are also more likely to be working. Because these two changes are related, measuring the effect of changes in marriage on poverty is complex.

## Trends in family structure since 1970

Changing patterns of poverty, prospects for the future, and the potential of alternative policy interventions all depend on the interrelationships among poverty and marriage, childbearing, family living arrangements, and employment status. In the current policy context, with limited public cash income supports available to reduce poverty, poverty status largely depends on the number of adults in the household, their hours of work and wage rates, and the number of children they have to support.<sup>4</sup>

## Marriage, divorce, and cohabitation

Households that include two adults generally have greater opportunities to avoid poverty, since the second adult on

average adds more to potential income than to needs. Thus, declines in marriage and increases in divorce are both poverty increasing. Cohabiting couples may capture the same benefits as marriage, though the implications of cohabitation for official poverty measures, as well as for actual economic well-being, are complex.

Marriage rates have fallen over time, increasing the proportion of people living in households that depend on one adult for both earnings and caretaking.<sup>5</sup> The steepest declines in age-specific marriage percentages occurred between 1970 and 1980 and between 1980 and 1990, with more modest declines after 1990.<sup>6</sup> For example, among women ages 40 to 44, the share married fell from 82 percent in 1970 to 70 percent in 1990 and then to 64 percent in 2006. Rates of cohabitation have increased dramatically, especially in the 1980s and 1990s. Most cohabiting unions are relatively short lived, and sharing of resources within such unions less certain. Calculations of the proportion of women who are married *or* cohabiting show a smaller decline from 83 percent in 1970 to 70 percent in 2006 for women ages 40 to 44.

### Childbearing

Changes in marriage patterns interact with changes in childbearing and affect both poverty and the composition of the poor. To the extent that declines in marriage coincide with women having fewer children, reductions in the size of families reduce the resources needed to avoid poverty. The average number of children present in the household has declined over time, falling especially in the 1970s and 1980s. In 1970 women ages 35 to 39 had an average of 2.4 children; by 1990 they had an average of only 1.3 children. Because larger families need more income to avoid poverty, and because greater parenting responsibilities restrict women's work hours in the paid labor market, the declining numbers of children per woman can be expected to reduce poverty, all else equal.

Although declines in family size tend to reduce poverty, growth in the proportion of children born outside of marriage has had the opposite effect. In 1960, 5 percent of all births were to unmarried mothers. As shown in Figure 1, by 2006, the share had risen to 39 percent. To understand these trends one must recognize that the *proportion* of births to unmarried mothers depends on the marriage rate and the fertility patterns of all women, not just those of unmarried women. The tendency for married women to have children, the tendency for unmarried women to have children, and the proportion of women of childbearing age who are married all determine the proportion of births to unmarried women.

Figure 1 shows that the increase in the proportion of children born to unmarried mothers in the 1960s and early 1970s resulted from sharp declines in fertility among married women rather than increases in fertility of unmarried women. The declining proportion of women who were married also contributed. During the late 1970s and 1980s, birth rates among married women stabilized and the continued increase in the

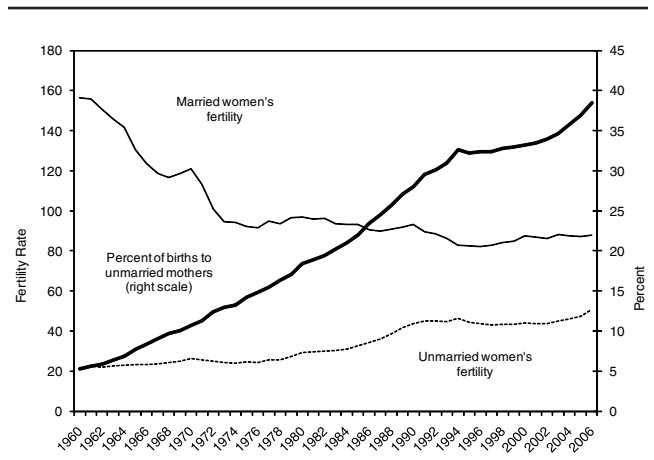


Figure 1. Fertility Rates by Marital Status, 1960 to 2006.

proportion of births to unmarried women reflected increases in birth rates for unmarried women and the continuing decline in marriage rates. During the 1990s and early years of the new century, unmarried women's fertility stabilized, but a decline in married women's fertility in the early 1990s and continued declines in the proportion married contributed to relatively modest increases in the proportion of children born to unmarried mothers. The proportion married continued to decline, and increases in unmarried women's fertility accelerated after 2002. By 2006, almost two in five children in the United States were born to an unmarried mother.

The increased proportion of births to single mothers increases children's vulnerability to poverty as more children (and mothers) live in households that include only one potential earner. On the other hand, declines in the number of children per family have tended to reduce poverty. In other words, contemporary women are less likely to have a husband to contribute economic support, but they are also less likely to have a large family to support.

### Family living arrangements

The implications of changes in marriage and fertility for children's living arrangements and poverty rates can be complex, especially when we consider the presence of unmarried partners or other adults. In 1970, 86 percent of all children lived in a married-couple family; the share dropped to only 69 percent in 2006. Most children living in a single-parent household lived with a single mother, though by 2006, more than one in five children not living with a married couple lived with their father. Many children who live with an unmarried mother or unmarried father also live with another adult in the household—their grandparent or other relative, or, increasingly, their parent's cohabiting partner.

### Employment

All else equal, families are less likely to be poor the greater the number of adults and the fewer the number of children. Households that include adult males are less likely to be poor than those that include only adult females, both because men work more hours on average and because they earn more

per hour on average. However, since 1970, women's labor force participation has increased, especially for women with children. In 1970, about 50 percent of all women ages 30 to 34 worked; from 1990 onward almost 80 percent did. In addition, gender gaps in labor market outcomes have declined.<sup>7</sup> These changes affect the level and distribution of income among families headed by married couples as well as among families with single female heads. They also reflect changes in gender roles and contemporary expectations regarding the caretaking and employment responsibilities of mothers and fathers, which interact with the public policy context. As the relationship between family structure and work has changed, so too has the relationship between family structure and poverty. An accounting of changes in family and poverty must therefore incorporate the dramatic growth in women's labor force participation and the declining opportunities for men, especially those with less education.

Although it remains an important cultural reference point, the "traditional" family, including an employed father, a homemaker mother, and children, is increasingly uncommon. In 2006, only 12 percent of all families fit this model, down from 36 percent in 1970.<sup>8</sup> In part, this decline reflects a growing disconnect between marriage and childbearing and childrearing. At the same time that single-mother families are more prevalent, increases in women's own earnings mean they are less vulnerable to economic hardship.

## **Explaining changes in marriage, childbearing, and employment**

We have documented substantial declines in marriage, a reduction in the average number of children per family, and a dramatic increase in the proportion of children born outside marriage since 1970. Over the same period, women's employment has increased, especially for mothers. In contrast, men, especially those with less education, have experienced stagnant or declining rates of employment. These changes in family structure and employment are interrelated. For example, delays in marriage may reduce fertility, thereby reducing demands for work within the home and facilitating women's market work. On the other hand, as labor market opportunities for women improve—in absolute terms, or relative to men's—women face higher opportunity costs of leaving employment to have (additional) children, as well as reduced economic incentives to marriage. Decisions to have children outside of marriage may reflect women's increasing ability to support a family independently, or the short supply of men with family-supporting earnings.

Understanding the factors that underlie changes in family formation, and how these have been affected by economic and policy changes, is complicated by the interdependence of economic, social, and demographic changes. Still, an assessment of the causes of family structure and employment changes can inform policy discussions.

Consider first the decline in the proportion married, which results in part from people marrying at older ages or not at

all. It also reflects higher rates of divorce, only somewhat offset by increases in remarriage. What accounts for these trends? The standard economic model of marriage emphasizes gains from a specialized division of labor in a context where one spouse (generally the husband) commands a substantially higher wage.<sup>9</sup> In this case, marriage creates a context in which the lower-wage spouse can devote herself to home production—raising children, preparing meals, and maintaining the home—leaving the higher-wage spouse to specialize in earning wages. As men's advantage in the labor market relative to women has declined, so have the potential gains from marital specialization, reducing women's incentive to marry.

In addition, over the same period, increased marital instability increased the risks to women of interrupting their wage employment. As divorce has become more common, the probability that a woman will have to be the primary provider for herself and her children has increased. At the same time, as women's labor force participation has increased, so has the feasibility of leaving an undesirable marriage. Thus, women's increasing economic independence may be both a cause and a consequence of greater marital instability.

Inequality in the distribution of wages for men has also increased over the past three decades. Younger men with low education were particularly likely to experience stagnant or declining wages. Thus, men's labor market advantage, and the consequent potential gains for women from marriage, have been particularly eroded for low-income individuals. High rates of incarceration also limit the pool of "marriageable" men with access to family-supporting employment, especially for African Americans.<sup>10</sup>

Together with women's increased economic prospects and the availability of birth control, changes in social norms have made it easier to have sexual relationships and cohabit outside of marriage, to establish households independent of parents or spouses, and to raise children outside of marriage. Thus, as the economic advantage of marriage declined, so has the importance of marriage as a precursor to parenthood.<sup>11</sup>

Changes in contraceptive technology and reduced fertility also contribute to women's increased labor force participation. Of course, it is difficult to distinguish cause and effect; mothers may be more likely to work in the market because they have fewer children, or they may be having fewer children because of the demands of greater labor force participation.

Another focus of public debate and research has been the role policy has played in facilitating changes in marriage, childbearing, and employment among low-income women. Concerns about the disincentives to marriage embedded in the welfare system, as well as the vulnerability of the low-income population to policies aimed at altering family behaviors, have been especially prevalent. Critics of welfare argued that the availability of financial support, and the structure of eligibility rules that targeted single-parent families, discouraged marriage and parental responsibility.<sup>12</sup> The

generosity of welfare cannot fully explain changes in marriage, in part because AFDC benefits declined substantially after the mid-1970s over the same period that marriage rates declined and in part because the decline in marriage was also evident among higher-income individuals who never received welfare. Estimates of the magnitude of any negative impact of welfare on marriage vary substantially but generally suggest at most modest effects.<sup>13</sup> Some research suggests that public income supports may *increase* marriage rates, possibly by helping low-income couples achieve the financial stability seen by some as a prerequisite for marriage.<sup>14</sup>

The potential role of child support enforcement on marriage is another area of debate. Policy changes over the past 30 years have substantially increased the proportion of non-marital births for which paternity is established, and have contributed to more fathers of children born to unmarried parents being ordered to pay child support and making payments.<sup>15</sup> Although child support enforcement and paternity establishment are primarily aimed at increasing the formal economic support provided by nonresident fathers, improved enforcement may also change incentives to marry and have children. The increasing probability of paying and receiving child support might be expected to have offsetting effects on the financial incentives to have children outside of marriage—increasing the costs of nonmarital births for nonresident fathers and decreasing them for resident mothers. For some single men who might otherwise provide few resources to their children, increased child support enforcement may raise the expected costs of fatherhood. In contrast, despite receiving child support or cash welfare, single mothers typically bear most of the responsibility and costs associated with raising children. Changes in welfare benefit levels (or child support payments) may thus have a relatively minor impact on the benefits and costs faced by a single woman considering motherhood.<sup>16</sup> Research suggests that increased child support enforcement is associated with reductions in nonmarital births.<sup>17</sup>

Because many nonmarital births are to cohabiting or romantically involved parents, child support enforcement may negatively affect these “fragile families.” Although child support provides financial resources, requirements to establish paternity and a formal child support order, along with efforts to enforce that order, may increase conflict between parents.

Noncompliant fathers face enforcement actions that may reduce their willingness and ability to support their children.<sup>18</sup>

Over the last three decades, several policy changes have sought to encourage employment and “make work pay” for low-income parents, including an expanded Earned Income Tax Credit (EITC) and expansions of Medicaid and the State Child Health Insurance Program. The EITC provides a substantial earnings subsidy for low-income earners with children, and the expanded availability of public health insurance for low-income children supports the move from welfare to work. Child-care policies, particularly recently expanded subsidies for some low-income families, also facilitate employment.

### The impact of changes in family structure and women’s employment on poverty

How have the substantial changes in family structure and growth in female employment since 1969 affected poverty rates?

Between 1969 and 2006, the poverty rate grew by 1.1 percentage points, from 11.5 percent to 12.6 percent. However, as shown in Table 1, the poverty rate within specific types of family mostly declined. This suggests that an important factor in the growth of the overall poverty rate may have been the shift in population shares by family type. The population shifted from a relatively low poverty group (married couples with children) to family types with higher risks of poverty.

One approach to the question, “By how much would overall poverty have increased if there had been a change in family structure but no change in poverty rates for each type of family?” is to construct a counterfactual level of poverty with the 2006 shares of persons by family type and the 1969 poverty rates. This method is known as a “shift-share” analysis because it shifts the population shares while holding poverty rates constant.<sup>19</sup> Using a shift-share approach that controls for education and age, we find that the overall poverty rate in 2006 would have been 14.1 percent. Therefore, if all else remained the same as in 1969, the change in family structure would have increased the poverty rate by 2.6 percentage points, from 11.5 percent in 1969 to 14.1 percent in 2006.

**Table 1**  
Poverty Rates and Population Shares by Family Type, 1969 to 2006 (percent)

	2006		1969		Change	
	Poverty Rate	Population Share	Poverty Rate	Population Share	Poverty Rate	Population Share
Single female	17.3%	9%	19.8%	4%	-2.5%	5%
Single female, with children	39.9	13	47.7	8	-7.8	6
Single male	14.0	8	15.0	3	-1.0	5
Single male, with children	19.0	4	17.1	2	1.9	2
Married couple	2.8	20	4.3	17	-1.5	3
Married couple, with children	7.5	46	8.6	67	-1.1	-21
Overall	12.6	100	11.5	100	1.1	—

Source: Authors’ calculations from 1970 U.S. Census and 2006 American Community Survey.

Note: Data include families with head(s) ages 18 to 64.



Including women's labor force participation in the analysis, we find that growth in women's work reduced poverty by 1.4 percentage points.

In summary, our analysis found that, on their own, changes in family structure would have led to a substantial increase in poverty. However, the growth of female employment had important poverty-reducing effects over the same period.

## Conclusions

We have shown that changes in family structure, and changes in the implications of family structure for poverty, reflect a complex set of interrelated factors. Fewer people are marrying, and those who are married are on average older and more likely to divorce. The smaller number of married couples are having fewer children, while birth rates for the growing number of unmarried women have increased. Together these trends result in a greater proportion of families headed by single mothers—both because a higher proportion of births take place outside of marriage and because of growth in the proportion of children born within marriage whose parents divorce.

Single-mother families, generally relying on the earnings of only one adult, are more than five times as likely to be poor as married-couple families. On its own, the change in family structure has been poverty-increasing. However, a number of factors have had countervailing impacts. Changes in employment, the number of children, and cohabitation have reduced the growth in poverty otherwise associated with the declining proportion of married couple families. However, although increased employment has made women and single mothers less economically vulnerable, it has presumably come at the cost of (unpaid) time spent supporting their family and community. In addition, the standard measure of income poverty used here neglects the nondiscretionary personal *costs* of employment, such as transportation and child care, and thus overstates the poverty-reducing effects of employment. Similarly, while many unmarried mothers may live with the fathers of their children or other men, cohabiting relationships provide less economic security than marriage, in part because of their relative instability.

Several types of public policy responses to the increased diversity and instability of family forms are possible. Some policies explicitly aim to *change* family structure, for example, to promote marriage or reduce nonmarital births. Although it is too early to know whether recent efforts to promote healthy marriage will be successful, some have argued that even small changes in marriage patterns could produce substantial returns on fairly modest investments.<sup>20</sup> Nonetheless, it seems unlikely that current policy options will dramatically alter the marriage and fertility patterns of the last four decades, most of which generally apply across income groups within the United States as well as in other countries. While some policies to encourage marriage and, especially, reduce unplanned and teen pregnancy, may prove

effective, declines in marriage and increases in nonmarital childbearing are unlikely to be reversed by feasible public policies.

Other policies aim to *respond* to changes in family forms; for example, to reduce the negative consequences of nonmarital births and divorce through policies such as child support, or to encourage or facilitate employment, especially among single mothers. These policies will be critical in determining the consequences of family change for the well-being of children.

As we have documented, the past 40 years have been a period of increasing diversity in family structures and changing relationships among marriage, fertility, and employment. Children are more likely to spend some time living outside a married couple family. Regardless of whether their mother is married or single, children, especially younger children, are also more likely to live with a mother who is working in the paid labor market. To reduce the economic vulnerability of children and families, public policy must respond to the diversity and instability of family forms. Even if effective policy interventions reducing divorce and nonmarital childbearing are developed, many children will live with only one parent, and many parents will face challenges in meeting the economic and social needs of their families. Recognizing these challenges, public policy must respond in ways that support the increasing complexity of family arrangements and the growing proportion of workers who also have primary responsibility for parenting their children. ■

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<sup>1</sup>This article draws upon "Family Structure, Childbearing, and Parental Employment: Implications for the Level and Trend in Poverty," in *Changing Poverty, Changing Policies*, eds. M. Cancian and S. Danziger (New York: Russell Sage Foundation, 2009).

<sup>2</sup>In 2006, about 8 percent of married couples with children and 40 percent of single-mother families were poor, according to the authors' calculations from the American Community Survey for families with prime-age heads between the ages of 18 and 64.

<sup>3</sup>On the causes and consequences of teen pregnancy, see, for example, F. Furstenberg, *Destinies of the Disadvantaged: The Politics of Teen Childbearing* (New York: Russell Sage Foundation, 2007).

On nonmarital births, see D. M. Upchurch, L. A. Lillard, and C. W. A. Panis. 2002. "Nonmarital Childbearing: Influences of Education, Marriage, and Fertility," *Demography* 39, No. 2 (2002): 311–329.

<sup>4</sup>See the book chapter for a more detailed description of family structure trends.

<sup>5</sup>Unless otherwise noted, all statistics come from authors' calculations from the 1970, 1980, 1990, and 2000 U.S. Censuses and the 2006 American Community Survey.

<sup>6</sup>A similar decline and delay in marriage is apparent for men. But, because men on average marry at older ages, the proportion married compared to women is lower at ages 25 to 29; similar by ages 35 to 39, and slightly higher at 40 to 44.

<sup>7</sup>See, for example, F. Blau and L. M. Kahn, "Gender Differences in Pay," *Journal of Economic Perspectives* 14, No. 4 (2000): 75–99.

<sup>8</sup>Authors' calculations for people under age 55. Employment is defined by working at least one week in the previous year.

<sup>9</sup>G. S. Becker, *A Treatise on the Family* (Cambridge, MA: Harvard University Press 1991).

<sup>10</sup>See, for example, L. M. Lopoo and Bruce Western, "Incarceration and the Formation and Stability of Marital Unions," *Journal of Marriage and the Family* 67, No. 3 (2005): 721–734.

<sup>11</sup>See, for example, H. J. Holzer, "Collateral Costs: The Effects of Incarceration on the Employment and Earnings of Young Workers," *IZA Discussion Papers* #3112, Institute for the Study of Labor, 2007.

<sup>12</sup>C. Murray, *Losing Ground: American Social Policy, 1950–1980* (New York: Basic Books, 1984).

<sup>13</sup>See, for example, R. A. Moffitt, "The Effect of Welfare on Marriage and Fertility," in *Welfare, the Family, and Reproductive Behavior*, ed. R. A. Moffitt (Washington, DC: National Academy Press, 1998).

<sup>14</sup>See, for example, A. Gassman-Pines and H. Yoshikawa, "Five-Year Effects of an Anti-Poverty Program on Marriage among Never-Married Mothers," *Journal of Policy Analysis and Management* 25, No. 1 (2006): 11–30.

<sup>15</sup>M. Cancian and D. R. Meyer, "Child Support and the Economy," in *Working and Poor: How Economic and Policy Changes Are Affecting Low-Wage Workers*, eds. R. Blank, S. Danziger, and R. Schoeni. (New York: Russell Sage Foundation, 2006).

<sup>16</sup>The state government typically retains all or most (all but the first \$50 per month) of child support paid to welfare recipients to offset the costs of providing welfare. Thus, mothers receiving welfare receive very limited formal child support. The DRA of 2006 encouraged states to allow mothers to receive up to \$200 per month in child support while maintaining their full welfare eligibility. These provisions take effect in 2008. However, as of this writing, most states retain 100 percent of child support paid on behalf of children of cash welfare recipients.

<sup>17</sup>See, for example, R. D. Plotnick, I. Garfinkel, D. S. Gaylin, S. S. McLanahan, and I. Ku, "The Impact of Child Support Enforcement Policy on Nonmarital Childbearing," *Journal of Policy Analysis and Management* 26, No. 1 (2006): 79–98.

<sup>18</sup>See, for example, M. R. Waller, *My Baby's Father: Unmarried Parents and Paternal Responsibility* (Ithaca, NY: Cornell University Press, 2002).

<sup>19</sup>See the book chapter for a detailed description of this analysis.

<sup>20</sup>See, for example, P. R. Amato and R. A. Maynard, "Decreasing Nonmarital Births and Strengthening Marriage to Reduce Poverty," *The Future of Children* 17, No. 2 (2007): 117–141.

# Immigration and poverty in the United States

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The proportion of U.S. residents born in another country increased from 5 percent to 12 percent between 1970 and 2003.<sup>1</sup> International immigration accounted for over one quarter of net population growth during this period. Recent immigrants are heavily concentrated among groups with either extremely low or relatively high levels of formal educational attainment, the group at the low end being particularly large. Immigration could affect the U.S. poverty rate in two ways. First, immigrants may have a direct effect on the poverty rate, since poverty rates among the foreign born tend to be high. This direct effect can be exacerbated or mitigated over time depending on the extent to which immigrants acquire experience in U.S. labor markets and progress up the wage ladder. Second, immigration changes the relative numbers of workers with different levels of education and other labor market skills, which may in turn influence the wages and employment of natives. In particular, recent immigration has increased the number of workers with very low levels of educational attainment. How much this change affects the poverty rate depends on the sensitivity of native employment and earnings to the influx of competing immigrant labor. The indirect effects on poverty rates are likely to vary across racial and ethnic groups. In particular, African Americans, native-born Hispanics, and the native-born children of prior immigrants tend to be less educated on average and thus may be more likely to be affected by competition

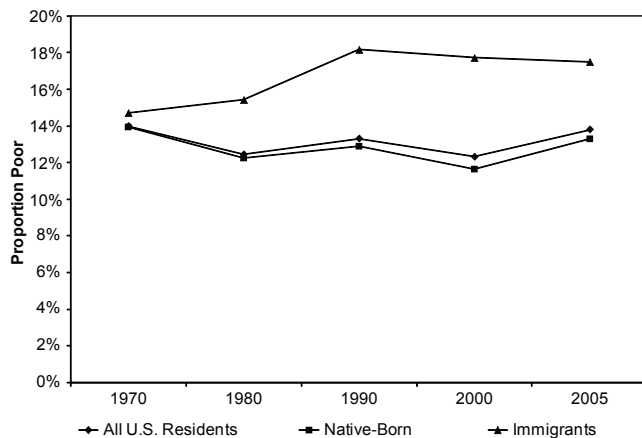


Figure 1. Proportion in poverty, all U.S. residents, native-born residents, and immigrants, 1970 to 2005.

with immigrants. In this article, we examine the likely direct and indirect effects of immigration on poverty rates.

## Basic poverty trends

Poverty in the United States declined slightly between 1970 and 2005 (Figure 1).<sup>2</sup> Declines were notable for the native-born, whereas poverty among immigrants increased. Although the poverty rate of immigrants from many regions has declined, the distribution of the U.S. immigrant population by origin has shifted decisively towards source countries that generate immigrants who are more likely to be poor.

We find that poverty rates among immigrant groups decline quite quickly with time in the United States (Figure 2). Although the initial level of poverty among recent arrivals has increased in recent decades, the declines in poverty observed in subsequent censuses suggests that the poorer immigrants of the most recent wave either exit poverty at a fairly rapid rate or emigrate out of the country. Immigrant-native disparity in the incidence of poverty also declines with immigrants' time in the United States.

## Compositional effects of immigration on the poverty rate

The combination of increased poverty among immigrants and a higher ratio of immigrants to the total population must add to the national poverty rate. In this section, we assess by how much. The size of this compositional effect of immigration on poverty is necessarily limited by the size of the overall foreign-born population. As immigrants still compose a minority of the U.S. population, and poor immigrants are a minority of that minority, the compositional effect cannot be large. To assess this, we decompose the change in the national poverty rate between 1970 and 2005 into two components:

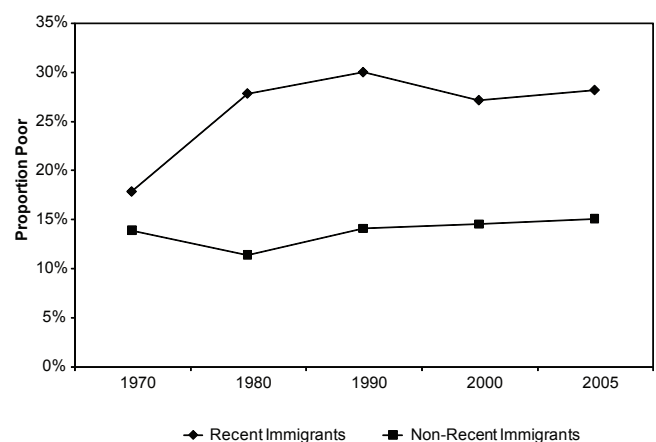


Figure 2. Poverty rates among recent immigrants (arrived within past 5 years) and non-recent immigrants (arrived more than 5 years ago).

the change attributable to shifts in the internal composition of the U.S. resident population across native and immigrant groups, and the change attributable to shifts in poverty rates occurring within these groups.

Table 1 presents these decompositions for various time periods.<sup>3</sup> In nearly all periods, the change attributable to shifts in population shares between natives and immigrants has tended to increase poverty in the United States, but declines in poverty within groups have for the most part more than offset these increases. For example, between 1970 and 2005, the net change in the poverty rate was a decrease of just under one percentage point. We calculate that over this period the change in the population distribution between natives and immigrants added over one percentage point to the poverty rate, whereas changes in poverty rates within these groups subtracted about two percentage points, resulting in the net decline. The results are similar for all periods except for 2000 to 2005, when compositional changes tended to reduce poverty, holding all else constant, while changes in poverty rates within immigrant and native groups increased poverty, resulting in a slight net increase in the poverty rate. These decompositions suggest that the direct compositional effects of immigration on poverty are modest, especially so in recent periods.

### Poverty among natives attributable to labor market competition with immigrants

The contribution of immigration to poverty analyzed in the previous section is purely arithmetic. To the extent that immigrants have higher poverty rates and immigrants are an increasing proportion of the resident population, the national poverty rate will increase. Beyond this compositional effect, immigration may also affect the national poverty rate of natives. To the extent that immigrants drive down the wages of natives with similar skills, increased immigration will contribute to native poverty. This effect may be exacerbated if natives respond to lower wage offers by working fewer hours.<sup>4</sup> The economic forces behind this proposition are best illustrated with a simple model of wage determination in the overall economy. Suppose that all workers in the economy are exactly the same in that employers can perfectly substitute one employee—immigrant or native—for another. Also assume that the stock of productive capital (machinery, plant, and equip-

ment used in the production of goods and services) is fixed. Under these conditions, an increase in immigration increases the supply of labor in the national economy and lowers the wages and employment of native workers who now compete with immigrant workers. At the same time, total employment (immigrant plus native) increases, raising national output. In conjunction with lower wages, increased output translates into higher incomes accruing to the owners of capital.

This is a relatively straightforward story. Immigration increases national output, harms native labor, but enriches the owners of capital. In other words, immigration harms those “factors of production” with which it directly competes while benefiting those factors that it complements. Of course, the actual economy and the likely impacts of immigration operate within a far more complex model. Most conspicuously, in telling our simple story we assumed that employers could perfectly substitute the average immigrant worker for the average native worker. This is clearly unrealistic. Immigrants and natives differ along a number of dimensions that are likely of value to employers. Immigrants tend to have less formal education on average, with levels of educational attainment particularly low among Hispanic immigrants and many Southeast Asian immigrants. Immigrant and native-born workers are also likely to differ in their ability to converse in English. Immigrants also tend to be younger than natives, a fact suggesting that the average immigrant worker may have less labor market experience than the average native-born worker.<sup>5</sup>

Given such differences in skills, it is more likely the case that immigrants and natives are imperfect substitutes in production. That is, substituting immigrant for native workers is possible, but is limited by differences in skills. Moreover, the substitution possibilities likely vary across jobs according to the skill content of various occupations. In some instances, certain sub-groups of natives are likely to complement immigrant labor in production. That is to say, certain native workers are likely to be hired in conjunction with the hiring of immigrant workers. For example, Spanish-speaking laborers on a construction site may increase the demand for native-born bilingual Hispanics with enough education to serve in supervisory positions. As another example, an increase in the supply of low-skilled construction labor may increase the demand for architects, structural and civil engineers, skilled craftsmen, and workers in other such occupations whose labor constitutes important inputs in the construction industry.

The imperfect substitutability between immigrant and native workers in the United States is most readily demonstrated by comparing their distributions across educational attainment groups. Figure 3 shows the distributions of immigrants and native men and women, ages 18 to 64, across formal educational attainment levels for the year 2000. Although immigrants are more likely to hold advanced degrees than most of the native-born groups, the share of immigrant workers with extremely low levels of educational attainment is quite high relative to all native groups. A similar pattern is observed when comparing immigrant and native-born women.

**Table 1**  
Changes in National Poverty Rates Attributable to Changing Population Composition and to Changes in Poverty Rates

	Percentage Point Change in National Poverty Rate	Change Attributable to Changes in Population Shares	Change Attributable to Changes in Group-Specific Poverty Rates
1970 to 2005	-0.94	1.15	-2.09
1980 to 2005	0.56	0.63	-0.07
1990 to 2005	-0.01	0.54	-0.56
2000 to 2005	0.90	-0.28	1.18



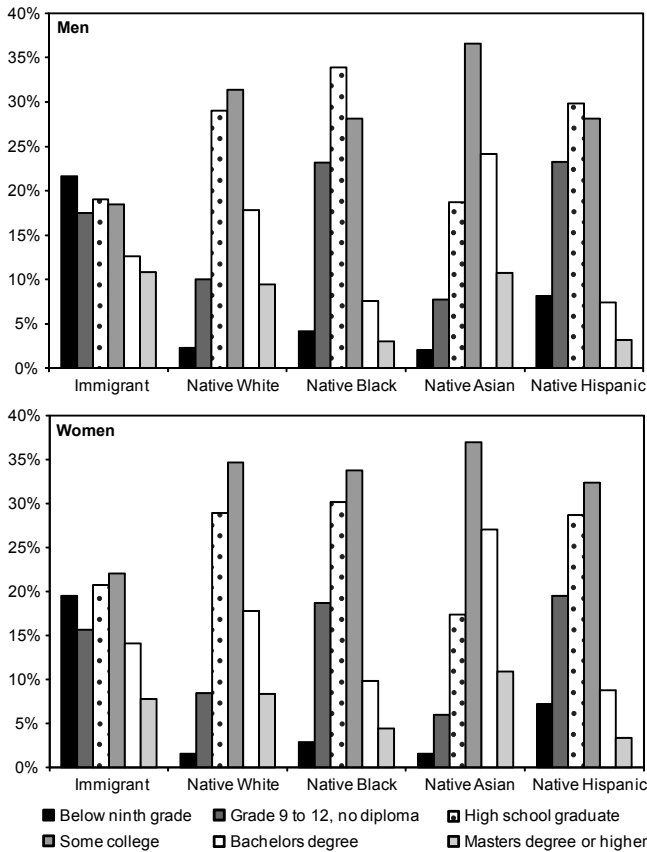


Figure 3. Distribution of Educational Attainment by Immigration Status and by Race/Ethnicity for Adults, 18 to 64 Years of Age, 2000.

We can further examine the amount of overlap in the skill distributions of immigrants and natives by looking at age and education together. We define 54 age-education groups, ranking the groups by average earnings, and identifying those age-education groups that account for the bottom 25 percent, or first quartile, of the skill distribution for natives and for each of the three additional quartiles.<sup>6</sup> With this breakdown, we then calculate the percentage of each immigrant and native group that falls within each skill quartile. If the percentage for a given group and quartile exceeds 25, the group is overrepresented in that portion of the skill distribution. If the percentage falls below 25, the group is underrepresented.

Figure 4 shows these skill distributions. Immigrant men are heavily overrepresented in the least-skilled quartile and underrepresented in the remainder of the skill distribution. The skill distributions of immigrant women show a similar pattern. These figures suggest that immigrants and natives differ considerably in their skills, a fact that alters our simple theoretical predictions concerning the economic effects of immigrants on native labor market outcomes.

Not only did our simple model assume perfect substitutability of immigrant and native labor, it also assumed that the stock of productive capital was held fixed—that an immigration-induced increase in the nation’s endowment of

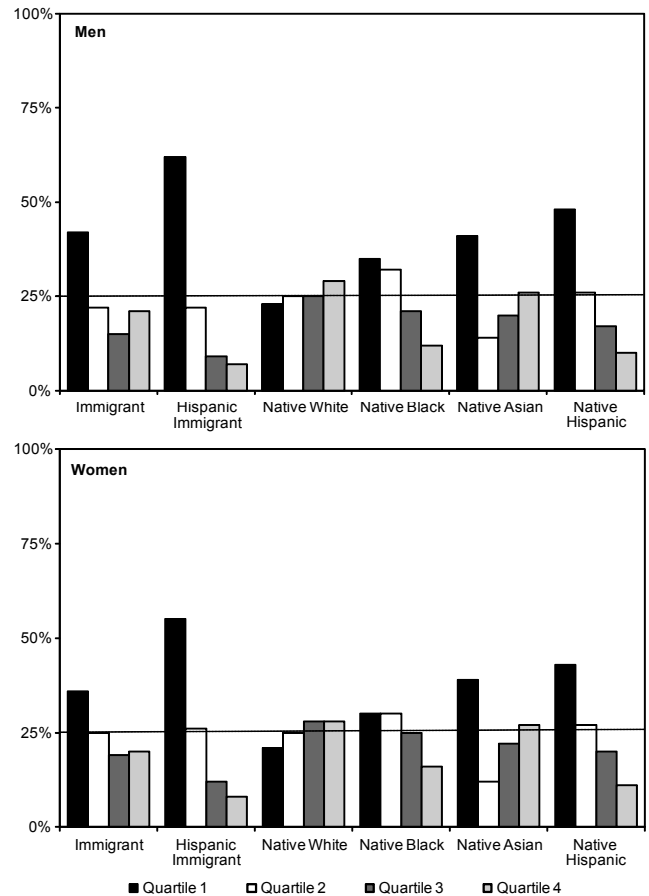


Figure 4. Distribution of immigrant and native born adults across earnings groups based on native population quartiles.

labor does not spur additional net investment on the part of domestic and foreign producers. Capital investment involves the deliberate allocation of resources towards activities that increase the future productive capacity of the economy, such as the addition of a machine or factory. Whether the economy makes sufficient investments to, on net, increase the stock of productive capital will depend on the return to capital, with increasing returns spurring net capital accumulation.

The connection between immigration and capital accumulation is driven by the effect of immigration on these returns. To the extent that immigration increases the nation’s labor supply, each unit of existing capital has more labor to work with, which in turn increases the return to capital investment and the incentive to invest in future productive capacity. The resulting net capital accumulation partially offsets the negative effects of immigration on native wages and employment, by increasing labor productivity (and in turn, wages) and by creating new employment opportunities. The degree of this offset will depend on the responsiveness of capital supply to changes in return as well as underlying technological relationships governing production in the economy. Nonetheless, capital accumulation dulls the wage and employment effects of immigration on natives.

Thus, we began with a simple story in which immigration unambiguously lowers the wages and reduces the employ-

ment of native workers, and then finished with a more nuanced description in which the theoretical predictions are more ambiguous and varied. In our more complex—and more realistic—theoretical discussion, the potential adverse labor market effects of immigration should be greatest for those native-born workers who are most similar in their skills to immigrants. Native groups with sufficiently different skill sets are likely to be least harmed and may even benefit in the form of higher wages and greater employment as a result of an increase in immigrant labor. In addition, capital accumulation in response to an immigrant inflow will, in isolation, benefit all workers by making them more productive. This will partially offset the wage declines for workers who are most similar to immigrants and accentuate the wage increases of complementary natives.

Theoretical predictions regarding the magnitude and size of the effects of immigrants on native wages and employment, and on overall poverty rates, are thus ambiguous. As a result, the question of whether immigration increases or decreases poverty is ultimately an empirical issue. To estimate empirically the contribution of immigration to poverty through labor market competition with natives, we simulate the hypothetical wages that workers of various skill groups would have earned in the year 2005 if the supply of immigrant labor were held to 1970 levels. Using a range of alternative wage estimates we then simulate what personal income, total family income, and poverty rates would have been had the immigrant population been held at 1970 levels.<sup>7</sup>

We perform three simulations that make different assumptions about labor substitutability. The lower-bound estimates assume that immigrants and natives within each skill group are imperfectly substitutable for one another and also assume a fairly high degree of substitutability between workers of different levels of educational attainment. Imperfect substitutability between immigrants and natives concentrates the negative wage effect of immigration on immigrants themselves, and the greater substitutability of workers with different levels of educational attainment allows the effect of immigrant supply increases concentrated among the least skilled to be diffused more evenly across all native-born workers. These two conjoined assumptions lead to estimates of the impact of immigration on native wages that are relatively modest, with small negative effects for high school dropouts only and zero to slight positive effects for all other groups of workers. The upper-bound results assume considerably less substitutability between workers in different education groups, thus concentrating the effect of immigration on those groups most affected. Not surprisingly, these assumptions lead to predicted negative effects on the wages of high school dropouts and more positive impacts on the wages of high school graduates and those with some college.

The final wage simulation assumes limited substitutability between workers of different levels of educational attainment but perfect substitutability between immigrants and natives within skill groups. This simulation yields the largest adverse wage effects for high school dropouts, since per-

fect substitutability between similarly-skilled immigrants and natives transmits a greater share of the supply shock to native workers, while the limited substitutability between workers with different education levels prohibits the shock from spreading out of skill groups most affected by immigration. In all simulations, capital is allowed to accumulate in response to immigration-induced changes in the return to capital.

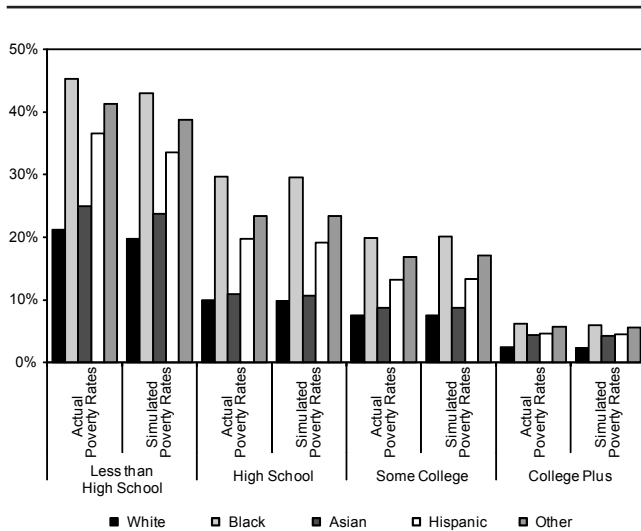
With these wage simulations, we are able to calculate hypothetical family incomes and poverty rates for households with a native-born head in 2005. For each of the three wage simulations, we calculated two sets of hypothetical poverty rates. The first assumes that higher wages lead to an increase in weeks worked—i.e., labor supply is elastic—thus yielding higher hypothetical family income (and lower hypothetical poverty rates) for those adversely affected by competition with immigrants. The second assumes that labor supply is inelastic, or unresponsive, to changes in weekly wages. When the simulated poverty rate is below the actual poverty rate, the simulation suggests that the 2005 poverty rate for the group in question would have been lower had the immigrant population been held to 1970 levels.

The simulation results by race and ethnicity suggest that immigration over this time period has had negligible effects on poverty overall. By level of educational attainment, we found the largest potential effects on the poverty rates of households headed by someone with less than a high school degree. The simulations suggest a hypothetical 2005 poverty rate (if the immigrant population had remained at 1970 levels) between 0.5 and 1.9 percentage points lower than the actual poverty rate. Again, this is a relatively small impact. For households headed by a native-born person with a high school degree or greater (the overwhelming majority of U.S. households), the effects of immigration on poverty are essentially equal to zero.

Poverty simulation results for households defined by both the race and educational attainment level of the household head, shown in Figure 5, lead to very similar conclusions.<sup>8</sup> Again, the lowest simulated poverty rates imply only modest impacts of labor market competition with immigrants on native poverty rates for households headed by someone with less than a high school degree and virtually no effects for all other groups. For the lowest-skilled households, the largest poverty effects occur for African Americans and Hispanics. For example, the lowest simulated poverty rate (again, if the immigrant population had been held to 1970 levels) for black households headed by someone with less than a high school degree is 43 percent, 2 percentage points lower than the actual poverty rate for this group in 2005 (45 percent). The comparable figures for low-skilled Hispanic households are 34 percent and 37 percent.

## Conclusion

In this analysis, we explored possible connections between immigration to the United States between 1970 and 2005 and the nation's poverty rate. First, we briefly documented



**Figure 5. Actual 2005 poverty rates among native-headed households and simulated poverty rates holding immigrant labor supply to 1970 levels by race/ethnicity and educational attainment.**

**Note:** Actual and simulated poverty rates pertain to persons in households where the household head is native-born. Simulation assumes upper bound wage effects, that immigrants and natives are perfect substitutes, and an elastic labor supply (a weeks-worked labor supply elasticity of one).

the increased poverty incidence among immigrants and the connections between the changing national origin mix of the immigrant population and immigrant poverty. We also estimated how poverty rates change within immigrant arrival cohorts as time in the United States increases. Finally, we discussed in detail the avenues through which immigration may affect the wages of the native-born; we simulated the likely wage effects of immigration between 1970 and 2005, and we simulated the consequent effects on native poverty rates.

In the end, it appears that the only substantive contribution of immigration to the national poverty rate occurs through the compositional effects of recent immigrants on the national poverty rate. Recent immigrants from Latin America and Asia tend to experience high initial poverty rates, which certainly increased the overall poverty rate relative to what it would otherwise be. However, this effect is small, and through wage growth and selective out-migration, immigrant poverty declines quickly with time in the United States.

We find little evidence of an effect of immigration on native poverty through immigrant-native labor market competition. Despite adverse wage effects on high school dropouts and relatively small effects on the poverty rates of members of this group, the effects on native poverty rates are negligible, primarily because most native-born poor households have at least one working adult with at least a high school education. ■

<sup>2</sup>We analyze data from the Integrated Public Use Microdata Samples (IPUMS) collected and maintained by the University of Minnesota. We use the one percent samples from the 1970, 1980, 1990, and 2000 U.S. Censuses of Population and Housing and the 2005 American Community Survey (ACS).

<sup>3</sup>See the book chapter for an explanation of how the decompositions are calculated.

<sup>4</sup>The discussion in this section draws heavily upon the discussion in S. Raphael and L. Ronconi, "The Effects of Labor Market Competition with Immigrants on the Wages and Employment of Natives," *Du Bois Review* 4, No. 2 (2007): 413–432.

<sup>5</sup>Of course, if immigrants enter the labor market earlier in life because they left school at a younger age, the relative youth of immigrant workers may not translate into lower average years of work experience relative to natives.

<sup>6</sup>We first defined 54 groups based on age and educational attainment. We use the six educational attainment groups defined in Table 1 and the nine age groups, 18 to 25, 26 to 30, 31 to 35, 36 to 40, 41 to 45, 46 to 50, 51 to 55, 56 to 60, and 61 to 64. The interaction of these six educational groups and nine age grouping define 54 age-education cells. We then use the 2000 PUMS data to rank these groups from lowest to highest average earnings among those employed within each group. We use average earnings among native-born, non-Hispanic white men to do these rankings. We use this group to rank age-education groupings into apparent skills groups since white men are the largest sub-groups in the labor market. We exclude other groups and women to abstract from the effects of race, ethnicity, and gender on wages. In other words, we wish to identify a ranking that is more likely to purely reflect average difference in skills. This ranking serves as an indication of skill endowments as they are valued by the market.

<sup>7</sup>We simulate the effects of competition with immigrants on native poverty rates in the following manner. First, we estimate the parameters of a theoretical model that ties the wages of workers of various skill groupings to their own supply and the supply of all other workers. We then use the calibrated theoretical model to simulate the hypothetical wages that workers of various skill groups would earn if the supply of immigrant labor were held to 1970 levels. Using these alternative wage estimates we simulate hypothetical personal income and total family income with restricted immigrant labor supply. Finally, we use these simulated family income levels to simulate what native poverty rates would have been had the immigrant population been held at 1970 levels. Note, these simulations take household composition as given. To the extent that lower wages impact household formation, our simulations may understate the impact on poverty. The theoretical model of wage determination posits that the wages of workers in a given skill level depends inversely on own supply. In addition, a given group's wages also depend on the supply of other workers. The supply of other types of workers can either suppress (when these workers are close substitutes) or increase (when these workers are complementary) the wages for a given skill group, depending primarily on the ease with which employers can substitute workers of different skill levels in producing goods and services.

<sup>8</sup>This figure displays simulated poverty rates for just one of the three wage simulations (using upper-bound wage effects, and assuming immigrant and native are imperfect substitutes), and rates assume an elastic labor supply. This set of assumptions yielded rates that tended to be the most different from actual poverty rates, although all of the simulations produced fairly similar rates. For the full set of simulations, see the book chapter.

<sup>9</sup>This article draws upon "Immigration and Poverty in the United States," in *Changing Poverty, Changing Policies*, eds. M. Cancian and S. Danziger (New York: Russell Sage Foundation, 2009).

# Enduring influences of childhood poverty

Katherine Magnuson and Elizabeth Votruba-Drzal

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Poverty is not an uncommon experience for children growing up in the United States.<sup>1</sup> Although only about one in five children are in poverty each year, roughly one in three will spend at least one year living in a poor household. Child poverty is a significant concern to researchers and policymakers because childhood poverty is linked to many undesirable outcomes, including reduced academic attainment, higher rates of nonmarital childbearing, and a greater likelihood of health problems. Moreover, childhood poverty, especially when it is deep and persistent, increases the chances that a child will grow up to be poor as an adult, thereby giving rise to the intergenerational transmission of economic disadvantage.<sup>2</sup>

## Child poverty dynamics

In the United States, child poverty rates are higher than rates for the adult and elderly populations.<sup>3</sup> In 2006, 17 percent of children lived in families with incomes below the official poverty threshold compared with only 11 percent of adults. Another 22 percent of children lived in families with incomes between 100 percent and 200 percent of the poverty threshold. Although it is difficult to make international comparisons, research suggests that the United States has one of the highest rates of child poverty among western industrialized nations.<sup>4</sup>

These annual poverty rates provide only a snapshot of the number of children in poverty. With child poverty rates remaining relatively stable over time, it would be easy to mistakenly conclude that the population of children experiencing poverty also changes little. Yet, analysis of longitudinal data reveals substantial turnover among the poor, as events like unemployment and divorce push families into poverty, and reemployment, marriage, and career gains pull them out. As Table 1 shows, while on average children experience 1.8 of their first 15 years of life in poverty, this average masks considerable variation. About 65 percent of children never experience poverty, whereas 15 percent of children are poor for at least 5 of 15 years. African American children are considerably more likely than white children to experience chronic poverty. Children born to unmarried mothers and mothers with less than a high school diploma were also more likely to experience chronic poverty.

Childhood poverty can also be characterized by the number of poverty spells that are experienced. Most poverty spells are relatively short, ending within two years.<sup>5</sup> However, about half of poor individuals who escape poverty experience another spell of poverty within four years.<sup>6</sup> More than half of children who are ever poor experience more than one spell of poverty, and children who are in poverty for longer periods of time are more likely to experience deep poverty.<sup>7</sup>

## Theoretical frameworks for understanding how poverty might affect families and children

Three main theoretical frameworks describe the pathways through which child poverty may affect development: family and environmental stress, resource and investment, and cultural theories.

### Family and environmental stress perspective

Economically disadvantaged families experience high levels of stress in their everyday environments, and such stress may affect human development. The family stress model was developed first by Glenn Elder to document the influence of economic loss during the Great Depression.<sup>8</sup> According to this perspective, poor families face significant economic pressure as they struggle to pay bills and are forced to cut back on daily expenditures. This economic pressure, coupled with other stressful life events that are more prevalent in the lives of poor families, create high levels of psychological distress, including depressive and hostile feelings, in poor parents.<sup>9</sup> Psychological distress spills over into marital and co-parenting relationships. As couples struggle to make ends meet, their interactions become more hostile, conflicted, and they tend to withdraw from each other.<sup>10</sup> Parents' psychological distress and conflict, in turn, are linked with parenting

**Table 1**  
Fifteen-Year Poverty Experiences of Children in the Panel Study of Income Dynamics Born between 1975–1987, by Race and Maternal Characteristics at Birth

	Average Number of Years Poor	Never Poor	Poor for at Least 5 Years	Poor for at Least 8 Years
Total Sample	1.81	65%	15%	10%
African American	5.53	30	46	37
White	0.93	75	7	4
Unmarried Mother	5.39	24	46	33
Mother has less than a High School Diploma	5.03	31	44	33

**Notes:** Calculations of the Panel Survey of Income Dynamics conducted by Kathleen Ziol-Guest, Harvard University. Figures in this table are based on weights that adjust for differential sampling and response rates.



practices that are on average more punitive, harsh, inconsistent, and detached as well as less nurturing, stimulating, and responsive to children's needs. Such lower quality parenting may be harmful to children's development.<sup>11</sup> In recent years, studies in cognitive neuroscience provide evidence to suggest that this type of stress exposure may affect children by influencing the development of brain structures, such as the hippocampus, which is of central importance for memory. These studies, however, have not yet been able to develop clear causal sequencing for these events or isolate the role of poverty per se in these processes.

### Resource and investment perspective

Gary Becker argues that child development is affected by a combination of endowments and parental investments.<sup>12</sup> Endowments include genetic predispositions and the values and preferences that parents instill in their children. Parents' preferences, such as the importance they place on education and their orientation toward the future, combined with their resources, shape parental investments. Economists argue that time and money are the two basic resources that parents invest in children. For example, investments in high-quality child care and education, housing in good neighborhoods, and rich learning experiences enhance children's development, as do nonmonetary investments of parents' time. Links between endowments, investments, and development likely differ for achievement, behavior, and health outcomes. Characteristics of children also affect the level and type of investments that parents make in their children. For example, if a young child is talkative and enthusiastic about learning, parents are more likely to purchase children's books or take the child to the library.<sup>13</sup> This perspective suggests that children from poor families trail behind their economically advantaged counterparts because parents have fewer resources to invest in their children.

### Cultural perspectives

Sociological theories about how the norms and behavior of the poor affect children began with the "culture of poverty" theory put forth by Oscar Lewis.<sup>14</sup> Based on his field work with poor families in Latin America, he argued that the poor were economically marginalized and had no opportunity for upward mobility. Individuals responded to their marginalized position by adapting their behavior and values. The resulting culture of poverty was characterized by little impulse control and inability to delay gratification, as well as feelings of helplessness and inferiority. These adaptations manifested in poor communities' high levels of female-headed households, sexual promiscuity, crime, and gangs. Although Lewis acknowledged that these behaviors emerged in response to structural factors, he argued that over time, these values and behaviors were transmitted to future generations, and therefore became a cause of poverty.

Cultural explanations for the effects of poverty on children were prevalent in the mid-1980s through the 1990s. These approaches suggested high levels of nonmarital childbear-

ing, joblessness, female-headed households, criminal activity, and welfare dependency among the poor were likely to be transmitted from parents to children. A common criticism of culture-of-poverty explanations is that they fail to differentiate the behavior of individuals from their values and beliefs. Evidence suggests that disadvantaged individuals hold many middle-class values and beliefs. However, unlike the middle class, the poor face circumstances that make it difficult for them to behave in accordance with their values and beliefs. Recently, sociologists have developed more sophisticated approaches to examine the intersection of culture and poverty, drawing on cultural concepts, including repertoires, frames, narratives, as well as social and cultural capital, to understand how poor adults experience, perceive, and respond to their economic position. For example, studies suggest that poverty is related to smaller and less supportive social networks.<sup>15</sup> The notion that norms and behaviors are passed down from generation to generation is implicit in cultural theories, even if it has not been well documented.

## Consequences of child poverty

### Academic achievement and attainment

Does poverty affect children's achievement and educational attainment? Modest gaps in achievement by income are present when children enter school and grow during the school years.<sup>16</sup> Effects on educational attainment are larger, with the mean differences amounting to over a year of schooling.<sup>17</sup> Differential rates in high school completion and college attendance are also large—poor children are one-third as likely to complete high school and the gap in college attendance between the lowest quintile and highest quintile of income is nearly 50 percentage points.<sup>18</sup> These differences in children's achievement and attainment likely contribute to differences in job opportunities and later earnings.<sup>19</sup>

Despite theoretical predictions and correlational evidence, whether family income and poverty are causal determinants of children's achievement and education behavior remains a controversial issue. Some scholars argue that both low family incomes and low achievement are the by-products of genetic, psychological, and social differences between poor and nonpoor families, which are the "true" causes of poor achievement and attainment.<sup>20</sup> Researchers have used a variety of methods to study the effects of poverty and income, including capitalizing on income variation created by policy. Experimental welfare reform evaluation studies undertaken during the 1990s provided a unique opportunity to consider how increases in family income affect poor children's development.<sup>21</sup> The academic achievement of preschoolers and elementary schoolchildren was improved when income increased, but not by programs that only increased parental employment. Such benefits were not apparent for adolescents. More recently, Gordon Dahl and Lance Lochner found that increases in income generated by an expansion of the maximum Earned Income Tax Credit predicted improvements in low-income children's achievement.<sup>22</sup>

Poverty probably matters for children's achievement and later educational attainment, although not as much as some of the early and less rigorous studies suggested. No study has been able to rule out all sources of bias or threats to internal validity, but taken together, the robust links between early childhood poverty and later achievement and attainment, as well as income in adolescence and later educational attainment, suggest that parental economic resources play a modest causal role.

### **Behavior**

Poor children are typically rated by their parents and teachers as having more behavior problems than their peers. In childhood, this is reflected in elevated levels of externalizing problems, such as aggression and acting out, and internalizing problems, such as depression and anxiety; in adolescence and later adulthood, in higher rates of nonmarital fertility and criminal activity. Again, the extent to which these associations reflect causal associations remains uncertain.

Studies suggest that although poverty is associated with children's socio-emotional well-being, to the extent that the effects are causal, they are likely to be selective. Accumulating evidence suggests that, for example, poverty may be more strongly associated with externalizing problem behavior, such as aggression, rather than internalizing behavior, such as depression. The fact that family income may be more linked with some types of behavior than others is not surprising. However, discrepancies across studies may also be attributable to differences in study design. Studies vary considerably in the ages of children and the timing of the poverty or income measure. There is little evidence to indicate whether current or permanent income is a stronger predictor of children's behavior. Nor is there clear evidence on whether the age at which poverty is experienced or timing of poverty is salient in understanding associations between income and children's behavior.

Nonmarital births are more prevalent among women who experienced poverty as children. Duncan and colleagues found that more than half of girls who experienced poverty for the first 5 years of life had a nonmarital birth by age 28, compared to 21 percent for those with family incomes between 100 percent and 200 percent of the poverty threshold, and only 8 percent for those with household incomes over 200 percent.<sup>23</sup> In contrast, Robert Haveman, Barbara Wolfe, and Kathryn Wilson argued that the association between childhood poverty and subsequent nonmarital childbearing is not due to poverty per se, but to the fact that many poor children are raised in single-parent families.<sup>24</sup>

### **Physical health**

Growing up in poverty is associated with a variety of worse health outcomes. Compared with children in nonpoor households, poor children are reported by their mothers as having worse overall health. Janet Currie and Wanchuan Lin found that only 70 percent of poor children were reported to be in excellent or very good health, compared with 87

percent of nonpoor children.<sup>25</sup> In western industrialized nations, economic disparities in health tend to grow from early childhood through adolescence.<sup>26</sup> This is, in part, because income seems to protect children's health at the onset of early chronic conditions.<sup>27</sup>

In the United States, children from poor households also have higher rates of chronic conditions, such as asthma, diabetes, and hearing, vision, and speech problems, with 32 percent of poor compared with 27 percent of nonpoor children reporting at least one such condition.<sup>28</sup> Associations between childhood poverty and health extend into adulthood. Economic disadvantage in childhood has been linked to worse overall health status and higher rates of mortality in adulthood.<sup>29</sup> By age 50, individuals who have experienced poverty in childhood are 46 percent more likely to have asthma, 83 percent more likely to have been diagnosed with diabetes, and 40 percent more likely to have been diagnosed with heart disease, in comparison to individuals whose incomes are 200 percent of the poverty line or greater.<sup>30</sup> Adult disparities in chronic health problems by poverty status tend to become more pronounced with age. Unadjusted differences in physical health by childhood poverty status likely overstate the true causal effect of childhood poverty and physical health.

As few studies directly consider the effect of childhood poverty on later health, it is worth considering other sources of evidence that may shed light on this question. Research examining policies aimed at reducing poverty-related material hardships may provide additional information about poverty's influence on health. For example, the food stamp program, designed to reduce food insufficiency, has been shown to increase birth weight and reduce prematurity.<sup>31</sup> Furthermore, participation in another food-assistance program, Women, Infants, and Children (WIC), has been linked to improved birth outcomes and reductions in childhood obesity.<sup>32</sup> Unfortunately, rigorous research on programs such as these has not yet been extended to consider physical health benefits beyond these very early years of childhood. To the extent that programs like food stamps and WIC lead to improvements in the health of the economically disadvantaged, one can infer that at least some of the influence of poverty on physical health may be causal.

### **Summary**

About one in three children will experience poverty during childhood. For most, poverty will be transient; however, for some, poverty persists for many years. About 10 percent of children will spend more than half of their childhood in poverty (at least 8 out of the first 15 years). Children experiencing such chronic poverty are more likely to be born into single-parent families, to mothers with low levels of education, and to be African American.

Theories suggest that experiencing poverty during childhood may affect one's life chances by increasing family stress and reducing parental investments. Families may also adapt their

behaviors when facing diminished economic opportunities, and this may result in lower quality parenting, leading to harmful effects on children.

Studies confirm that children who experience persistent poverty are at risk of experiencing poor outcomes across important domains later in life. Because identifying the unique effect of poverty on child and adult outcomes is challenging, the extent to which these associations are causal is uncertain. Poor and nonpoor families differ in a variety of ways that may also affect individual's outcomes, making it difficult to isolate the causal effect of income from that of other related disadvantages and family characteristics.

Cumulative research evidence suggests that deep and early poverty is linked to lower levels of achievement, holding constant other family characteristics. Low family income during adolescence is likewise linked to lower levels of educational attainment. Despite such robust associations, it is difficult to provide a precise estimate of the magnitude of poverty's causal effects on achievement or attainment, due to differing measures and methods used in studies.

The associations between poverty and child and young adult behaviors, such as problem behavior, crime, and nonmarital childbearing, are more selective. Some evidence suggests that effects on externalizing behavior may be causal, although probably small. More research is necessary to better understand the associations between poverty and behavior, with particular attention to the age and timing of poverty as well as the particular type of behavior under consideration.

Although correlations between child poverty and health are well documented, there is little indication of whether these associations persist after adjustments are made for observable and unobservable differences across families. Theory and related literature provide good reasons to suspect that poverty is detrimental to children's health. Yet, the base of rigorous research is inadequate for drawing any firm conclusions about the magnitude of causal effects.

## Policy implications

Before discussing concrete policies for addressing child poverty, we briefly highlight key issues for policymakers and researchers to consider when weighing the merits of different strategies. First, we remind readers that poverty experienced during early childhood, deep poverty, and persistent poverty appear to be especially harmful to children's achievement, and may have enduring effects on health and social functioning as well. Thus, early, deep, and persistent childhood poverty should be of particular concern to policymakers. Research suggests that children who experience economically disadvantaged circumstances are particularly likely to benefit from additional financial resources.

Second, meaningful improvements in poor children's achievement, and perhaps health or behavior, can be accom-

plished with modest financial investments. The income increases experienced by families due to increases in the EITC during the 1990s as well as income gains experienced as part of antipoverty programs appeared to have been sufficient to bring about measurable gains in children's achievement. Put another way, a few thousand dollars for several years can make a meaningful difference in children's lives.

Third, the United States has a long history of differentiating eligibility for social benefits based on factors such as labor force attachment, immigrant status, and family structure. Yet, alleviating the consequences of child poverty necessitates access to benefits for all poor children and families. Excluding families, for example, by making antipoverty programs dependent upon employment, may result in providing the least support to children who are in greatest need. Finally, policymakers should consider the relative costs and benefits of differing programs and policies when deciding how to allocate limited public resources. Although it is often difficult to precisely value program outcomes, when choosing between strategies, it is important to consider whether the benefits of programs and policies exceed their costs, and whether funds spent on a particular program would be better directed to an alternative program or policy with a larger net benefit.<sup>33</sup>

Strategies for improving the life chances of poor children focus on boosting family economic resources, by providing either cash supplements or in-kind benefits that offset the costs of basic necessities, or by increasing the earnings of poor workers. Interventions aimed directly at children and families, many of which are described in other articles in this issue, provide an additional policy lever for enhancing the development of poor children. Next we prioritize these strategies for confronting the harmful consequences of child poverty.

First, income support policies including child allowances and cash supplements provide a basic minimum level of support to families with children. Such benefits are common in advanced welfare states, but have not been prominent in U.S. policy discussions. Instead, the U.S. tax system has been used to redistribute cash to low-income families. The child tax credit, a partially refundable tax credit; and the Earned Income Tax Credit (EITC), a fully refundable tax credit; are two mechanisms that direct economic resources to working-poor families with children. The EITC, which provides cash support to low-income workers, has been heralded by many policy analysts for its ability to boost family incomes and promote employment. Making the child tax credit fully refundable and more generous would provide more help to poor families. Other ways to boost family income would be to increase the minimum wage or allow for generous earnings disregards in calculating cash welfare benefits, allowing recipients to keep a larger portion of their welfare benefits as their earnings increase.

Given the links between early poverty and development, targeting additional income support to families with young



children may be particularly valuable. Expansions in cash support could be targeted to families with children under age 6. Currently, the maximum child care tax credit is \$1,000 for each child under the age of 17. An expansion that increased the credit to \$2,000 for all children under the age of 6 would channel needed resources to poor families with young children. Likewise, the EITC schedule of benefits could be revised to provide larger benefits to parents of young children.

Second, means-tested in-kind benefits such as food stamps, WIC, housing assistance, and children's health insurance provide poor families with valuable in-kind support and hence raise disposable income. Child care subsidies are especially important to supporting low-income working mothers by offsetting the high costs of non-parental care. In-kind benefits may be effective in attenuating the effects of child poverty if they reduce economic hardship and increase investments in poor children. Benefits that are not tethered to work supports may be particularly important to families during economic downturns and rising unemployment.

Third, some interventions aimed directly at enhancing the educational experiences of poor children have been shown to be cost-effective. High-quality early education programs for low-income three- and four-year olds, including Head Start and prekindergarten programs, top the list of proven interventions. State and federal investments in Head Start or preschool programs operated by local school districts or nonprofit organizations could go a long way in addressing developmental disparities related to child poverty by enhancing access to high-quality early childhood education.

If some of the association between poverty and child development are due to poorer quality parenting by economically disadvantaged parents, parenting programs may offer another opportunity for improving the life chances of poor children. These diverse programs typically seek to improve parents' ability to provide enriching, stimulating, and sensitive caregiving. A review of parenting program evaluations suggests that although many programs can improve some dimensions of parenting, few can improve child outcomes, particularly cognitive development.<sup>34</sup> Two important exceptions should be noted. The first are parent management programs, such as the Incredible Years program, designed specifically for parents with young children exhibiting high levels of problem behaviors such as aggression.<sup>35</sup> The second are intensive nurse home-visitation programs for disadvantaged new mothers, which have been shown to be a cost-effective means to reduce abuse and neglect as well as improve child outcomes well into adolescence.<sup>36</sup> Although parenting interventions may have effects on selective populations, on balance, it seems unlikely that existing intervention programs can significantly improve the life chances of poor children.

Finally, in recent years, place-based antipoverty strategies such as the Harlem Children's Zone (HCZ) have garnered much attention as a promising approach to improving the outcomes of poor families and children. Place-based interventions provide comprehensive programs and ser-

vices throughout childhood to families in low-income urban neighborhoods. The HCZ, for example, begins with "Baby College," which provides parenting education and services to new and expectant parents, and continues through the College Success Office, which supports adolescents as they prepare for college and career decisions. Preschool and after-school enrichment programs, charter schools, as well as health, fitness, and nutrition initiatives are also provided. By engaging an entire community, place-based initiatives seek to transform the culture of economically disadvantaged communities.<sup>37</sup> Yet, to date this approach of providing a comprehensive package of services has not been rigorously evaluated. A main component of the Obama Administration's antipoverty agenda is the establishment of 20 "Promise Neighborhoods," modeled after HCZ. If these programs come into fruition, it will be important to evaluate the extent to which children's lives are improved by these programs.

There are many programs and policies that may succeed in reducing poverty among families with young children or limiting the harmful effects of poverty. Children who experience chronic and deep poverty face many threats to their healthy development, only some of which are directly attributable to poverty. Given the heterogeneity of circumstances across poor families, no single policy response will be sufficient to break the link between poverty and child outcomes. While it is uncertain how much of an effect poverty has on any one particular outcome, alleviating childhood poverty would almost certainly improve children's life chances. ■

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# Mobility in the United States in comparative perspective

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## Introduction

The United States has a much more unequal distribution of income than most developed nations.<sup>1</sup> Even though it has one of the highest standards of living on average, as measured by its gross domestic product per capita, the more unequal income distribution translates into comparatively high rates of both relative poverty (50 percent of median disposable income) and absolute poverty (the official U.S. poverty thresholds).<sup>2</sup> Some analysts suggest that high inequality and poverty in any year are of little public policy concern, if there are also high rates of mobility.

Income mobility and poverty mobility are closely related to notions of equality of opportunity, whereas annual measures of inequality and poverty are related to notions of equality of outcome. This article discusses both poverty mobility over time and intergenerational mobility, emphasizing the relationship between long- and short-run measures of economic outcomes.

## Short-term poverty

Official U.S. poverty statistics, like those in most other countries, are based on annual income. However, to the extent that income changes within the year affect families that earn low wages and experience periods of unemployment, short-term income fluctuations may be associated with substantial drops in living standards. For persons with low or no savings, income shortfalls during shorter periods may be highly distressing. On the other hand, changes in household income from month to month can be part of normal economic activity, such as in the case of agricultural work, where activity levels are seasonally variable.

In this section, I examine trends in short-term poverty, measured on a monthly basis. Because poverty rates for periods shorter than one year are unavailable for other countries, I focus solely on the United States.<sup>3</sup>

Figure 1 shows the official poverty rates of all persons for different time periods between 1996 and 1999. The first column series shows the rate of episodic poverty, defined as the proportion of the population that was poor in two or more

months in every year from 1996 to 1999, as well as the proportion that was poor for two or more months between 1996 and 1999.<sup>4</sup> In 1999, one in five persons lived in a household with below-poverty-level income for at least two months of the year; over the four-year period, 34.2 percent experienced at least two months of poverty-level income. A higher fraction of persons experience at least one month of poverty than are counted as officially poor.

John Iceland also reports trends in poverty for different time periods for selected population groups.<sup>5</sup> Figure 2 shows the episodic poverty rate in 1999, by race; age; family type; and area. In sum, by shortening the period over which poverty is measured, the poverty rate increases substantially for all of the groups. While some part of the short-term dynamics of poverty probably reflects measurement errors rather than actual changes in income, examining short-term dynamics is informative all the same. The episodic poverty rate is about twice the poverty rate based on annual income. However, racial minorities and female-headed households are at greatest risk of both annual poverty and short-term poverty.

## Long-term poverty

The study of poverty dynamics typically examines poverty across longer periods than a single year, rather than the shorter perspective discussed above. One way to approach this is to choose a period of, say, four years and examine how many persons were poor during the whole period—call this persistent poverty. One may also examine what fraction of the population was poor at any one time during the period—call this episodic poverty. It is also interesting to look at entries into

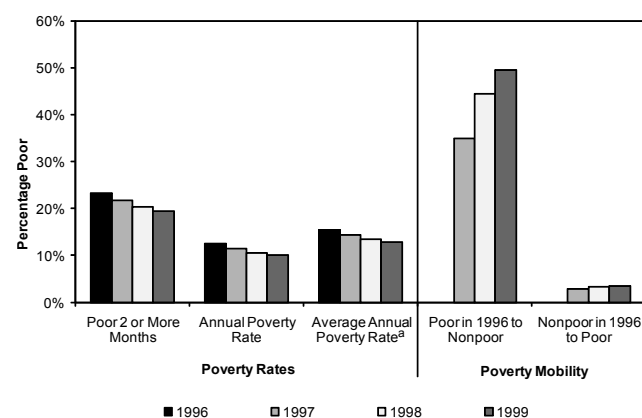


Figure 1. Monthly and annual poverty rates and poverty mobility in the United States, 1996-1999.

Source: U.S. Census Bureau, Survey of Income and Program Participation (SIPP), 1996.

<sup>a</sup>Based on monthly poverty rates.

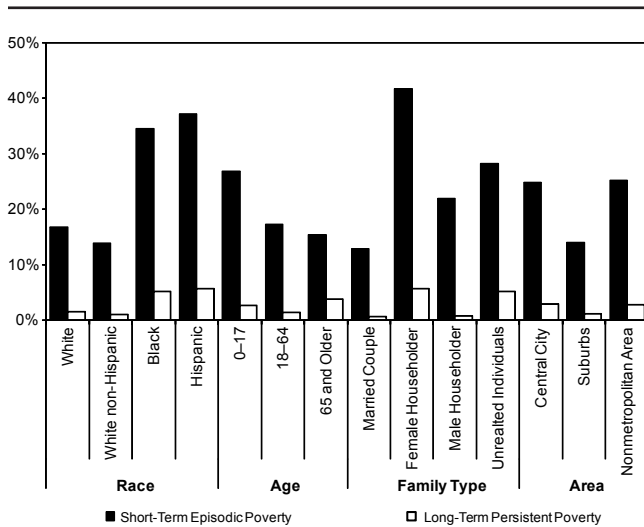


Figure 2. Short- and long-term poverty rates by population groups.

and exits out of poverty, along with the distribution of poverty spells. In this section, I analyze comparable evidence for the United States and other countries on patterns of long-term poverty and poverty dynamics over periods longer than a year.

John Iceland measures long-term poverty in the United States based on monthly incomes, shown in Figure 2.<sup>6</sup> The risk of persistent poverty varies substantially by race and ethnicity; both African Americans and Hispanics have more than a 5 percent risk of chronic poverty, compared to 1 percent for white non-Hispanics. Female-headed households and unrelated individuals are also at high risk of persistent poverty. Children are at a higher risk than the average person of persistent poverty, as are the elderly.

## International evidence

The annual poverty rate in the United States is high compared to the rates in other rich nations, especially the poverty

rate that is based on a relative definition, as is customary in international comparisons. When poverty is based on an absolute definition by converting the official U.S. poverty line into an equivalent value in other countries, the comparison is more complicated. However, countries that have very low levels of relative poverty and reasonably high average income levels, such as the Nordic countries, tend to have much lower levels of poverty even when the U.S. poverty line is used.<sup>7</sup> But how do poverty dynamics compare across countries? Answering this question is difficult because it requires having comparable datasets for many countries.<sup>8</sup>

Robert G. Valletta estimates poverty dynamics across six years for Canada, Germany, the United Kingdom, and the United States.<sup>9</sup> Poverty in the United States is measured in terms of annual income, and Valletta uses both a relative definition (50 percent of median disposable income) and the official U.S. definition. In the other countries, he uses only the relative definition.<sup>10</sup> Table 1 summarizes different aspects of poverty dynamics for the working-age population (household head between the ages of 16 and 64) in these four countries. Table 1 also shows poverty rates based on income averaged across the six years, in column 4, which Robert Valletta calls chronic poverty. These rates, which measure those who have persistently low income, vary substantially across countries.

Table 1 also provides information about differences in the antipoverty effectiveness of government transfers by comparing the change in poverty on moving from a market-income- to a disposable-income-based definition. For the most part, the difference in market income and disposable income poverty rates are of the same order of magnitude. For instance, in Canada, market income poverty is reduced by 5 to 7 percentage points for all four poverty definitions. For the relative poverty definition in the United States, poverty is not reduced very much by government transfers. Using the official definition (last two rows of table), the persistent poverty rate is reduced from 4.1 percent to 2.3 percent (column 3);

Table 1  
Poverty Rates Over Six-Year Periods in Canada, Germany, the United Kingdom, and the United States

Country	Income	Average Annual Poverty Rate (1)	In Poverty at Least Once (2)	Always in Poverty (3)	Chronic Poverty <sup>a</sup> (4)
Percentage of Working-Age Population					
Canada	Market income	19.5%	32.7%	8.0%	14.5%
	Disposable income	12.6	25.3	3.5	9.1
Germany	Market income	16.2	27.6	3.6	9.1
	Disposable income	9.7	18.1	1.4	4.4
United Kingdom	Market income	15.9	26.1	2.5	7.0
	Disposable income	9.9	21.2	0.4	2.9
United States	Market income	18.3	30.7	5.5	12.2
	Disposable income	17.0	30.5	3.9	10.6
United States (official threshold)	Market income	15.0	25.7	4.1	8.8
	Disposable income	11.8	22.2	2.3	6.0

Source: R. G. Valletta, "The Ins and Outs of Poverty in Advanced Economies: Government Policy and Poverty Dynamics in Canada, Germany, Great Britain, and the United States," *Review of Income and Wealth* 52, No. 2 (2006): 261–284, Table 2.

Note: Poverty is measured from 1991 to 1996 in all countries except Canada, where poverty is measured from 1993 to 1998.

<sup>a</sup>Percentage of the sample for whom average equivalent income over the six sample years falls below the average poverty line over the same period.

using a relative line, the persistent poverty rate is reduced from 5.5 percent to 3.9 percent.

Bruce Bradbury, Stephen Jenkins, and John Micklewright compare the poverty dynamics of children in several countries, including Germany, the United Kingdom, and the United States. They find that the persistence of child poverty is high in those countries where the annual child poverty rate is high. For instance, 7.7 percent of German children were poor in the first year of the data and 1.5 percent of children were poor in all of the five years they were followed. In the United States, 24.7 percent of children were poor in the first year and 13.0 percent were poor in all five years.<sup>11</sup>

### **Has the persistence of poverty changed over time?**

Lloyd Grieger and Jessica Wyse estimate long-term child poverty rates based on post-tax, post-transfer income plus food stamps averaged across several years.<sup>12</sup> Their measure, similar to what Valletta called chronic poverty, increased for cohorts born in the 1970s from 5.9 percent to 10 percent for cohorts born in the 1980s, and decreased again, to about 7.3 percent, for those born in the 1990s. The chronic poverty rate was substantially higher and increased more and decreased less for black children.

In sum, while only about 2 percent of all Americans were poor in every month in the four years from 1996 through 1999, the risk of such long-term poverty was higher for groups that are at higher risk of both short-term and annual poverty. Differences in the length of poverty spells and exits out of and entries into poverty across the years show similar patterns. The same characteristics—racial and ethnic minorities, single-parent families—have above average annual poverty rates and higher short- and long-term poverty rates.

Also, even though the United States has poverty rates that are higher than those in some other major economies, poverty dynamics are similar. Episodic poverty over a period of six years occurs at a rate that is roughly twice the annual poverty rate, and the proportion of poor in every single year is substantially smaller than the annual rate. The duration of poverty was also quite similar across countries, with Canada having the longest durations. Finally, in all four countries, poverty dynamics were most closely associated with changes in family structure, changes in the number of full-time workers in the household, and changes in labor earnings. The importance of public transfers in accounting for poverty dynamics, by contrast, varied quite a bit.

### **Intergenerational mobility**

Do poor children become poor adults? To answer this question requires us to confront many substantive and measurement issues.<sup>13</sup> Cross-country comparisons of intergenerational income mobility are difficult because they are sensitive to many assumptions about measurement that the researcher must make.<sup>14</sup> The most common way to examine how closely related children's economic status is to that of

their parents is to estimate the intergenerational elasticity, that is, the regression coefficient obtained from regressing the natural logarithm of offspring income on that of the parent. This elasticity is a measure of how many percentage points a child's income will increase if a parent's income increases by, say, one percent. A larger dependence means children's adult economic status is more highly dependent on that of their parents.

One way to think of the estimated elasticity of children's income with respect to their parents' is to ask how much of a given income advantage observed in the parental generation is preserved in the children's generation. Miles Corak exemplifies this for the difference observed in the United States for families with children under the age of 18.<sup>15</sup> The top fifth of such families have about 12 times as much income as the bottom fifth. If the intergenerational persistence of income was equal to one, that income advantage would be transferred in whole to the next generation. That is, the children of the richest fifth would have 12 times as much income as the children of the poorest fifth. If the intergenerational persistence of income were equal to zero, none of that advantage would be present among the children of these groups. Corak reported that U.S. estimates of the elasticity vary in the range of 0.4–0.6, corresponding to an inherited income advantage of between 2.70 and 4.44 for the richest fifth compared to the poorest fifth. Elasticity at these levels means that the children whose parents were among the richest fifth (i.e., parents whose income was 12 times that of the poorest fifth) grow up to earn about 3 to 4 times as much as the children whose parents were among the poorest fifth. Thus, their income advantage was roughly half that of their parents.<sup>16</sup>

The United States, Italy, and France all have high persistence, at 0.45, 0.44, and 0.42, respectively, which with a 12-fold income advantage in the parental generation would translate to roughly three times higher incomes among the children of the richest fifth compared to those of the poorest. Denmark has the lowest persistence at 0.12, and most other countries are quite close to 0.25. These numbers translate to 1.35 and 1.86 times higher incomes among the richest fifth offspring, holding constant the parental income advantage.<sup>17</sup>

### **The intergenerational mobility of women**

Most studies of intergenerational mobility focus on the relationship between sons and their fathers. This focus on men is due in large part to the difficulties in measuring the economic status of women over time and across countries. The labor force participation rates of women have increased quite substantially in the past few decades and the timing of these increases varies across countries. Thus, comparing estimates of intergenerational mobility across countries with different labor market institutions for women may be problematic.

Laura N. Chadwick and Gary Solon examine the intergenerational income persistence of women in the United States using data on family income or the combined earnings of couples (for those who are married). Their estimates suggest that women's family incomes are also highly correlated with



that of their parents, although slightly less strongly than for men—the elasticity is 0.43 for women and 0.54 for men.<sup>18</sup>

Oddbjörn Raaum and colleagues compare the intergenerational income persistence of women and men in the United States with that of women in the United Kingdom and the Nordic countries.<sup>19</sup> They compile their cross-country evidence on the intergenerational persistence based both on a person's own annual earnings and on the combined earnings of their partners (if present) and themselves. The differences across countries in the persistence of a woman's own earnings with respect to the earnings of her parents are quite small, although it is higher in the United Kingdom (0.27) and the United States (0.25) than in the Nordic countries (between 0.186 and 0.197).

### **Intergenerational mobility by race in the United States**

We documented above that annual and longitudinal poverty rates in the United States are higher for racial and ethnic minorities. There also are differences in intergenerational income persistence across racial groups.<sup>20</sup> The rates of persistence—measured as the correlation between the income of parents and their children—in family income for both men and women among the whites separately, 0.39, and blacks separately, 0.32, are lower than for both groups pooled together, 0.53. This is due to the fact that differences in the average incomes of the two groups contribute to the high overall level of intergenerational income persistence. Note, however, that these results suggest that across the whole distribution, there is more, not less, intergenerational mobility among blacks than whites.

This is not the case for persistence of low income. Tom Hertz reports the likelihood that a child whose family is in the lowest 25 percent of the income distribution would end up as an adult in that same level of the distribution.<sup>21</sup> About 47 percent of children whose parents are in the lowest fourth of the income distribution are among the poorest 25 percent of their generation when they are young adults. Among African American children, 63 percent will be among the poorest quarter of the population when they are adults, compared to 32 percent of white children.

### **What accounts for intergenerational persistence in income?**

It would be important to know why income position is to some extent inherited, since some reasons might be more amenable to policy interventions to decrease persistence than others. Some policy interventions, if they were effective, might also be more likely to gain political support than others. In particular, interventions that occur early in life, such as intensive preschool education for disadvantaged children, tend to be more politically popular than interventions that occur later in life. It would be good to know if the early interventions were effective in decreasing persistence.

Economic explanations for why incomes are correlated across generations tend to emphasize that educational attainment, skills, and ability, all of which affect income levels,

are transmitted from parents to children.<sup>22</sup> Sociological accounts of persistence tend to emphasize the intergenerational similarity of occupation and class.<sup>23</sup> Some scholars emphasize the genetic transmission of traits.<sup>24</sup> Although the exact mechanisms that explain income persistence are unknown, it seems that policies aimed at reducing inequalities in the quality of schooling and meritocratic selection into higher education might promote mobility and reduce intergenerational persistence. If income persistence and income inequality are positively related, then policies aimed at reducing inequality might also decrease intergenerational persistence.<sup>25</sup>

In sum, incomes are highly intergenerationally persistent in many countries and this persistence is greater in countries with greater inequality and poverty. The income persistence of women is slightly less than that for men, but once we examine family income, the levels of persistence are similar. The intergenerational income persistence of African Americans and whites are lower when examined separately than when combined, which suggests that black-white income difference accounts for part of the high level of persistence in the United States. Income persistence in the United States seems not to have changed by much in recent decades, while persistence appears to have increased in the United Kingdom, but decreased in the Nordic countries.

## **Conclusions**

Some policy analysts call attention to poverty dynamics to point out that the rate of persistent poverty is much smaller than the annual poverty rate, suggesting that poverty is less prevalent than is commonly believed. However, poverty dynamics also calls attention to the fact that more individuals are affected by poverty during a period of a few years than are poor in a single year, so the risk of poverty is quite widespread. Moreover, even if many people exit poverty each year, they do not exit very far from the poverty line and are at substantial risk of re-entry. This suggests that the economically vulnerable population is quite large.

We also documented that similar background factors are associated with long- and short-term poverty. Thus, a policy that reduces annual poverty risks might also reduce persistent poverty. Moreover, policies that are aimed at increasing the likelihood of poverty exit for families with children by providing strong work incentives risk reducing the living standards of children unless the policies result in substantially increased income.

Intergenerational income persistence in the United States is quite high compared to other countries, and that persistence has not changed much over the years. While economic and sociological theories suggest several reasons one might expect intergenerational income differences to persist, cross-national research has yet to suggest which policy responses are likely to be effective in reducing income persistence. However, it is reasonable to suggest that reduced inequalities in schooling, especially for very young children, and more

meritocratic selection into higher education are quite likely to increase equality of opportunity and reduce intergenerational persistence. ■

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<sup>1</sup>This article draws on “Mobility in the United States in Comparative Perspective,” in *Changing Poverty, Changing Policies*, eds. M. Cancian and S. Danziger (New York: Russell Sage Foundation, 2009).

<sup>2</sup>See, for example, B. Bradbury and M. Jäntti, “Child Poverty across Twenty-Five Countries,” in *The Dynamics of Child Poverty in Industrialised Countries*, eds. B. Bradbury, S. P. Jenkins, and J. Micklewright (Cambridge, UK: Cambridge University Press, 2001).

<sup>3</sup>Income measured over any period will reflect both true income and random measurement errors. Some of the changes in income from period to period reflect changes in measurement errors. Most analysts believe there is more such “noise” in measured income over very short periods. Thus, not all of the short-term changes in poverty need reflect true changes in poverty status. Unfortunately, it is very difficult to assess how much of the measured short-term movements reflect changes in measurement errors. Despite the potentially greater relative importance of measurement errors, it is instructive to examine short-term poverty dynamics.

<sup>4</sup>J. Iceland, “Dynamics of Economic Well-Being: Poverty 1996–1999,” *Current Population Reports*, Series P70, No. 91, 2003, Washington, DC: U.S. Government Printing Office for U.S. Census Bureau.

<sup>5</sup>Iceland, “Dynamics of Economic Well-Being.”

<sup>6</sup>The requirement that a person be poor in every month across the years 1996–1999 is more stringent than the requirement that a person be poor in every year during that time, since many who are poor in terms of annual income will have some months with above-poverty-level income. Thus, chronic poverty defined in terms of monthly poverty is bound to be lower, or at least not higher, than chronic poverty defined in terms of annual incomes across the same number of years.

<sup>7</sup>T. Smeeding, L. Rainwater, and G. Burtless, “United States Poverty in a Cross-National Context,” in *Understanding Poverty*, eds. S. Danziger and R. Haveman (New York and Cambridge, MA: Russell Sage Foundation and Harvard University Press, 2001), 162–189.

<sup>8</sup>R. Burkhauser, and K. Couch, “Intragenerational Inequality and Intertemporal Mobility,” in *Oxford Handbook of Economic Inequality*, eds. by W. Salverda, B. Nolan, and T. M. Smeeding (Oxford, UK: Oxford University Press, 2009); P. Gottschalk, S. Danziger, “Family Income Mobility — How Much Is There and Has It Changed?” in *The Inequality Paradox: Growth of Income Disparity*, eds. J. A. Auerbach and R. S. Belous (Washington, DC: National Policy Association, 1998).

<sup>9</sup>R. G. Valletta, “The Ins and Outs of Poverty in Advanced Economies: Government Policy and Poverty Dynamics in Canada, Germany, Great Britain, and the United States,” *Review of Income and Wealth* 52, No. 2 (2006): 261–284.

<sup>10</sup>G. Duncan, B. Gustafsson, R. Hauser, G. Shmauss, H. Messinger, R. Muffels, et al., “Poverty Dynamics in Eight Countries,” *Journal of Population Economics* 6, No. 3 (1993): 215–234; B. Nolan and I. Marx, “Economic Inequality, Poverty and Social Exclusion,” in *Oxford Handbook of Economic Inequality*, eds. W. Salverda, B. Nolan, and T. M. Smeeding (Oxford, UK: Oxford University Press, 2009).

<sup>11</sup>B. Bradbury, S. Jenkins, and J. Micklewright, eds., *The Dynamics of Child Poverty in Industrialised Countries* (Cambridge, UK: Cambridge University Press, 2001).

<sup>12</sup>L. Grieger and J. J. Wyse, “Long-Term Poverty among Black and White Children and Its Demographic Correlates: 1973–1999,” unpublished manuscript, Ann Arbor, MI: Gerald R Ford School of Public Policy, University of Michigan, 2008.

<sup>13</sup>See A. Björklund and M. Jäntti, “Intergenerational Income Mobility and the Role of Family Background,” in *Oxford Handbook of Economic*

*Inequality*, eds. W. Salverda, B. Nolan, and T. M. Smeeding (Oxford, UK: Oxford University Press, 2009).

<sup>14</sup>See G. Solon, “Intergenerational Mobility in the Labor Market,” in *Handbook of Labor Economics*, eds. O. Ashenfelter and D. Card, Vol. 3 (New York: Elsevier Science B.V., 1999), 1761–1800; G. Solon, “A Model of Intergenerational Mobility Variation over Time and Place,” in *Generational Income Mobility in North America and Europe*, ed. M. Corak (Cambridge: Cambridge University Press, 2004), 38–47.

<sup>15</sup>M. Corak, “Do Poor Children Become Poor Adults? Lessons for Public Policy from a Cross Country Comparison of Generational Earnings Mobility,” *Research on Economic Inequality* 13, No. 1 (2006): 143–188.

<sup>16</sup>Corak, “Do Poor Children Become Poor Adults?”

<sup>17</sup>Björklund and Jäntti, “Intergenerational Income Mobility.”

<sup>18</sup>L. N. Chadwick and G. Solon, “Intergenerational Income Mobility among Daughters,” *American Economic Review* 92, No. 1 (2002): 335–344.

<sup>19</sup>O. Raaum, B. Bratsberg, K. Røed, E. Österbacka, T. Eriksson, M. Jäntti et al., “Marital Sorting, Household Labor Supply and Intergenerational Earnings Mobility across Countries,” *B.E. Journal of Economic Analysis and Policy* 7, No. 2 (2007 [Advances]), Article 7, available at <http://www.bepress.com/bejap/vol7/iss2/art7>.

<sup>20</sup>Hertz, T., “Rags, Riches, and Race: The Intergenerational Economic Mobility of Black and White Families in the United States,” in *Unequal Chances: Family Background and Economic Success*, eds. S. Bowles, H. Gintis, and M. Osborne (New York: Russell Sage Foundation, 2005), 165–191.

<sup>21</sup>Hertz, “Rags, Riches, and Race.”

<sup>22</sup>G. S. Becker and N. Tomes, “Human Capital and the Rise and Fall of Families,” *Journal of Labor Economics* 4, No. 3 (1986): S1–39; Solon, “A Model of Intergenerational Mobility Variation.”

<sup>23</sup>R. Erikson and J. H. Goldthorpe, *The Constant Flux — A Study of Class Mobility in Industrial Societies* (Oxford, UK: Clarendon Press, 1992).

<sup>24</sup>C. Jencks and L. Tach, “Would Equal Opportunity Mean More Mobility?” in *Mobility and Inequality: Frontiers of Research in Sociology and Economics*, eds. S. L. Morgan, D. B. Grusky, and G. S. Fields (Palo Alto, CA: Stanford University Press, 2006) 23–38.

<sup>25</sup>Björklund and Jäntti, “Intergenerational Income Mobility.”

# Trends in income support

John Karl Scholz, Robert Moffitt, and Benjamin Cowan

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Antipoverty programs are designed to mitigate the most pernicious aspects of market-based economic outcomes—unemployment, disability, low earnings, and other material hardship.<sup>1</sup> These programs compose society’s “safety net” and each has different eligibility standards and benefit formulas. Although the programs can be aggregated and categorized to summarize trends in coverage and generosity, a consequence of their patchwork nature is that the safety net may appear different to a family in one set of circumstances than it does to a family in another.

Antipoverty programs operate under two broad categories: social insurance and means-tested transfers. Social insurance programs—such as Social Security, Medicare, unemployment insurance, and workers’ compensation have many more recipients than means-tested transfer programs.

The means-tested programs that constitute the safety net are collectively much smaller and have had varied public support over time. Over the last few decades, social insurance payments, particularly for the elderly, have risen dramatically, whereas means-tested cash entitlements for poor families have declined. The nature of means-tested programs has changed as well. For example, cash welfare benefits have been linked with work requirements, partly in response to evolving views about the nature of the poverty problem. Responsibility for antipoverty policy has broadened from the antipoverty agencies of the federal government (the Department of Health and Human Services and the Department of Labor) to the states (through their administration of TANF and Medicaid) and to the tax code, as evidenced by the Earned Income Tax Credit (EITC) and the refundable child credit.

## Social insurance

Social insurance programs provide near-universal coverage since any individual (or their employer) who makes the required contributions to finance the programs can receive benefits. These programs have dedicated funding mechanisms under which, at least in an accounting sense, social insurance taxes are remitted to trust funds from which benefits are paid.

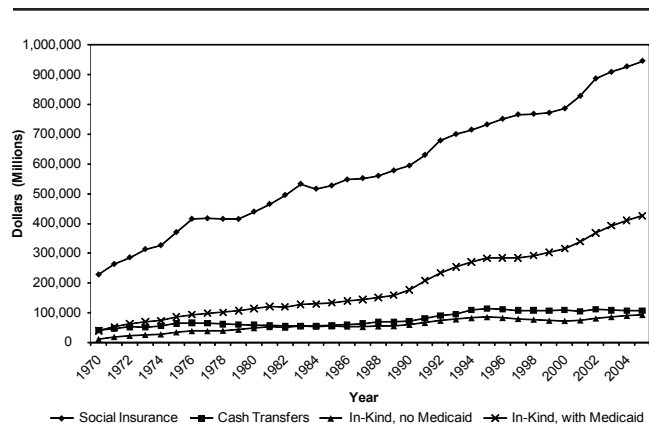
It is often inefficient for individuals to self-insure for contingencies like an unexpectedly long life, end-of-life health shocks, or extended unemployment spells. Because of adverse selection problems—the tendency for the riskiest individuals and families to seek insurance, which makes the pricing of products unattractive to less risky families and individuals—private insurance markets are unlikely to work well. Social insurance programs, which are government run, near-universal, and uniform in their rules and benefits, provide the welfare-enhancing benefits of insurance, while overcoming (through mandatory pooling) the adverse selection problems that arise in private insurance markets.

Social Security, Medicare, unemployment insurance (UI), workers’ compensation, and disability insurance (DI) are the major social insurance programs. Over time, the enormous increase in their benefits has been driven largely by increases in Social Security and Medicare. Social insurance benefits are predicated on events that are salient for most Americans—retirement, unemployment, or a disability or work-related injury—and receipt of benefits does not depend on an individual’s current total income but rather on past employment and earnings experience. All the social insurance programs have dedicated financing mechanisms. Although Social Security may reduce national saving and hasten retirement, and unemployment insurance may alter the intensity with which the unemployed search for jobs, there is no evidence that these programs encourage out-of-wedlock births or single parenthood. With the possible exception of DI, they also do not encourage individuals to spend extended periods out of the paid labor market (UI benefits are time-limited). Thus, the rationale and incentives of the programs do not appear at odds with societal norms of personal responsibility. Social Security and Medicare have the added feature of lessening the care-giving responsibilities that adult children might have for their parents, which is popular with both generations.

## Means-tested transfers

Means-tested programs are financed by general tax revenues rather than through dedicated financing mechanisms; all limit benefits to those whose incomes and or assets fall below some threshold. Some are entitlements—all who satisfy the stipulated eligibility requirements get benefits, regardless of the total budgetary cost (e.g., Medicaid and Food Stamps). Other means-tested programs provide benefits only until the funds Congress or a state has allocated are spent, even if some eligible participants are not served (e.g., the State Child Health Insurance Program, Section 8 housing vouchers, and TANF). Means-tested programs have explicit antipoverty goals. Together, they account for a smaller share of government budgets than the social insurance programs.

Figure 1 summarizes the evolution of social insurance and means-tested (antipoverty) spending. Spending on all social



**Figure 1. Total Social Insurance, Cash, and In-Kind Means-Tested Transfers, 1970–2005.**

Source notes for all figures can be found in the book chapter.

**Note:** Amounts are shown in constant 2007 dollars. Social Insurance includes OASI, Medicare, UI, and DI. Cash Transfers includes SSI, AFDC/TANF, and EITC. In-Kind includes food stamps, housing aid, school food programs, WIC, Head Start, and Medicaid (where noted).

insurance programs now exceeds \$1 trillion annually. These expenditures rose at an annual rate of 7.2 percent in the 1970s, 3.3 percent in the 1980s, 2.9 percent in the 1990s, and 4.3 percent (in part because of the new Medicare Part D prescription drug benefit program) between 2000 and 2006.<sup>2</sup> The bottom two lines of Figure 1 show total spending on in-kind transfers (without Medicaid) and cash transfers. Means-tested in-kind transfers (the sum of school nutrition programs, Women, Infants and Children (WIC), Head Start, housing assistance, and food stamp benefits) grew at an annual rate of 16.0 percent in the 1970s, 2.1 percent in the 1980s, 2.0 percent in the 1990s, and 5.1 percent between 2000 and 2005.<sup>3</sup> Means-tested cash transfers (the sum of AFDC/TANF, Supplemental Security Income (SSI), and EITC transfers) grew at an annual rate of 3.4 percent in the 1970s, 2.1 percent in the 1980s, 4.2 percent in the 1990s, and fell for the first time in 35 years between 2000 and 2005, despite a weak economy.<sup>4</sup>

The growth rates of both cash and in-kind safety net spending increased significantly in the 1990s relative to the 1980s. In-kind programs continued to increase in the 2000s, while cash

programs shrank. Spending on cash and in-kind antipoverty programs excluding Medicaid was around \$200 billion in 2005. Medicaid was an additional \$333 billion in 2005.

## Effects of antipoverty policies

How do the social insurance and means-tested programs we have described affect the poverty rate and the depth of poverty among poor people? We examine the antipoverty effectiveness of these programs by measuring the degree to which they reduce the aggregate poverty gap, which is defined as the sum of the differences between market income and the poverty line for all families with incomes below the poverty line.<sup>5</sup>

## Behavioral responses

Our analysis does not take into account behavioral responses to different programs, so we first briefly discuss labor market and family formation responses to changes in the safety net for prime-age workers and how they would likely affect our results. These responses have been at the heart of the policy debates shaping the evolution of antipoverty policy.

Antipoverty programs often provide greater resources to single-parent families than to two-parent families and so may provide incentives to delay marriage, divorce, or not marry. Program benefits and the EITC also generally increase with family size and hence provide incentives to have additional children. Our review of the available evidence, summarized in our book chapter, leads us to conclude that the tax and transfer system has measurable effects on the behavior of low-income families, with the strongest effects on reducing work effort. This implies that our estimates, given below, of the effect of antipoverty programs on the incomes of the poor are overstatements of their initial impact, because those programs may cause earnings to fall as work effort is reduced. Our impact estimates should consequently be regarded as upper bounds.

## The evolution of the poverty gap, 1984–2004

Table 1 shows the evolution of the poverty gap between 1984 and 2004, and includes the following programs: Social Security, unemployment compensation, workers' compensation,

**Table 1**  
**Antipoverty Effectiveness of the Transfer System, 1984, 1993, and 2004<sup>a</sup>**

	Number Families (million)	Percent Poor, Pre-Transfer <sup>b</sup>	Average Monthly Market Income per Poor Family	Monthly Pre-Transfer Poverty Gap per Family	Average Monthly Transfer per Recipient Family	Percent of Total To Pre-Transfer Poor	Percent of Total Used to Alleviate Poverty	Percent Poverty Gap Filled	Monthly Poverty Gap per Family, Post-Transfer	Percent Poor, Post-Transfer <sup>b</sup>
2004 SIPP	124.5	30.3%	\$326	\$800	\$844	54.0%	30.7%	66.2%	\$580	14.1%
1993 SIPP	106.4	30.5	354	809	1,086	59.6	35.4	72.7	496	13.6
1984 SIPP	90.7	29.7	360	793	1,002	60.6	37.5	70.9	479	14.3

**Source:** Authors' calculations from the 1984, 1993, and 2004 SIPP (wave 1). Dollar amounts are in 2007 dollars, using the CPI-U.

<sup>a</sup>The transfers reflected in the calculations include those listed in Table 2, except Medicare and Medicaid.

<sup>b</sup>This poverty rate is for families and unrelated individuals: it reflects the fraction of families (including single-person "families") in poverty rather than the fraction of the total population in poverty; the latter is the more traditional measure.



**Table 2**  
**Effect of Transfers on Poverty, 2004 SIPP—All Families and Individuals**

	Total Monthly Transfers (\$ million)	Average Monthly Transfer per Recipient Family (\$)	Percent of Total Transfers To Pre-Transfer Poor	Percent of Total Transfers Used to Alleviate Poverty	Percent of Poverty Gap Filled	Percent Poor, Post-Transfer <sup>a</sup>
<b>No transfers</b>						30.3%
<b>All transfers</b>	\$95,895	\$1,238	54.9%	22.8%	72.5%	12.0%
All Social Insurance	65,750	1,524	50.6	22	47.9	18.8
All cash transfers <sup>b</sup>	59,478	790	51.2	29.9	59.1	16.3
All in-kind transfers <sup>c</sup>	36,416	1,411	61.1	31.4	37.9	22.5
All means-tested transfers (except child care credit and foster child payments)	26,167	814	73.5	41.2	35.8	23.5
<b>Social Insurance</b>						
Social Security (OASI)	33,115	1,224	46.4	25.1	27.6	22.3
Disability Insurance	7,153	946	71.8	53.3	12.7	28.3
Medicare	17,074	2,131	47.7	16.9	9.6	27.2
Unemployment Comp	3,877	472	60.8	52.1	6.7	29.5
Workers'	2,654	3,909	52.4	13.7	1.2	30.0
Veterans Benefits	1,876	682	46.8	27.9	1.7	29.9
<b>Means-tested transfers</b>						
Medicaid	13,818	1,167	68.2	46.3	21.2	26.9
SSI	3,299	478	80.4	74.5	8.2	29.8
AFDC/TANF	922	435	87.1	83.3	2.5	30.2
EITC	2,326	120	65.4	57.9	4.5	29.2
Child tax credit	3,910	139	3.9	3.5	0.5	30.0
General Assistance	76	234	61.5	61.3	0.2	30.3
Other welfare	201	493	53.2	35.7	0.2	30.2
Foster child payments	68	741	23.9	13.1	0.0	30.2
Food stamps	2,252	241	87	83.7	6.3	29.9
Housing Assistance	2,825	547	86.6	79.8	7.5	29.7
WIC	447	106	58.5	56.7	0.8	30.2

**Source:** Authors' calculations from wave 1 of the 2004 SIPP. Dollar amounts are in 2007 dollars, using the CPI-U.

<sup>a</sup>This poverty rate is for families and unrelated individuals: it reflects the fraction of families (including single-person "families") in poverty rather than the fraction of the total population in poverty; the latter is the more traditional measure.

<sup>b</sup>Cash transfers include all programs listed under social insurance and the means-tested transfers headings, except housing, food stamps, Medicare, Medicaid, and WIC.

<sup>c</sup>In-kind transfers are housing, food stamps, Medicare, Medicaid, and WIC.

SSI, AFDC/TANF, the EITC, the child tax credit, general assistance, other welfare, foster child payments, veterans' benefits, food stamps, WIC, and housing assistance.<sup>6</sup>

We exclude Medicare and Medicaid from Table 1 for two reasons. First, it is technically difficult to estimate the value of Medicare and Medicaid. Second, medical benefits and insurance are only imperfectly fungible with other expenditures; if resources are not available for food, shelter, and clothing, it is not clear that it would be appropriate to suggest that the insurance value of health benefits is sufficient to move an otherwise poor family above the poverty line.

The table shows pre- and post-transfer poverty gaps for 2004, 1993, and 1984. The fraction of all families with pre-transfer income below the poverty line is about 30 percent in each year. The poverty gap per family is also about \$800 per month in each year. And, in each year, between 66 percent and 73 percent of the poverty gap is filled by safety net programs.

Although the pre-transfer poverty rates across years are similar, the percentage of total transfers received by pre-transfer poor families and the percentage of total transfers used to fill the poverty gap have been falling over time. For families who remain poor after transfers, the monthly poverty gap in 2004 was larger than the monthly poverty gap in 1984. This raises the possibility that transfers in 2004 moved more near-poor families over the poverty line, perhaps leaving those further away from the poverty line with even less assistance than before.

### The antipoverty effectiveness of specific programs

Table 2 shows the antipoverty effectiveness of specific safety net programs in 2004. For this portion of the analysis, we also value Medicare and Medicaid.<sup>7</sup> "All in-kind transfers" includes housing, food stamps, Medicare, Medicaid, and WIC. "Cash transfers" include all other means-tested transfers. We focus on the effects of three sets of programs—all

social insurance, all means-tested transfers (excluding the child credit and foster child payments), and the combined effects of all programs. If means-tested transfers did not exist, 51 percent of social insurance would go to the pre-transfer poor, and social insurance payments would close 48 percent of the poverty gap and reduce the poverty rate from 30 percent to 19 percent. If no social insurance programs were in place, 74 percent of means-tested transfers would go to the pre-transfer poor, and the means-tested payments would close 36 percent of the poverty gap and reduce the poverty rate from 30 percent to 24 percent. The *combined* effect of social insurance and means-tested transfers is to close 73 percent of the poverty gap and reduce the poverty rate from 30 percent to 12 percent.

As expected given their universality, the major social insurance programs—Social Security, disability insurance, Medicare, unemployment insurance, and workers’ compensation—are not sharply targeted on pre-transfer poor households. Disability insurance and unemployment insurance are the exceptions; 72 percent of DI benefits and 61 percent of UI benefits go to the pre-transfer poor. Around half of the other social insurance program benefits go to individuals or families with incomes below the poverty line. About half of DI and UI benefits and 14 percent to 28 percent of the other benefits reduce the poverty gap. Given the large size of the programs, however, they fill a substantial part of the poverty gap.

Means-tested programs typically provide a larger share of their benefits to the pre-transfer poor than do social insurance programs. For example, 87 percent of food stamp benefits go the pre-transfer poor and 84 percent of them reduce the poverty gap. But, because food stamps are much smaller than Social Security, they fill only about 6.3 percent of the poverty gap. Medicaid, SSI, housing assistance, and the EITC also close the poverty gaps by 4.5 to 8.2 percentage points.

### The effects of the safety net programs by family type

Table 3 illustrates differences in the effects of safety net programs on elderly families and eight nonelderly family types: (1) single-parent, (2) two-parent, (3) childless, (4) white, (5) black, (6) Hispanic, (7) employed, and (8) unemployed. Nearly the entire poverty gap of the elderly is filled by \$48.6 billion in transfers per month, primarily Social Security and Medicare benefits, leaving them with a post-transfer poverty rate of 8 percent. Nonelderly single-parent families receive \$11.3 billion in transfers—76 percent go to poor families and 37 percent reduce the poverty gap. Although these transfers fill 82 percent of the poverty gap, 14 percent of nonelderly single-parent families remain poor. The \$15 billion in monthly transfers for nonelderly two-parent families reduces their poverty gap by 76 percent, resulting in a poverty rate of 5 percent.

Nonelderly black and Hispanic families and individuals have higher pre-transfer poverty rates than nonelderly white families, receive (on a per capita basis) more transfer payments, and, for those who are poor, have similar depth of poverty (as measured by the poverty gap). Despite receiving more in average transfers, black and Hispanic families and individuals have post-transfer poverty rates that are around 3 percentage points higher than those of white families and individuals.

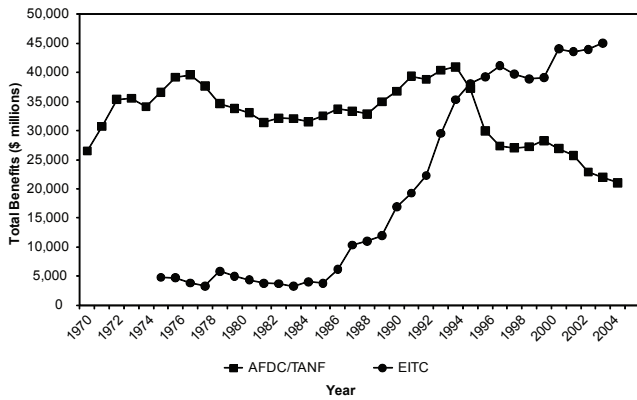
Table 3 calls attention to several holes in the safety net. First, the tax and transfer system fills only about half of the poverty gap for nonelderly childless families, compared to three-quarters for two-parent families with children, and over 80 percent for single-parent families with children. Other than Food Stamps, these families have access to few public assistance programs in the absence of a disability; though as discussed earlier, strengthening their safety net runs the risk of creating incentives to not work or not invest in skills that could lead to greater self-sufficiency. Second, post-transfer poverty rates remain high for single-parent families with

**Table 3**  
Antipoverty Effectiveness of the Transfer System for Different Family Types, 2004 SIPP

	Number Families (million)	Percent Poor, Pre-Transfer <sup>a</sup>	Monthly Poverty Gap per Family (\$)	Average Monthly Transfer per Recipient Family (\$)	Percent of Total to Pre-Transfer Poor	Percent of Total Used to Alleviate Poverty	Percent Poverty Gap Filled	Percent Poor, Post-Transfer <sup>a</sup>
Elderly families and individuals	23.2	55.2%	\$696	\$2,151	52.6%	17.4%	95.0%	7.8%
<b>Nonelderly</b>								
Single-parent families	10.6	47.8	1,014	1,119	76.1	37.3	82.1	13.8
Two-parent families	26	15	1,055	631	43.4	20.5	75.5	5.1
Childless families and individuals	64.7	24.6	754	1,005	57.2	29.1	50.7	16
White families and individuals	75.8	21.3	837	779	51.5	25.9	57.7	12.3
Black families and individuals	12.8	35.4	883	1,118	70.7	33.9	75.6	15
Hispanic families and individuals	12.8	32.8	891	1,004	63.9	31.1	69	15.4
Employed families	95.6	17.3	724	901	38.9	15.8	62.7	8.4
Unemployed, non-elderly families	12.1	83	1,029	1,681	90.2	49	66.6	44.1

**Source:** Authors’ calculations from wave 1 of the 2004 SIPP. Dollar amounts in 2007 dollars, using the CPI-U.

<sup>a</sup>This poverty rate is for families and unrelated individuals: it reflects the fraction of families (including single-person “families”) in poverty rather than the fraction of the total population in poverty; the latter is the more traditional measure.



**Figure 2. Total AFDC/TANF and EITC Benefits, 1970–2006.**

**Note:** Amounts are shown in constant 2007 dollars.

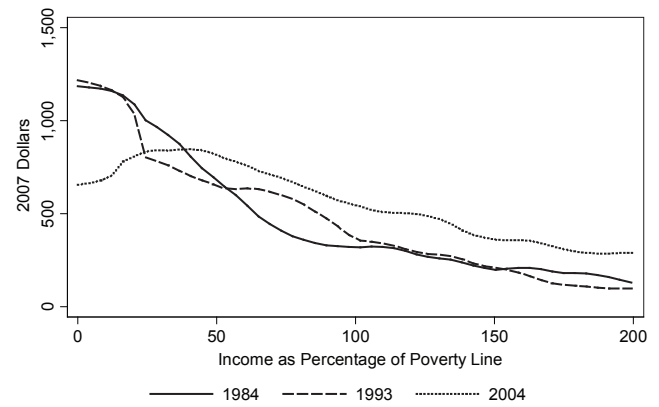
children as well as for black and Hispanic families. Third, nonelderly families with no employed individuals have an exceptionally high post-transfer poverty rate, 44 percent. Changes in the nature of the safety net over the past 20 years have increased the economic vulnerability of family heads who are unable or unwilling to work.

### The changing nature of U.S. antipoverty programs

The safety net has changed in striking ways for the nonelderly. The changes are evident, in part, in Figure 2, which shows the reduction in AFDC/TANF expenditures, which historically went to nonworkers, and the increase in EITC benefits, which go overwhelmingly to low-income workers with children. Other than food stamps and housing benefits, nonelderly families or individuals with very low or no earnings and patchy employment histories have no safety net to draw on.

Figure 3 shows the trend in average benefits (over all programs but excluding Medicare and Medicaid) received by nonelderly, nondisabled, single-parent families. We focus on families with incomes between 0 percent and 200 percent of the poverty line.<sup>8</sup> The three lines show average benefits (in 2007 dollars) for families in the 1984, 1993, and 2004 SIPP surveys. In 1984 and 1993, we note that the largest benefits were received by those with no income and that average benefits fell as income as a percentage of the poverty line rose. This accords with the traditional structure of a transfer program, in which benefits are phased out as income rises; the negative slope of the lines in Figure 3 reflects that drop in benefits as income increases. The steepness of the line in 1984 and 1993 vividly highlights the weak incentives single parents faced to earn income in the paid labor market. In 1993, for example, families with no market income received around \$1,200 of monthly benefits but, as income increased to roughly 25 percent of the poverty line, average monthly benefits fell to around \$800.

The situation in 2004 was quite different, for the slope of the benefit line for those below 25 percent of the poverty line was actually positive, implying a subsidy to work (or a negative tax rate) on average. We attribute that development to



**Figure 3. Average Monthly Benefits for Single-Parent Families.**

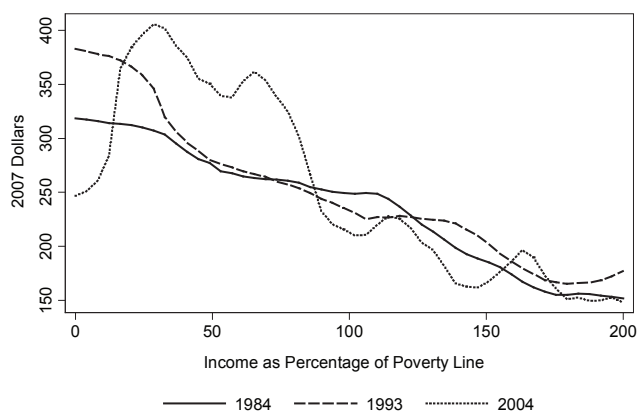
**Note:** Amounts are shown in constant 2007 dollars.

the EITC and reductions in implicit tax rates associated with TANF. At the same time, however, average benefits received by a single parent with no income were 45 percent lower than in 1993. This was, in some sense, the “price” of increasing work incentives (namely, making conditions relatively worse for those at the bottom). We also note that the increases in benefits for higher-income families, that is, the work incentives that are provided, extended all the way up through the highest income level shown in the figure (200 percent of the poverty line). The income increases derive primarily from the Earned Income Tax Credit and the refundable child credit.

A similar pattern is evident for married couples with children. Average benefits for nondisabled, nonelderly married couples with children in 2004, with no income, are about 48 percent of the average benefits available in 1993. Once income exceeds roughly 40 percent of the poverty line, average benefits in 2004 are larger than comparable families received in earlier years.

Figure 4 shows average benefits for nondisabled, nonelderly childless families and individuals. Again, average benefits for those with very low or zero income are lower in 2004 than they were in earlier years. The EITC available to childless taxpayers, which was initiated in 1994, is starkly evident in the figure. Otherwise, few benefits are available and this fact has not changed for 20 years.

Substantial numbers of families or individuals are in “deep poverty,” with incomes below 25 percent of the poverty line.<sup>9</sup> The education level of the “deep poor” has risen over time, the number of children has fallen, and the fraction of employed families (defined as at least one person in the family being employed in all 4 months of the reference period) went from 15 percent in 1984, to 10 percent in 1993, to 36 percent in 2004. Thus, it appears that the incidence of regular, but sporadic and poorly compensated, work is much greater in the 2004 SIPP. This conclusion is tempered, however, by three considerations. First, the employment question in the SIPP survey instrument changed in 2004. Second, surely families and individuals with incomes below 25 percent of



**Figure 4. Average Monthly Benefits for Childless Families.**

poverty supplement public transfers with other “off-the-books” resources, but the SIPP provides no insight on this phenomenon. Third, market income may also be underreported by low-income individuals, and the magnitude of this underreporting may have changed over time in the SIPP.

Unlike the striking changes for the poorest nonelderly families, the average benefits received by poor elderly families in 2004 are similar or slightly higher than those received in 1993 (and larger than those received in 1984). This trend stems primarily from the stability of Social Security benefits over this period. In contrast, the changes for nonelderly households are consistent with changing incentives embodied in the safety net: as greater emphasis has been placed on work, fewer benefits are available to those who, for one reason or another, are unwilling or unable to work.

## The Future of Antipoverty Policy

Between 1975, the first year the EITC existed, and 2005, total spending on all means-tested cash and in-kind transfers (excluding Medicaid) averaged 2.0 percent of GDP, ranging between 1.8 percent and 2.5 percent. In 2005, it was 1.8 percent of GDP, near its 31-year low. Transfers now do less to close the poverty gap than they did before. Transfers reduced the poverty gap by 66 percent in 2004, and the comparable figures were 73 percent in 1993 and 71 percent in 1984. The differences between pre- and post-transfer poverty rates was between 15 and 17 percentage points in each year. But the depth of poverty for those remaining poor appears to have increased substantially—the monthly after-transfer poverty gap in 2004 is \$580, compared to \$496 in 1993, and \$479 in 1984.<sup>10</sup> These patterns are driven by substantial changes in the antipoverty policy mix, which has resulted in large changes in the resources available to families and individuals in different circumstances.

The contrast in levels and, to a lesser extent, trends in social expenditures between the U.S. and other industrialized countries is striking. Smeeding calculates a consistent set of social expenditures (including cash, near-cash, and housing

expenditures) as a percentage of GDP for five groups of countries—Scandinavia; Northern Continental Europe; Central and Southern Europe; “Anglo” (Australia, Canada, and the United Kingdom); and the United States—between 1980 and 1999.<sup>11</sup> Spending for these programs ranges between 2.7 percent to 3.6 percent of GDP in the United States, a far lower level than every other country group. The other Anglo countries averaged between 4.8 percent and 7.8 percent of GDP, similar to the Central and Southern European countries. Northern Europe and the Scandinavian countries averaged between 8.1 percent and 15.3 percent of GDP. The trends across country groups vary, though most country groups increased expenditures as a share of GDP between 1980 and 1999. The United States did not.

Why has U.S. antipoverty spending been low and relatively stable given the nation’s persistent and high poverty rates, at least by international standards? A number of factors are relevant. There may be indifference or antipathy to the poor on the part of the public. Voters and policymakers may be skeptical that we know what works and may believe that some well-intentioned policies have counterproductive consequences. Lastly, the fiscal policy climate over much of the previous 30 years, with a respite in the 1990s, has been difficult.

Developments in 2008 promise both continuation and possible change in these trends. The recession that began in 2008 may be long and deep, leading to increases in pre-transfer poverty and declines in government revenue, causing further fiscal distress at the federal and state levels. On the other hand, the voters in the 2008 election, with their election of President Obama and his progressive agenda, signaled a desire for social policy change that, among other features, will likely promote a more equitable distribution of income and public benefits. How the twin pressures of increased economic contraction and fiscal stringency, on the one hand, and greater desire for activist government intervention, on the other, play out remains to be seen.

Given the severity of the economic downturn that began in 2008 and the magnitude of the likely fiscal policy response, it is an unusually difficult time to speculate on the future evolution of antipoverty and social insurance programs. The policy agenda of many will be to broaden health insurance coverage, improve education access, expand tax credits for some groups of low-skilled workers, and extend (and possibly enhance) unemployment insurance benefits. But there nevertheless appears to be little appetite for tax increases among the population or political leadership, so the potential for widespread, durable change in social policy is not clear at this point.

To the extent that durable change occurs, we hope policymakers will be influenced by the large and growing body of evidence that work-based antipoverty strategies like the Earned Income Tax Credit, the Canadian Self-Sufficiency Project, the Wisconsin TANF program (W-2), and the Minnesota Family Investment Program can increase both work and the after-tax incomes of poor families. These policies require that the poor work to receive benefits, but are structured



so that greater work effort increases disposable income. Although such a work-based safety net aligns assistance with fundamental values of Americans, we have not effectively struck a balance between supporting work and sensibly treating those families (and the children therein) who, for one reason or another, are unable or unwilling to work.<sup>12</sup>

Also, while the 1996 welfare reform increased work, the earnings of most individuals who left welfare were still well below the poverty line, even many years after their exit. Hence, the degree to which work can be the primary antidote to poverty depends on the ability of low-skilled people to maintain employment that, over time, leads to higher incomes that allow families to be self-sufficient. More research, policy innovation, and evaluation are needed to develop effective ways of increasing the earnings of disadvantaged workers.<sup>13</sup>

Major changes in poverty will not be achieved by simply reshuffling the 1.8 percent of GDP that is spent on cash and in-kind means-tested transfers (excluding Medicaid). If anti-poverty spending as a fraction of GDP simply increased to its *average* level over the last 31 years of 2.0 percent, there would be an additional \$26.5 billion for new initiatives. These funds could be used to expand successful state-level welfare reforms and provide new funding sources for child care and health insurance benefits that increase the attractiveness of work, and also to augment the safety net, pursue effective human capital development, expand rental housing subsidies, and ensure states have sufficient resources to handle families affected by TANF time limits in the way they see fit.

In the absence of a renewed antipoverty effort, many households will continue to be unable to afford adequate food, housing, and shelter. Our high poverty rate contributes to an erosion of social cohesion, a waste of the human capital of a portion of our citizenry, and the moral discomfort of condoning poverty amidst affluence. ■

points—October 1983 was 11 months; February 1993 was 23 months; and February 2004 was 27 months following the trough of the prior recession.

<sup>6</sup>Our market income measure aggregates wage and salary income, self-employment income, capital income (interest, dividends, and rents), and defined benefit pension income. We do not consider the effects of the individual income tax, aside from the refundable EITC and child tax credits. Because all workers are subject to the payroll tax, we reduce reported earnings by 7.65 percent (the employee OASDHI tax rate) when measuring the poverty gap and percent poor. The child credit was enacted in 1997, so it is only reflected in 2004. All programs deliver cash benefits, except for food stamps and housing benefits. Because the value of food stamps does not exceed the food needs of the typical family, we value them at the cost to the government. We use Fair Market Rent (FMR) data from the Department of Housing and Urban Development and value in-kind housing benefits as the difference between rents paid by housing assistance recipients and the FMR in the state.

<sup>7</sup>We assume that for most families, Medicaid is worth the cost of a typical HMO policy; for elderly or disabled families, we increase this by a factor of 2.5 to account for greater medical needs of these groups. We value Medicare using 2.5 times the average cost of a fee-for-service plan, adjusting for regional cost differences.

<sup>8</sup>Among all families with incomes below twice the poverty line in 2004, about 29 percent had almost no reported income (zero to 25 percent of poverty), and 39 percent had incomes below 50 percent of poverty. The remaining 61 percent were fairly evenly distributed between 50 percent and 200 percent of the poverty line.

<sup>9</sup>For two-parent families in 1984 and 1993, 11 percent of those with incomes below 200 percent of poverty have incomes below 25 percent of the poverty line. For childless individuals in 2004, 32 percent of those with incomes below 200 percent of poverty have incomes below 25 percent of the poverty line.

<sup>10</sup>All amounts are in 2007 dollars.

<sup>11</sup>T. M. Smeeding, "Poverty, Work, and Policy: The United States in Comparative Perspective," in *Social Stratification: Class, Race, and Gender in Sociological Perspective*, 3rd edition, ed. D. Grusky (Westview Press, 2008, pp. 327–329).

<sup>12</sup>R. M. Blank and B. Kovak, "Providing a Safety Net for the Most Disadvantaged Families," in *Making the Work-Based Safety Net Work Better*, eds. C. Heinrich and J. K. Scholz (New York: Russell Sage Foundation, 2009).

<sup>13</sup>C. Heinrich and J. K. Scholz, "Pathways to Self-Sufficiency for Low-Income Families."

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<sup>1</sup>This article draws upon "Trends in Income Support," in *Changing Poverty, Changing Policies*, eds. M. Cancian and S. Danziger (New York: Russell Sage Foundation, 2009).

<sup>2</sup>Amounts are shown in real dollars (2007), excluding workers' compensation due to data limitations.

<sup>3</sup>Medicaid is considerably larger than the combined value of the other in-kind transfers in recent years. In-kind transfers including Medicaid grew at an annual rate of 11.2 percent in the 1970s, 4.5 percent in the 1980s, 6.0 percent in the 1990s, and 6.2 percent between 2000 and 2005.

<sup>4</sup>Supplemental Security Income is a means-tested, federally administered cash assistance program for the aged, blind, and disabled. The disabled make up nearly 80 percent of recipients.

<sup>5</sup>The poverty lines are the official Census Bureau thresholds for each year. See <http://www.census.gov/hhes/www/poverty/threshld/thresh04.html> for the 2004 thresholds. We measure the poverty gap using data from the first waves of the 1984, 1993, and 2004 Surveys of Income and Program Participation (SIPP), a nationally representative survey conducted by the U.S. Census Bureau. Each interview elicited information for the 4 months prior to the interview month. These surveys were conducted at similar business cycle

# The role of family policies in antipoverty policy

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## Introduction

Families are changing. In 1975, two-thirds of American children had a stay-at-home parent.<sup>1</sup> Today only about a quarter of children do (see Figure 1). Fully half now live with two parents who both work, while a quarter live with a single parent who works.<sup>2</sup>

Low-income families are changing too. Today most children in low-income families have working parents, like their more affluent peers. Only 38 percent of children in families with incomes below 200 percent of the poverty line have a stay-at-home parent; about a quarter live with two parents who both work, and 39 percent live with a single parent who works (see Figure 1).<sup>3</sup>

The challenges facing working families become more difficult during times of financial crisis and economic downturn, such as the United States is experiencing in 2009. As families change in turbulent economic times, family policies need to change, too. The prevention of child poverty in a context in which most low-income parents work but many have insufficient earnings requires (1) work-family policies that ad-

dress conflicts between the demands of employment and the demands of caring for children; (2) income support policies that help parents supplement low incomes and cover periods out of work; and (3) policies that address the disproportionate risk of poverty faced by families with only one parent.

## Work-family policies

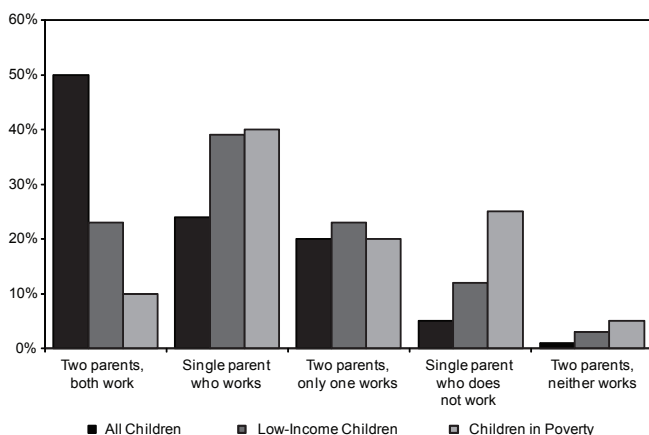
Work-family policies address the potential conflict that parents, in particular mothers, face in meeting the demands of working and caring for their children. In theory, work-family policies can help parents stay in employment more continuously and work more hours when employed, thus leading to higher earnings in the short-term and to better earnings growth in the future. In practice, however, such policies are often lacking, particularly in the low-wage jobs that parents in low-income families are likely to hold.

Several recent ethnographic studies provide compelling evidence of the difficulties parents experience when managing family responsibilities while working low-wage jobs.<sup>4</sup> The studies also document how the challenges are compounded when a child or other family member has a disability or chronic health condition. The nonstandard or irregular work schedules of many low-wage workers can also wreak havoc on parents' ability to balance work and family life. Currently, about 15 percent of the U.S. workforce (approximately 15 million people) works evenings, nights, rotating shifts, or irregular schedules or hours.<sup>5</sup> Those who are low educated or low skilled are more likely than others to work nonstandard hours.<sup>6</sup>

Although employers are a potentially important source of work-family benefits, such benefits remain limited and are unequally distributed, with the lowest-wage workers and part-time workers the least likely to have access to them.<sup>7</sup> This suggests that if low-income parents are to be covered, public policy will have to play a role, whether by mandating or providing incentives for employer policies or by providing such policies directly. In this section, I describe the principal work-family policies and their prevalence in the United States and in our peer nations.

## Parental leave

Many countries provide parental leave, which allows a period of job-protected leave to new mothers and fathers after the birth or adoption of a child. Typically, the leave is paid, since otherwise many parents could not afford to take it. The United States not only lacks a national policy guaranteeing parental leave, but the limited policy it does have (the federal Family and Medical Leave Act, or FMLA) provides only unpaid leave. Moreover, the FMLA covers only select workers (those who have worked at least 1,250 hours in the prior year and who work in firms with 50 or more employees), so that fewer than half of new working parents are actually covered and eligible.<sup>8</sup> Low-income workers are less likely to be covered and eligible under FMLA than higher-income parents.



**Figure 1. Distribution of children's living arrangements in the United States, by family structure and parental employment.**

**Source:** U.S. Census Bureau, "Current Population Survey 2006 Poverty Tables," 2007.

**Note:** "Low-income children" includes children with family incomes below 200 percent of the poverty line; "children in poverty" includes children with family incomes below 100 percent of the poverty line.

What do other countries do? Our peer nations in the Organisation for Economic Cooperation and Development (OECD) provide an average of 18 months of job-protected parental leave.<sup>9</sup> Moreover, in every country in the OECD with the exception of the United States and Australia, at least some portion of the leave is paid.<sup>10</sup> Canada recently extended its period of paid parental leave to one year, and the United Kingdom extended paid maternity leave to 9 months, with plans to extend it to one year. Most OECD countries fund their leave benefits through social insurance programs, to which employees and employers contribute.

Enacting a minimum period of paid and job-protected leave for all workers in the United States would ensure that parents are able to stay home for the first weeks and months of a child's life and that they have some income protection while they do so. A bare minimum of protection would cover the child's first 8–12 weeks to allow time for new mothers to recover from childbirth and to allow time for both parents to bond with their new child. It is not clear what the optimal leave length would be in the United States. Most of our peer nations are moving toward or already providing at least a year of paid leave, and this seems sensible in the United States as well, given the evidence about the potential adverse effects of full-time maternal employment in the first year of life.<sup>11</sup> I think moving toward a period of a year's parental leave, paid through a social insurance mechanism, would be a reasonable target for U.S. policy.

### **Other types of paid leave**

The United States also stands out from other peer countries in not providing paid time off that parents can use to care for sick children or take them to doctor appointments, recover from their own illness, take a family vacation, or attend to other personal or family needs. As with parental leave, employer provision of other types of paid leave time is voluntary, and that provision varies widely. Fully half of workers whose incomes are below the poverty line have no paid leave time at all. Of particular concern, given evidence that sick children recover more quickly and receive better follow-up care if a parent can stay home with them, a substantial share of workers have no paid sick leave, again with the lowest-paid workers most likely to lack coverage.<sup>12</sup> One recent study found that 58 percent of low-income working parents had no paid sick leave, in contrast to only 17 percent of higher-income working parents.<sup>13</sup>

In the absence of paid and job-protected leave, parents who need to take time off to be with a sick child or to meet other pressing family needs may have their pay docked, face disciplinary action, or lose their job. In the context of today's living arrangements, with few children having the luxury of a stay-at-home parent, providing some minimal amount of paid and job-protected sick leave is an essential component of antipoverty policy. Elsewhere, I have proposed guaranteeing all American workers the right to take at least two weeks off work each year with pay and specifically guaranteeing that parents have the right to take that time to meet important family needs, including the need to care for a sick child.<sup>14</sup> This could be accomplished by enacting an employer man-

date, as in legislation currently under discussion in Congress that would require employers to provide a minimum number of paid sick days per year for all full-time employees.<sup>15</sup>

### **Flexible work arrangements**

The United States is renowned for the flexibility of its labor market, and a growing share of the labor force has access to flexible work hours or work locations. From 1992 to 2002, the proportion of U.S. workers with access to traditional flex-time rose from 29 percent to 43 percent.<sup>16</sup> But, low-income workers are still much less likely to have access to flex-time than their higher-income peers.<sup>17</sup>

Flexible work hours are one of the most valued benefits for working parents and can be particularly important for low-income single parents who may be juggling work and caregiving responsibilities on their own.<sup>18</sup> The United Kingdom's experience with the "right to request" is instructive here.<sup>19</sup> In 2003, to comply with the European Union directive, the United Kingdom implemented a right of parents of young children to request part-time or flexible hours. In the first year alone, a million parents (a quarter of those eligible) requested reduced or flexible hours, and nearly all these requests were granted. Several evaluations have found that employers are quite content with the new policy, which was extended to parents of older children in April 2009, and many employers would support extension of the policy to other employees, not just parents.<sup>20</sup>

### **Child care**

In the United States, children do not start school until about age 5, and even then, they are in school for only about six hours per day. This leaves a substantial amount of time that children need care if their parents are working, a situation that is made even more complicated given that many parents (and particularly those who are low-income) work nonstandard or irregular hours. But child care is more than just a work support—if it is of good quality, it can also play an important developmental role, particularly for low-income children (whose parents are least able to afford such care on their own).<sup>21</sup> This tension between availability, affordability, and quality creates numerous challenges for child care policy.

Unlike our peer nations in the OECD, the United States relies primarily on the private market for child care. Thus, although public funding for child care has been expanded over the past decade, it still remains fairly limited relative to levels of support in other peer countries. Middle-income families with working parents receive some support through the federal child and dependent care tax credit as well as the dependent care assistance plan, and, in many states, through supplemental state child care tax credits. Low-income families typically do not benefit from these tax credits (as most are not refundable) but may be eligible for assistance through child care subsidies or through Head Start. However, neither of these assistance programs is an entitlement. Child care subsidies reach only about 15 percent of eligible families, and Head Start reaches only about half of eligible 3- and 4-year-olds.<sup>22</sup>

Proposals to improve child care supports for low-income families—so that parents are able to work and to place their children in affordable good-quality care while they do so—include (1) guaranteeing child care subsidy assistance to families with incomes below 200 percent of poverty; (2) instituting mechanisms to improve the quality of care, coordinate child care with other early childhood programs, and ensure that assistance rates are high enough to cover high-quality care; (3) making the federal dependent care tax credit refundable; and (4) expanding funding for Head Start so that this program can serve more low-income children.

If the priority is to support parental employment, particularly in low-income families, then the most important reforms to pursue are those that would make good-quality child care more affordable for low-income families. However, child care also plays a developmental role, which has implications for efforts to reduce child poverty in the next generation. For this reason, expansions in programs such as prekindergarten and Head Start are also important. But who will pay for these expansions? Given the limited role of employers in the child care sector to date (and the pressures of other costs such as health care and pensions), it is unlikely they will do more in the foreseeable future. It seems clear that government (at both the state and federal levels) will have to play a larger role here.

## **Income support policies**

In this section, I consider three types of income support policies: child allowances, which raise incomes for all families with children; child-focused earnings supplements, such as the EITC, which are targeted to low-income families with an employed parent; and other types of income support for families with children.

### **Universal child allowances**

Universal child allowances are cash grants that go to all families with children and that increase with the number of children. They provide a basic income floor and also a cushion for families when parents are out of work. The closest thing the United States has to a universal child allowance is its child tax credit. Although originally nonrefundable, the child tax credit is now partially refundable (so that some low-income families can receive a credit even if it exceeds what their tax liability would have been), and its amount was raised to \$1,000 per child in 2003. A low-income family with two children could therefore expect to receive up to \$2,000 in child tax credits.

In contrast to the United States, most of our peers in the OECD have some form of universal child allowance. For example, in Canada, all families with children are entitled to a universal child benefit, with supplemental payments available for low-income families. In 2008, the basic child benefit for a family with two children was \$2,813 per year, rising to a maximum of \$6,630 per year for low-income families.<sup>23</sup> The United Kingdom also has a universal child benefit, supplemented for low-income families.

In the United States, the absence of a universal child allowance has led several authors to call for an early childhood benefit program for low-income families, to help offset the costs of caring for infants and toddlers and to help reduce poverty among families with young children.<sup>24</sup> However, it is important to acknowledge that such a program would likely reduce employment among low-income families with young children, because it would not be conditioned on work. For this reason, in the U.S. context, expansions in child-focused earnings supplements seem more feasible.

### **Child-focused earnings supplements**

Child-focused earnings supplements are used in many countries as a way to create incentives for low-income parents to work and to raise incomes for such families when parents do work. In the United States, the major child-focused earnings supplement is the Earned Income Tax Credit (EITC). Expanding the EITC was an important part of the agenda to “make work pay” during the U.S. welfare reforms of the 1990s. The EITC is now the nation’s largest cash assistance program for low-income families, and it is estimated that this program moves more than four million people out of poverty each year, including more than two million children.<sup>25</sup> Greenstein concludes that the EITC moves more children out of poverty than any other single program or category of programs.<sup>26</sup>

### **Other types of income support**

Although it is beyond the scope of this article to provide an extensive discussion of the range of other types of income supports, it is important to note the role played by policies such as cash assistance, food assistance, temporary disability insurance, and unemployment compensation, which supplement low incomes (associated with low earnings or hours) or provide replacement income during periods when parents are out of work. With welfare reform, the number of families receiving the major federal cash assistance program (formerly AFDC, now TANF) has fallen sharply, but low-income families still rely heavily on the other major income support programs, in particular the food stamp program, which serves 22 million low-income people each month, about half of whom are children.<sup>27</sup>

## **Policies to reduce single-parent poverty and discourage the formation of such families**

In this section, I discuss policies that have the potential to reduce poverty in single-parent families by raising the incomes of children living with single parents or by discouraging the formation of such families in the first place.

### **Child support enforcement**

Child support enforcement (CSE) policies have been successively strengthened over the past 30 years at both the federal and state levels.<sup>28</sup> In theory, tighter enforcement of child support should reduce family poverty by raising incomes for children in single-parent families. CSE might also reduce



family poverty by discouraging the formation of single-parent families.

As several authors have detailed, getting more income from absent fathers is a multi-step process.<sup>29</sup> Before any money reaches the child, the father's paternity must be established, a child support order must be entered, the father must be located, and the money must be collected. As CSE programs have been strengthened, agencies have achieved improvements in each of these steps. Yet, the amount of money being transferred to children from their absent fathers remains disappointingly low. Ronald Mincy and Elaine Sorenson have explored this phenomenon and make an important distinction between nonpaying fathers who are "deadbeats" and those who are "turnips."<sup>30</sup> Deadbeats have the ability to pay but try to evade their obligation, unless forced to do so. But turnips don't have much ability to pay no matter how hard they are squeezed. The implication is that if CSE programs are to get more money from low-income noncustodial fathers, they must take steps to raise the employment and earnings of low-income men. One promising policy in this regard is an earnings subsidy or tax credit for noncustodial fathers. Another promising direction is to develop and expand programs to raise the skills of low-income men.

The other way in which CSE programs might reduce poverty is by discouraging the formation of single-parent families in the first place. In theory, by raising the costs to men of having an out-of-wedlock birth and by sending a strong message about the responsibility of fathers to support their children, CSE programs should deter such births. However, the incentives for women should work in the opposite direction, if tougher CSE reduces the costs to women of having an out-of-wedlock birth. Thus, the effects of CSE on family formation are theoretically ambiguous. The evidence indicates that tougher CSE does seem to be associated with reductions in single parenthood, suggesting that the deterrent effect for men is somewhat stronger than the incentive effect for women.<sup>31</sup> Thus, as Irwin Garfinkel and colleagues have pointed out, tougher CSE is a potential "win-win" situation—reducing poverty by raising the incomes of single-mother families and by discouraging the formation of such families.<sup>32</sup>

It is also important to note that the poverty-reducing role of CSE should be larger now than in the past, when a substantial share of child support receipts for low-income families went to reimburse welfare costs. With fewer families on welfare and for shorter lengths of time, more single-parent families are directly benefiting from the child support payments that absent fathers are making.<sup>33</sup>

### **Pregnancy prevention**

More than a third of U.S. births each year occur to unmarried women, and such families have much higher poverty rates than married couple families.<sup>34</sup> Although it cannot be assumed that marriage would fully eliminate the excess risk of poverty for these families, there is nevertheless a great deal of interest in programs that would prevent pregnancies among unmarried women, and particularly among young unmarried women.<sup>35</sup> Some programs focus on encourag-

ing young people to delay the onset of sexual activity or to abstain from sex until marriage, while others focus on encouraging the use of contraception among those who are sexually active.

Although these approaches are often viewed as competing, many analysts now believe the most effective approach is likely to be one that combines them.<sup>36</sup> A more critical question is which specific types of programs are effective at preventing pregnancy. The evidence base in the pregnancy prevention area is not strong, and more work needs to be done to establish which programs are the most effective. It is likely that the answer to this question will depend on the age group targeted and possibly other factors as well.

### **Marriage promotion**

Over the past decade, state and federal policymakers have directed increased attention to the potential role that marriage promotion policies might play in reducing poverty among families with children. In 1996, federal welfare reform legislation allowed states to use a portion of their block grant to promote marriage. In 2001, the Bush administration began a Healthy Marriage Initiative and, in 2004, proposed spending \$1.5 billion over the next 5 years on marriage promotion programs.

The underlying assumption behind these programs is that low-income families with children would be financially better off if their parents were married. While at first glance this proposition seems obvious (since having the father there would contribute something to the family's overall economic well-being and would also allow the family to benefit from economies of scale), it is actually not that straightforward. To determine their potential economic contribution, we need to know the characteristics of the unmarried fathers. To understand the implications for family poverty levels, we also need to know the counterfactual, that is, what the children's living arrangements would be if the parents were not married.

The best available evidence on the characteristics and capabilities of unmarried fathers comes from the Fragile Families and Child Wellbeing Study, which interviewed mothers and fathers in nearly 5,000 families who had a new birth in urban areas in the late 1990s. The data suggest just how disadvantaged unmarried fathers are on several dimensions, even relative to married fathers in the same urban areas. Nearly 60 percent of married fathers have at least some college, 20 percent have a high school education, and only about 20 percent have not completed high school; in contrast, roughly 40 percent of unmarried fathers have not completed high school, 40 percent have only a high school education, and fewer than 20 percent have any college.<sup>37</sup> Unmarried fathers are younger than married fathers but are more likely to have children from previous relationships. In addition, more than a third of unmarried fathers have been incarcerated as compared to only one in 20 married fathers. Unmarried fathers are also much more likely to have health, mental health, and substance abuse problems. Not surprisingly, given their many disadvantages, unmarried fathers earn on average only half as much as married fathers. Thus, even if these fathers

(or other unmarried men) were to marry the mothers, family incomes would not rise to the average level of family income in married-couple families.<sup>38</sup>

If marriage promotion policies are to reduce poverty among low-income families, they will have to do more than just encourage marriage—they will also have to do something to raise the employment and earnings of the fathers in these families. Policies to improve the employment and earnings prospects of disadvantaged young women may play a role here too, both in encouraging them to delay pregnancy and in providing them with incomes sufficient to support a family. It is also possible that higher incomes for women could promote marriage among low-income couples, by making them more financially secure and more confident about their ability to enter into marriage.

## Conclusions

Changes in gender roles, alongside changes in family structure, mean that more children than ever before are living with working parents. Given these changes, work-family policies that address conflicts between employment and caregiving and allow parents to work more hours and gain higher earnings will be increasingly important in the prevention of child poverty. Other types of income support policies that supplement low earnings or cover periods of no earnings are also needed. And there is a good deal of interest in policies to reduce the risk of poverty in single-parent families, whether by raising the income of such families through tougher child support enforcement or by discouraging their formation in the first place.

What can we conclude about the future contribution of these policies and the role public policy should play? In the work-family arena, it is clear that, with more parents working and with cutbacks in cash welfare for non-working families, work-supporting benefits such as paid parental leave, other types of paid leave, flexible work arrangements, and child care supports will be increasingly important to family economic security. It is also clear that voluntary employer provision will not address the low levels of benefits and inequality in access. Public policies that mandate some employer benefits and provide other work-supporting benefits directly will thus play an important role.

Income support programs like the food stamp program will also continue to be an important part of the safety net. The increased work effort of low-income parents does not eliminate the need for these kinds of supports, although it does require that we review how these supports are administered to make sure that they can be accessed by people who are working. We also need to address the problem of income support for parents who cannot work, whether temporarily or in the long-term.

Finally, although efforts to reduce poverty in single-parent families or to discourage the formation of these families certainly have a role to play, it is important to reiterate that such policies cannot be expected to eliminate single-parent

poverty. Such programs should therefore not be seen as replacements for the other types of antipoverty strategies discussed above and elsewhere in this issue.

It is also apparent that the major stumbling block to family economic security for many low-income families is not the absence of the father but rather the father's low skills, employment, and earnings. This suggests that policies such as tougher CSE and marriage promotion can play only a limited role in reducing child poverty unless they are paired with programs to address the low levels of employment and earnings among low-skilled men. It is perhaps ironic that having moved so far away from the male breadwinner model, we find ourselves coming back to the importance of men's earnings. But the truth is that it is very difficult now to raise children on a single paycheck, whether that check is a man's or a woman's. Thus, we need to put priority on policies that help families have all their adults working in the labor market and earning a decent wage alongside policies that provide support to families that are not able to do so.

The world financial crisis and economic downturn in 2009 make the economic problems of low-income families more urgent. Accordingly, in addition to maintaining a strong economy, a reasonable minimum wage, and an adequate EITC for all low-income workers, as well as increasing skill levels, I would place priority on the following four policy reforms: (1) guaranteeing all American workers the right to at least 8–12 weeks of paid parental leave after the birth or adoption of a new child (funded through a social insurance mechanism), at least two weeks paid leave time for family illness or other family responsibilities (paid by employers), and the right to request part-time or flexible hours; (2) making child care more affordable for low-income families, by guaranteeing subsidies to families with incomes up to 200 percent of poverty, making the federal dependent care tax credit fully refundable, and expanding funding for high-quality early education programs such as Head Start and universal prekindergarten; (3) raising the guaranteed level of income support for low-income families, by making the child tax credit more generous and fully refundable; and (4) reforming child support policies to raise the share of payments that go directly to families. ■

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<sup>1</sup>This article draws upon "The Role of Family Policies in Antipoverty Policy," in *Changing Poverty, Changing Policies*, eds. M. Cancian and S. Danziger (New York: Russell Sage Foundation, 2009).

<sup>2</sup>Source for these statistics is J. Waldfogel, *What Children Need* (Cambridge: Harvard University Press, 2006a) and U.S. Census Bureau, "Current Population Survey, 2006 Poverty Tables," 2007, accessed at <http://pubdb3.census.gov/macro/032997/pov/toc.htm> on September 28, 2007.

<sup>3</sup>Source for these statistics is U.S. Census Bureau, "Current Population Survey, 2006 Poverty Tables."

<sup>4</sup>See, for example, J. Heymann, *The Widening Gap: Why America's Working Families Are in Jeopardy and What Can Be Done About It* (New York: Basic Books, 2000); D. Shieler, *The Working Poor: Invisible in America* (New York: Alfred A. Knopf, 2004); and J. DeParle, *American Dream: Three Women, Ten Kids, and a Nation's Drive to End Welfare* (New York: Penguin Books, 2004).

<sup>5</sup>U.S. Bureau of Labor Statistics, “Workers on Flexible and Shift Schedules in May 2004,” 2005, Washington, DC: United States Department of Labor, accessed at <http://www.bls.gov/news.release/flex.toc.htm> on January 5, 2007.

<sup>6</sup>H. B. Presser, *Working in a 24/7 Economy: Challenges for American Families* (New York: Russell Sage Foundation, 2003).

<sup>7</sup>There are also disparities by gender, race, and ethnicity, as might be expected given that female workers are particularly likely to be found in part-time jobs and that racial and ethnic minority workers are more likely to be found in low-wage jobs. See J. Bernstein and K. Kornbluh, “Running Faster to Stay in Place: The Growth of Family Work Hours and Incomes,” Washington, DC: New America Foundation, 2005; Heymann, *The Widening Gap*; Shipler, *The Working Poor*; and J. Waldfogel, “Work-Family Policies,” in *Workforce Policies for a Changing Economy*, eds. H. Holzer and D. Nightingale (Washington, DC: Urban Institute Press, 2007).

<sup>8</sup>D. Cantor, J. Waldfogel, J. Kerwin, M. McKinley Wright, K. Levin, J. Rauch, et al., *Balancing the Needs of Families and Employers: Family and Medical Leave Surveys* (Rockville, MD: Westat, 2001).

<sup>9</sup>J. Waldfogel, “Early Childhood Policy: A Comparative Perspective,” in *The Handbook of Early Childhood Development*, eds. K. McCartney and D. Phillips (London: Blackwell, 2006b).

<sup>10</sup>As of spring 2009, Australia’s government was considering a plan to implement 18 weeks of paid maternity leave and two weeks of paid paternity leave.

<sup>11</sup>See review in Waldfogel, *What Children Need*.

<sup>12</sup>See Heymann, *The Widening Gap*.

<sup>13</sup>L. Clemons-Cope, G. Kenney, M. Pantell, and C. Perry, “Fringe Benefits among Low-Income Families: Who Has Access and Who Doesn’t?” Washington, DC: Urban Institute, 2007.

<sup>14</sup>See Waldfogel, *What Children Need*.

<sup>15</sup>It could be accomplished through a social insurance mechanism, as is currently the case with unemployment and disability insurance, but this seems less practical in the U.S. context.

<sup>16</sup>Traditional flextime means that an employee can obtain approval to switch to an alternative work schedule (involving a different starting or ending time, or sometimes a compressed work week) on a permanent basis. This contrasts with daily flextime, in which employees can alter their hours on a day-to-day or as-needed basis. Many fewer employees have daily flextime than have traditional flextime, and access is uneven, with 12 percent of low-wage employees reporting access to daily flextime versus 26 percent of mid- and high-wage employees. See J. T. Bond and E. Galinsky, “What Workplace Flexibility Is Available to Entry-Level, Hourly Employees?” New York: Families and Work Institute, 2006.

<sup>17</sup>Bond and Galinsky, “What Workplace Flexibility Is Available to Entry-Level, Hourly Employees?”; Waldfogel, “Work-Family Policies.”

<sup>18</sup>K. Christensen, “Achieving Work-Life Balance: Strategies for Dual Earner Families,” in *Being Together, Working Apart*, eds. B. Schneider and L. Waite (Cambridge, UK: Cambridge University Press, 2005).

<sup>19</sup>Waldfogel, *What Children Need*.

<sup>20</sup>T. Walsh, “A Review of How to Extend the Right to Request Flexible Working to Parents of Older Children,” London: Department for Business, Enterprise and Regulatory Reform, 2008.

<sup>21</sup>This developmental role was recognized by then President-elect Barack Obama, who pledged to invest an additional \$10 billion in early education; see S. Dillon, “Obama’s \$10 Billion Promise Stirs Hope in Early Education,” *New York Times*, December 17, 2008, p. 1.

<sup>22</sup>Smolensky and Gootman, *Working Families and Growing Kids*; M. Meyers, D. Rosenbaum, C. Ruhm, and J. Waldfogel, “Inequality in Early Childhood Education and Care: What do We Know?” in *Social Inequality*, ed. K. Neckerman (New York: Russell Sage Foundation Press, 2004); P. Winston, “Meeting Responsibilities at Work and Home: Public and Private Supports,” Washington, DC: Urban Institute, 2007; and S. Boots, J. Macomber Waters, and A. Danziger, “Family Security: Supporting Parents’ Employment and Children’s Development,” in *A New Safety Net for Low-Income Families*,

eds. S. Zedlewski, A. Chaudry, and M. Simms (Washington, DC: Urban Institute, 2008).

<sup>23</sup>These figures reflect the child benefit only and do not take into account the other forms of income support and child care support available to low-income families in Canada.

<sup>24</sup>See, for example, G. J. Duncan and K. A. Magnuson, “Promoting the Healthy Development of Young Children,” in *One Percent for the Kids: New Policies, Brighter Futures for America’s Children*, ed. I. Sawhill (Washington, DC: Brookings Institution Press, 2003); and Waldfogel, *What Children Need*; who propose a benefit of \$2,400 per year per child.

<sup>25</sup>M. Blumenthal, B. Erard, and C-C. Ho, “Participation and Compliance with the Earned Income Tax Credit,” *National Tax Journal* 58 No. 2 (2005): 189–213.

<sup>26</sup>R. Greenstein, “The Earned Income Tax Credit: Boosting Employment and Aiding the Poor,” Washington, DC: Center on Budget and Policy Priorities, 2005, accessed at <http://www.cbpp.org/7-19-05eic.htm> on August 17, 2007.

<sup>27</sup>U.S. Department of Agriculture, “Food Stamp Program,” 2008, accessed at <http://www.fns.usda.gov/fsp/> on April 17, 2008.

<sup>28</sup>I. Garfinkel, S. McLanahan, D. Meyer, and J. Seltzer, eds., *Fathers Under Fire: The Revolution in Child Support Enforcement* (New York: Russell Sage Foundation, 1998).

<sup>29</sup>See, for example, R. Freeman, and J. Waldfogel, “Dunning Delinquent Dads: The Effects of Child Support Enforcement Policy on Child Support Receipt by Never Married Women,” *Journal of Human Resources* 36, No. 2 (2001): 207–225; and C. C. Huang, I. Garfinkel, and J. Waldfogel, “Child Support and Welfare Caseloads,” *Journal of Human Resources* 39, No. 1 (2004): 108–134.

<sup>30</sup>R. Mincy and E. Sorenson, “Deadbeats and Turnips in Child Support Reform,” *Journal of Policy Analysis and Management* 17, No. 1 (1998): 44–51.

<sup>31</sup>See, for example, A. Aizer and S. McLanahan, “The Impact of Child Support Enforcement on Fertility, Parental Involvement and Child Well-Being,” *Journal of Human Resources* 41, No. 1 (2006): 28–48.

<sup>32</sup>See, for example, Garfinkel et al., *Fathers Under Fire*.

<sup>33</sup>See, for example, M. Cancian, D. R. Meyer, and E. Caspar, “Welfare and Child Support: Complements, not Substitutes,” *Journal of Policy Analysis and Management* 27, No. 2 (2008): 354–375, who find that after reforms in Wisconsin that allowed mothers to keep all of their child support payments, paternity establishment occurred more quickly, fathers were more likely to pay support, and mothers and children received more support.

<sup>34</sup>For birth rates, see J. A. Martin, B. Hamilton, P. D. Sutton, S. Ventura, F. Menacker, S. Kimeyer, et al., “Births: Final Data for 2005,” *National Vital Statistics Reports* 56, No. 6 (2007): 1–104. For poverty rates, see U.S. Census Bureau, “Current Population Survey 2006 Poverty Tables.”

<sup>35</sup>See, for example, A. Thomas and I. Sawhill, “For Love and Money? The Impact of Family Structure on Family Income,” *The Future of Children* 15, No. 2 (2005): 57–74.

<sup>36</sup>See, for example, P. R. Amato and R. A. Maynard, “Decreasing Nonmarital Births and Strengthening Marriage to Reduce Poverty,” *The Future of Children* 17, No. 2 (2007): 117–41.

<sup>37</sup>See S. McLanahan, “Fragile Families and the Marriage Agenda,” Center for Research on Child Wellbeing Working Paper No. 2003-16-FF, Princeton University, 2003; S. McLanahan, “Single Mothers, Fragile Families,” in *Ending Poverty in America*, eds. J. Edwards, M. Crain, and A. L. Kalleberg (New York: The New Press, 2007); and S. McLanahan, “Fragile Families and the Reproduction of Poverty,” Center for Research on Child Well-Being Working Paper, Princeton University, 2008.

<sup>38</sup>This is confirmed by several studies that have conducted simulations to project what the incomes of unmarried mothers would be if they married the men available to them (see review in Thomas and Sawhill, “For Love and Money?”)



# Improving educational outcomes for poor children

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## Introduction

One of the best ways to avoid being poor as an adult is to obtain a good education.<sup>1</sup> People who have higher levels of academic achievement and more years of schooling earn more than those with lower levels of human capital. This is not surprising, since economists believe that schooling makes people more productive and that wages are related to productivity.

Yet in modern America, poor children face an elevated risk for a variety of adverse educational outcomes. According to the 2007 National Assessment of Educational Progress, only 16 percent of fourth-grade students eligible for free lunch score at proficient levels in reading, compared with 44 percent of fourth graders whose family incomes are above the eligibility cutoff for free lunch.<sup>2</sup> The disparity in math scores between those above and below the eligibility threshold for free lunch is even larger.<sup>3</sup> Equally large disparities in achievement test scores are observed between whites and minority racial or ethnic groups, with test score gaps that show up as early as three or four years of age.<sup>4</sup> In fact, the black-white test score gap among twelfth graders may not be all that different in magnitude from the gap observed among young children when they first start school.<sup>5</sup>

Understanding why children's outcomes vary so dramatically along race and class lines in America is central to formulating effective education policy interventions. Disagreements about how to improve schooling outcomes for poor children stem in part from different beliefs about the problems that underlie the unsatisfactory outcomes in many of our nation's public schools. Broadly speaking, critics tend to invoke, at least implicitly, one of the following explanations for why children in high-poverty schools are not performing as well as we would like:

1. Schools serving poor and minority students have fewer resources than they need. In this case, a potential solution would be to provide more money to disadvantaged schools.

2. High-poverty schools lack the capacity to substantially improve student learning, independent of financial resources. Potential solutions to this problem would involve helping schools improve the quality of their standard operating practices, or increasing the instructional capacity of staff in these schools through professional development or more selective hiring.
3. High-poverty schools do not have sufficient incentives or flexibility to improve instruction. Proponents of this perspective argue that without clarifying key objectives and holding key actors accountable, additional spending will be squandered.
4. Schools matter only so much. The real problem rests with the social context in which schools operate—namely, the family, neighborhood, and peer environments that under this perspective make it difficult for low-income children to take advantage of educational opportunities. Adopting accountability or market-oriented reforms without changing social policy more broadly will punish educators for factors beyond their control, and potentially drive the most able teachers toward schools serving less-disadvantaged students.

For some reason, current education policy debates often seem to be argued as if the problems listed above are mutually exclusive. In contrast, we believe that there is likely some truth to each of these major explanations; schools confront no single problem that can be addressed with just one solution. Identifying the optimal policy response to the mix of problems that plagues our public schools is complicated by the possibility that these problems might interact with each other. For example, it may be the case that certain curriculum reforms are effective only if they are accompanied by an increase in resources such as student support services, or by an increase in teacher quality generated by reforms to hiring and tenure policies. Social science theory and common sense are likely to carry us only so far in identifying the most effective—and cost-effective—mix of education policy changes. For almost every education intervention that some theory suggests might be effective, another plausible theory suggests that the intervention is likely to be ineffective or even harmful. Education policy also needs to be guided by rigorous evaluation evidence about what actually works in practice.

Research over the past four decades has unfortunately fostered the impression that “nothing works” to improve schools for poor children. One of the first studies to contribute to this sense of pessimism was the landmark 1966 report by sociologist James Coleman and his colleagues.<sup>6</sup> Drawing on a large, nationally representative sample, the Coleman Report found that most of the variation in student test scores occurs within rather than across schools, that family background is the strongest predictor of academic achievement, and that most measurable school inputs like student-teacher ratios are only weakly correlated with student outcomes. Subsequent evaluation studies of different educational interventions also



tended to be disappointing, and helped contribute to a sense of pessimism about the ability of schools to improve poor children's life chances.<sup>7</sup>

In contrast, we offer a message of tempered optimism. Over the past few decades, the technology of education-policy evaluation has improved dramatically, making it much easier to detect moderately-sized program impacts within the complex environment that determines schooling outcomes. The available evidence reveals a number of potentially promising ways to improve the learning outcomes of low-income children. This is not to say that everything works: many current and proposed education policies either have no empirical support for their effectiveness, or in some cases have strong empirical evidence for their ineffectiveness. The most successful educational interventions will reduce, but not eliminate, racial and social class disparities in educational outcomes. This is not a reason for either despair or inaction. The appropriate standard of success for policy interventions is that they generate net benefits, not miraculous benefits. Education policies that are capable of improving poor children's schooling outcomes by enough to justify the costs of these policies are worth doing, even if these policies or programs by themselves are not enough to equalize learning opportunities for all children in America.

## **School resources**

The question of whether “money matters” has been the subject of contentious debate in the research literature for the past 40 years. Isolating the causal effects of extra school funding is complicated by the possibility that compensatory spending may be directed towards schools serving the most disadvantaged students, and adequately controlling for all aspects of student disadvantage is quite difficult in practice. The weight of current evidence provides fairly weak support for the idea that increases in unrestricted school funding on average improve student outcomes.<sup>8</sup> There is, however, stronger evidence that some targeted increases in specific school inputs can improve student outcomes. Three areas in which we believe increased resources may yield important benefits for poor children are (1) increased investments in early childhood education; (2) class-size reductions in the early grades; and (3) targeted salary bonuses to help disadvantaged schools recruit and retain better teachers.<sup>9</sup>

### **Early childhood education**

Disparities in academic achievement by race and class are apparent as early as ages three and four—well before children enter kindergarten. Recent research in neuroscience, developmental psychology, economics, and other fields suggests that the earliest years of life may be a particularly promising time to intervene in the lives of low-income children.<sup>10</sup> Studies show that early childhood educational programs can generate learning gains in the short-run and, in some cases, improve the long-run life chances of poor children. Moreover, the benefits generated by these programs are large enough to justify their costs.

Although preschool interventions represent a promising way to improve the life chances of poor children, their success is not well reflected in federal government budget priorities, which allocate nearly seven times as much money per capita for K–12 schooling as for pre-kindergarten, other forms of early education, and child care subsidies for three- to five-year-olds.<sup>11</sup> Most social policies attempt to make up for the disadvantages poor children experience early in life. But given the substantial disparities between poor and nonpoor children that already exist among very young children, it is perhaps not surprising that many disadvantaged children never catch up.

### **Class-size reduction**

Reducing average class sizes may enable teachers to spend more time working with individual students, tailor instruction to match children's needs, and make it easier for teachers to monitor classroom behavior. Class-size reductions are expensive, as they require hiring additional teachers and in some cases expanding a school's physical space. However, the best available evidence suggests that class-size reduction, holding teacher quality constant, can improve student outcomes by enough to justify these additional expenditures, with benefits that are particularly pronounced for low-income and minority children. Some research has suggested that class-size reduction might be most effective if focused on low-income districts or schools.<sup>12</sup>

### **Bonuses for teaching in high-needs schools or subjects**

Research has identified substantial variation across teachers in the ability to raise student achievement, both within and across schools. These studies attempt to isolate the value that a teacher adds to student achievement, referred to as “value-added” measures of teacher effectiveness. If disadvantaged children were taught by the most effective teachers, disparities in schooling outcomes might be narrowed.

Value-added measures of teacher effectiveness are not very strongly correlated with the easiest-to-observe characteristics of teachers. Novice teachers are less effective than more experienced ones, but this experience premium disappears after the first few years of teaching.<sup>13</sup> Teachers who have higher scores on the SAT or various teaching exams are generally more effective than others.<sup>14</sup> Still, many other observable teacher characteristics, such as whether teachers hold traditional teacher certifications or advanced degrees, are not systematically correlated with student learning.<sup>15</sup>

The policy challenge in this domain is to induce more effective teachers to teach in schools serving the most disadvantaged children, knowing that effectiveness cannot easily be measured. The dramatic variation in effectiveness that we observe among teachers highlights the great potential value of successful policies in this area.

### **Changing school practices**

Some observers of America's schooling system remain skeptical that additional spending is needed to improve the

learning outcomes of poor children. They argue that improving the ways in which schools are organized, including the way they deliver instruction, could improve student achievement with few additional resources. This line of reasoning assumes there is good evidence on which practices are most effective, but that school personnel do not have the capacity to identify or implement these programs on their own.

Some low-cost changes in school operating practices that seem to improve student outcomes include changes to school organization, classroom instruction, and teacher hiring and promotion. What remains unclear is why these “best practices” have not been more widely adopted—presumably the answer is some combination of lack of information, political resistance, bureaucratic inertia, or other factors.

### **Curricular and instructional interventions**

In 2002, the Institute for Education Sciences within the U.S. Department of Education created the What Works Clearinghouse (WWC) in order to collect and disseminate scientific evidence on various educational interventions. Thus far, there is a lack of convincing evidence on curricular interventions. A more recent approach to school improvement known as Comprehensive School Reform (CSR) attempts to improve many different aspects of the school at the same time. Unfortunately, the evaluation evidence about the effectiveness of CSR programs is also somewhat limited.

Nevertheless, at the elementary school level a few models have been shown to improve student outcomes. One of the more promising interventions seems to be Success for All (SFA), a comprehensive whole-school reform model that operates in more than 1,200 mostly high-poverty Title I schools.<sup>16</sup> SFA focuses on reading, with an emphasis on prevention and early intervention. A random assignment evaluation of SFA documented that at the end of three years, students in the treatment schools scored roughly 0.2 standard deviations higher than students in the control schools on a standardized reading assessment, a difference equivalent to about one-fifth of the gap between low and high socioeconomic-status children.<sup>17</sup>

### **Teacher labor markets**

A key policy challenge for school districts is to induce more effective teachers to teach in high-poverty schools. There are a variety of potential inefficiencies in the way schools hire, promote, and dismiss teachers, and at least some of these problems might be addressed without substantial increase in resources.<sup>18</sup>

One promising approach is to promote alternative pathways into teaching. Traditional certification requirements impose a high cost (both in money and time) on individuals interested in teaching, particularly on those with the best outside labor market options. Studies exploring the relative effectiveness of teachers with traditional versus alternative (or no) certification have generally found that differences between the groups are relatively small, and that in certain grades and subjects, teachers with alternative certification may actually outperform those with traditional certification.<sup>19</sup>

Whatever system is used to hire teachers, it is inevitable that some teachers will not perform well in the classroom. Recognizing that the hiring process is imperfect, virtually all school systems place new teachers on probation. However, in practice, public schools typically do not take advantage of the probationary period to obtain additional information about teacher effectiveness and weed out lower-quality teachers. One possible solution is to raise the tenure bar for new teachers, and to deny tenure to those who are not effective at raising student achievement. We suggest that this type of high-stakes decision should be based on a variety of teacher performance measures that include, but are not limited to, measures of effectiveness at raising student test scores. Principal evaluations should be included as one factor in teacher tenure ratings, both because they may add additional information beyond student test scores, and also because they reduce potential negative effects of relying solely on an output-based measure.

### **Incentives and accountability**

Class size reduction is an “input-based” educational intervention, based on the assumption that schools will perform better with additional resources. Comprehensive School Reform is based on the assumption that schools are not using best practices, and therefore seeks to improve schooling outcomes by prescribing a more effective instructional approach based on the knowledge of centralized decision makers. Both strategies assume that educators are willing to work as hard as they can given their resource constraints.

An alternative approach to school reform focuses on enhancing both the incentives and flexibility enjoyed by school personnel. While the theories underlying school choice and school accountability differ in important ways, both strategies rely on the core notions of incentives and flexibility. The available evidence to date is probably strongest on behalf of the ability of school accountability systems to change the behavior of teachers and principals, although one lesson from that body of research is the great importance of getting the design of such policies right.

### **Teacher merit pay**

Most public school teachers are paid according to strict formulas that incorporate years of service and credits of continuing education including Master’s and doctorate degrees, despite the fact that research consistently finds that advanced degrees are not associated with better student performance and that experience only matters in the first few years of teaching. For this reason, reformers have suggested that a teacher’s compensation should be tied directly to productivity as measured by student performance or supervisor evaluation. Proponents of “pay-for-performance,” also known as “merit” or “incentive” pay, argue that it would not only provide incentives for current teachers to work “harder” or “smarter,” but also could affect the type of people who enter the teaching force and then choose to remain.

Incentive pay has a long history in American education, though few systems that directly reward teachers on the ba-

sis of student performance have lasted very long.<sup>20</sup> There is some evidence that incorporating incentive pay along with pay for additional professional development activities and other service may improve student performance on standardized tests.<sup>21</sup> Given this tentative but positive evidence, we believe that it is worthwhile for schools and districts to continue experimenting with, and evaluating, pay for performance.

### School accountability systems

Recent studies suggest that accountability reforms can foster positive changes in behavior by school administrators, teachers, and students. At the same time, research provides some warnings that incentive-based reforms often generate unintended negative consequences, such as teachers neglecting certain students, cutting corners, or even cheating to artificially raise student test scores. The fact that actors within the school system do respond to changes in incentives highlights both the promise and pitfalls of accountability reform, and underscores the importance of the specific design details of accountability policies.

A recent review of simple national time trends suggests that No Child Left Behind (NCLB) may have improved student achievement, particularly the math performance of younger children.<sup>22</sup> However, to our knowledge, there has not been any systematic investigation of the impact of NCLB at a national level that attempts to account for prior achievement trends or the presence of other policies. Even without any direct evaluation evidence of NCLB, the available accountability research suggests a number of modifications to NCLB that seem likely to do some good. First, we would encourage the adoption of a single achievement standard for all districts in the country. Second, we recommend moving away from a single proficiency level—that is, holding schools accountable for the share of students with scores above some single cutoff value—since this provides students an incentive to neglect students who are far above or below this threshold. Third, we suggest that if the current level of federal funding is not increased substantially, states and districts be provided the flexibility to focus on the schools most in need of improvement.

### School choice

Another way to clarify goals or change incentives is to provide parents greater choice of schools for their children through public magnet schools, charter schools, or vouchers for students to attend private schools. Proponents suggest that by creating a marketplace in which parents can select schools, a choice-based system might generate competition among schools that would improve the quality of schools throughout the marketplace. This theory rests on several assumptions, including that the degree of choice will be large enough to generate meaningful competition. A choice system must permit relatively easy entry into the market by potential suppliers, which includes individuals and organizations wishing to open schools. There must also be easy “exit” from the market that allows (and, indeed, forces) unsuccessful schools to close.<sup>23</sup>

The second set of assumptions involves the information available to parents and the preferences they have for

their children’s education. Parents must have sufficient information to make an informed choice. Data on school performance must be transparent, accessible, and easily understood by parents with varying degrees of sophistication.

There is mixed evidence on whether the opportunity to attend a choice school has substantial academic benefits for poor children, as well as on the question of whether large-scale choice programs might improve the productivity of schools in general. In our view, the main risk associated with expanded choice opportunities is the possibility of exacerbating the segregation of poor, minority, or low-performing students within a subset of schools. Thus, the effects of any choice plan are likely to depend crucially on the details of key design questions, such as whether schools are allowed to select the best students from their applicant pools.<sup>24</sup>

### The role of student background

Some believe that the disappointing performance of our public schools stems in large part from the challenges that poor children face outside of school. Clearly, differences in family background help explain a large share of the variation in academic achievement outcomes across children. Poor children have substantially lower achievement test scores than nonpoor children as young as ages three or four, before they even start school.

More relevant for present purposes is whether the challenges of living in poverty cause poor children to benefit *less* than nonpoor children from similar types of schooling experiences. Our reading of the available evidence instead suggests that improving the quality of academic programs is at the very least sufficient to make noticeable improvements in poor children’s educational outcomes. In fact, studies of early childhood education programs typically find that disadvantaged children benefit even *more* from these interventions than do nonpoor children. As a result, social policy changes outside the realm of education that reduce child poverty in America, as desirable as they may be on their own merits, are not a necessary condition for enacting education reforms that improve poor children’s outcomes by enough to justify the costs of these reforms.

At the same time, the fact that poor children are geographically concentrated in neighborhoods that are segregated by race and social class presents special challenges for education policy, given that children have traditionally attended neighborhood schools. For example, research suggests that, all else equal, teachers tend to prefer to work in schools that serve more affluent and less racially diverse student bodies.<sup>25</sup> In addition, systems that fail to adequately account for the confounding influence of family background may help drive the most effective teachers out of high-poverty schools. Peer characteristics may also directly affect student learning, if teachers set the level or pace of instruction to match the average student ability in their classroom.

In theory, education policies could overcome the burden that concentrated poverty imposes on poor children by breaking



the link between place of residence and school assignment. Some evidence suggests that earlier desegregation efforts did improve the schooling outcomes of disadvantaged children.<sup>26</sup> However, the potential for contemporaneous desegregation policies to achieve large gains in student outcomes remains unclear. First, there are substantial barriers—both logistical and political—to further integrating schools along race or class lines. Second, both schooling and social conditions for poor children have changed substantially since the initial desegregation efforts, which may limit the effectiveness of desegregation efforts today. For example, although still far from equal, the difference in resources across poor and nonpoor schools has greatly narrowed since the early 1970s.

A different approach to addressing the problem of concentrated poverty is to use housing policy to help poor families move into different neighborhoods, though it is still unclear how effective such policies would be at changing neighborhood environment, or whether such a change would be sufficient to improve a child's academic outcomes.<sup>27</sup>

Reducing the prevalence of either child poverty or the geographic concentration of poverty in America is difficult. Although the persistence of these social problems is not beneficial for the well-being of children, improving the educational opportunities of poor children in their current neighborhoods still has the potential to help them escape from poverty.

## Conclusions

The release of the landmark Coleman Report in 1966 fostered pessimism about the ability of schools to improve the life chances of poor children. This report and subsequent research pushed policymakers to consider outcome-based measures of success and spurred interest in reform strategies that focus on changing the incentives within the public school system.

A careful review of the empirical evidence, however, suggests a variety of policies that are likely to substantially improve the academic performance of poor children. We found examples of successful programs or policies within each of three broad categories. Targeted investment of additional resources in early childhood education, smaller class sizes, and bonuses for teachers in hard-to-staff schools and subjects seem likely to pass a cost-benefit test, even without a fundamental reorganization of the existing public school system. At the same time, researchers have identified some ways of changing standard operating procedures within schools that can improve the outcomes of poor children even without large amounts of additional spending. Finally, policies that seek to change incentives within schools offer some promise of improving schooling for poor children.

Given limited financial resources and perhaps even more limited political attention, it is unlikely that policymakers could adopt all of the “successful” practices discussed in this article. Based on our read of the empirical literature, we believe that the following should be the highest priorities for education policies to improve the academic achievement of poor children:

1. Increase investments in early-childhood education for poor children. Even though short-term gains in IQ or achievement test scores diminish over time, there is evidence of long-term improvement in a variety of outcomes, including educational attainment, that will help children escape from poverty as adults. Increased investment in early childhood education is particularly important given the limited investment our society currently makes in the cognitive development of very young children. This should be the top priority for new spending in public education.
2. Take advantage of the opportunity provided by No Child Left Behind (NCLB) to better utilize accountability reforms to improve outcomes for poor children. NCLB was enacted in 2001 with bipartisan support, although it has received considerable criticism in recent years. In our view, the debate over the existence of NCLB misses a fundamental lesson we have learned about accountability in the past decade: the specific design of the program matters enormously. It would be a shame if the current (often legitimate) concerns with how NCLB has been implemented lead to a retreat from outcome-oriented accountability in education. Instead, we would recommend several changes to NCLB as well as co-existing state or district accountability systems: adopting common achievement standards across states, focusing accountability on student growth rather than proficiency levels, providing states and districts with the flexibility to focus limited resources on the neediest schools, and reconciling federal and state accountability systems.
3. Provide educators with incentives to adopt practices with a compelling research base while expanding efforts to develop and identify effective instructional regimes. One of the lessons from the accountability movement is that highly disadvantaged schools (and districts) often lack the capacity to change themselves. State and district officials should ensure that disadvantaged schools, particularly those that have continued to fail under recent accountability systems, adopt instructional practices and related policies with a strong research base. There is no need to reinvent the wheel. At the same time, the federal government could help spur such advantages through more focused research and development spending, and governments at all levels could help increase the supply of high-quality practices by requiring schools to use programs that have been rigorously evaluated.
4. Continue to support and evaluate a variety of public school choice options. Although we believe that the current evidence on the benefits of public school choice is limited, we also think that the risk associated with these policies is small so long as they are implemented in ways that do not substantially exacerbate school segregation along race or class lines. We encourage states to facilitate the expansion of magnet and charter schools, and to carefully evaluate the impact of these schools on the students they serve as well as the surrounding schools.



Most antipoverty policies focus on lifting adults out of poverty. These policies are often controversial because of an unavoidable tension between the desire to help people who have been unlucky and the motivation to encourage hard work and punish socially unproductive behavior. In contrast, successful education policies can not only help reduce poverty over the long term by making poor children more productive during adulthood, but also foster economic growth that expands the “pie” for everyone. Educational interventions also benefit from a compelling moral justification. Disadvantaged children should not be punished for the circumstances into which they are born, and improved education policy is one of the best ways to prevent this from happening. ■

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<sup>1</sup>This article draws upon “Improving Educational Outcomes for Poor Children,” in *Changing Poverty, Changing Policies*, eds. M. Cancian and S. Danziger (New York: Russell Sage Foundation, 2009).

<sup>2</sup>National Center for Education Statistics, “The Nation’s Report Card, Reading 2007: National Assessment of Educational Progress at Grades 4 and 8.” NCES 2007-496. U.S. Department of Education, Institute of Education Sciences.

<sup>3</sup>National Center for Education Statistics, “The Nation’s Report Card, Mathematics 2007: National Assessment of Educational Progress at Grades 4 and 8.” NCES 2007-494. U.S. Department of Education, Institute of Education Sciences.

<sup>4</sup>C. Jencks and M. Phillips, *The Black-White Test Score Gap* (Washington, DC: Brookings Institution Press, 1998). Note that these disparities in schooling outcomes along race and class lines are not simply due to immigration into the United States by those with low initial levels of English or other academic skills, since, for example, reading and math disparities in National Assessment of Educational Progress scores are large among fourth and eighth graders even between non-Hispanic whites versus non-Hispanic blacks ([www.nces.ed.gov/nationsreportcard/nde](http://www.nces.ed.gov/nationsreportcard/nde), accessed on August 4, 2008).

<sup>5</sup>J. Ludwig, “The Great Unknown: Does the Black-White Test Score Gap Narrow or Widen through the School Years? It Depends on How You Measure,” *Education Next* (Summer 2007): 79–82.

<sup>6</sup>J. S. Coleman, E. Q. Campbell, C. J. Hobson, F. McPartland, A. M. Mood, F. D. Weinfeld, et al., *Equality of Educational Opportunity*, Washington, DC: U.S. Department of Health, Education, and Welfare, Office of Education/National Center for Education Statistics, 1966.

<sup>7</sup>See, for example, N. Glazer, “Education and Training Programs and Poverty,” in *Fighting Poverty: What Works and What Doesn’t*, eds. S. Danziger and D. Weinberg (Cambridge, MA: Harvard University Press, 1986), pp. 152–172.

<sup>8</sup>See, for example, C. Jencks, “Education and Training Programs and Poverty,” in *Fighting Poverty: What Works and What Doesn’t*, eds. S. Danziger and D. Weinberg (Cambridge, MA: Harvard University Press, 1986), pp. 173–179.

<sup>9</sup>See the book chapter for details of the evidence in support of these interventions.

<sup>10</sup>See, for example, E. I. Knudsen, J. J. Heckman, J. L. Cameron, and J. P. Shonkoff, “Economic, Neurobiological, and Behavioral Perspectives on Building America’s Future Workforce,” *Proceedings of the National Academy of Sciences* 103 (2006): pp. 10155–10162.

<sup>11</sup>J. Ludwig and I. Sawhill, “Success by Ten: Intervening Early, Often and Effectively in the Education of Young Children,” Hamilton Project Discussion Paper 2007-02, Washington, DC: Brookings Institution.

<sup>12</sup>C. Jepsen, and S. G. Rivkin, “What is the Tradeoff between Smaller Classes and Teacher Quality?” NBER Working Paper 9205, National Bureau of Economic Research: Cambridge, MA, 2002.

<sup>13</sup>J. Rockoff, “The Impact of Individual Teachers on Student Achievement: Evidence from Panel Data,” *American Economic Review, Papers and Proceedings* 94, No. 2 (2004): 247–252.

<sup>14</sup>C. T. Clotfelter, H. F. Ladd, and J. L. Vigdor, “Teacher-Student Matching and the Assessment of Teacher Effectiveness,” *Journal of Human Resources* 41 (2006): 778–820.

<sup>15</sup>See, for example, D. Boyd, P. Grossman, H. Lankford, S. Loeb, and J. Wyckoff, “How Changes in Entry Requirements Alter the Teacher Workforce and Affect Student Achievement,” NBER Working Paper No. 11844, National Bureau of Economic Research: Cambridge, MA, 2005.

<sup>16</sup>Several other elementary school models show promise, including Direct Instruction (CRSQ 2006). One of the only other reform models that has been rigorously evaluated is the Comer Schools program, although one problem identified by the research is the limited degree of difference between Comer treatment schools and control schools in the implementation of Comer-style school practices. See T. D. Cook, H. Farah-Naaz, M. Phillips, R. A. Settersten, C. S. Shobha, and S. M. Degirmencioglu, “Comer’s School Development Program in Prince George’s County: A theory-based evaluation,” *American Educational Research Journal* 36 No. 3 (1999): 543–597. See also T. D. Cook, H. D. Hunt, and R. F. Murphy, “Comer’s School Development Program in Chicago: A Theory-Based Evaluation,” *American Educational Research Journal* 37 No. 2 (2000): 535–597.

<sup>17</sup>G. D. Borman, R. E. Slavin, A.C.K. Cheun, A. M. Chamberlain, N. A. Madden, and B. Chambers, “Final Reading Outcomes of the National Randomized Field Trial of Success for All,” *American Educational Research Journal* 44 No. 3 (2007): 701–731.

<sup>18</sup>There has been little research on teacher “demand” policies. One reason is the perception that disadvantaged school districts are in a state of perpetual shortage, and thus hire anyone that walks through the door. In reality, while there are often shortages in certain subjects and grade levels, many disadvantaged districts have an ample supply of teachers for most positions. For example, the Chicago Public Schools regularly receives 10 applications for each position.

<sup>19</sup>See, for example, S. Glazerman, T. Silva, N. Addy, S. Avellar, J. Max, A. McKie, et al., “Options for Studying Teacher Pay Reform Using Natural Experiments,” No. ED-04-CO-0112/0002, Mathematica Policy Research, Inc.: Washington, DC, 2006.

<sup>20</sup>R. Murnane, and D. Cohen, “Merit Pay and the Evaluation Problem: Why Most Merit Pay Plans Fail and a Few Survive,” *Harvard Educational Review* 56 (Spring 1986): 1–17.

<sup>21</sup>M. G. Springer, D. Ballou, and A. Peng, “Impact of the Teacher Advancement Program on Student Test Score Gains: Findings from an Independent Appraisal,” National Center on Performance Incentives Working Paper No. 2008-19, Vanderbilt University: Nashville, TN, 2008.

<sup>22</sup>E. A. Hanushek and M. E. Raymond, “Does School Accountability Lead to Improved Student Performance?” *Journal of Policy Analysis and Management* 24 No. 2 (2005): 297–327.

<sup>23</sup>If the administrators and teachers in a public school that loses half of its students to a nearby charter school continue teaching the smaller group of students, or are merely reassigned to other schools in the district, they may not change their practices despite the pressure exerted by the nearby charter.

<sup>24</sup>This point is made by both D. A. Neal, “How Vouchers Could Change the Market for Education,” *Journal of Economic Perspectives* 16 No. 4 (2002): 25–44; and by H. F. Ladd, “School Vouchers: A Critical View,” *Journal of Economic Perspectives* 16 No. 4 (2002): 3–24.

<sup>25</sup>E. A. Hanushek, J. F. Kain, and S. G. Rivkin, “Why Public Schools Lose Teachers,” *Journal of Human Resources* 39 No. 2 (2004): 326–354.

<sup>26</sup>For an extensive review of the segregation literature, see J. Vigdor and J. Ludwig, “Segregation and the Black-White Test Score Gap,” in *Stalled Progress*, eds. K. Magnuson and J. Waldfogel (New York: Russell Sage Foundation, 2008).

<sup>27</sup>E. O. Olsen, “Housing Programs for Low-Income Households,” in *Means-Tested Transfer Programs in the United States*, ed. R. A. Moffitt (Chicago: University of Chicago Press, 2003), pp. 365–442.

# Workforce development as an antipoverty strategy: What do we know? What should we do?

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## The paradox of workforce development for the poor

Over the past few decades, the gap in earnings between more- and less-educated American workers rose.<sup>1</sup> The number of adult workers in low-wage jobs also rose—partly because of the growing supply of these workers, associated with welfare reform and immigration (among other forces), and partly because of growing demand for workers in low-paying jobs.<sup>2</sup> And, at least among less-educated and minority men, the number with criminal records and other characteristics that make them hard to employ grew dramatically as well.

A consensus has developed among economists and policy analysts on the increased importance that workforce skills play in explaining the labor market problems of the disadvantaged. The lack of skills and educational credentials among disadvantaged racial and ethnic minorities and the poor contributes to their low employment and earnings and inhibits their ability to advance in the labor market. As a result, many policymakers and researchers have suggested increased public investments in improving early education opportunities, reforming school practices in the K-12 years, and improving access to higher education.

In contrast, less support has emerged for the argument that “workforce development” (or employment and training) programs raise employment and earnings for disadvantaged youth and adults. Employment and training programs can be defined as any kind of education or work experience that directly prepares workers for specific occupations or jobs, and potentially includes many types of activities that can occur in the classroom or on the job, both formally and informally, for workers either currently employed or not employed.<sup>3</sup> The broader concept of workforce development might also include a range of employment services, including pre-employment assessments and job placement assistance as well as post-employment supports, such as assistance with child care or transportation.

Federal funding of these efforts has fallen over time in real terms and especially relative to the size of the economy, even though the economic rewards to skills have grown. Why has support for workforce development policies fallen as an antipoverty strategy? What are the most recent developments in the field, and what is the state of knowledge about their suc-

cess? Is a resurgence of interest in workforce development for the poor merited? And, for low-wage workers for whom workforce development is unlikely to be a successful option, what other policies might work?

## Trends in federal funding

Figure 1 shows overall federal funding levels for employment and training programs at the Department of Labor (DOL). The figure plots annual expenditures on employment and job training from the Manpower Development Training Act (MDTA) in 1963 through WIA in 2003 in constant dollars. After peaking in real terms in 1979 at about \$17 billion, funding declined until 1985, and has either remained flat or declined more since then. By 2003, inflation-adjusted funding had fallen by about 65 percent from its 1979 peak; by 2008, by nearly 70 percent. Moreover, because the real economy has more than doubled in size since 1979, this funding has fallen by about 87 percent in relative terms—from roughly 0.30 percent to 0.04 percent of Gross Domestic Product (GDP). Because WIA now funds a broader range of services for a broader set of participants than DOL employment and training programs did 30 years ago, the decline in spending on the disadvantaged, especially for direct employment or training, has been even greater. Outside the Department of Labor, employment and training expenditures have increased in some cases (e.g., for Pell grants) and decreased in others, but have not fully offset the dramatic declines in DOL funding, especially relative to the growing needs of the low-income population.

## Perceptions of ineffectiveness: The evaluation literature

A major reason for the decline in public spending on, and interest in, workforce development is a widespread percep-

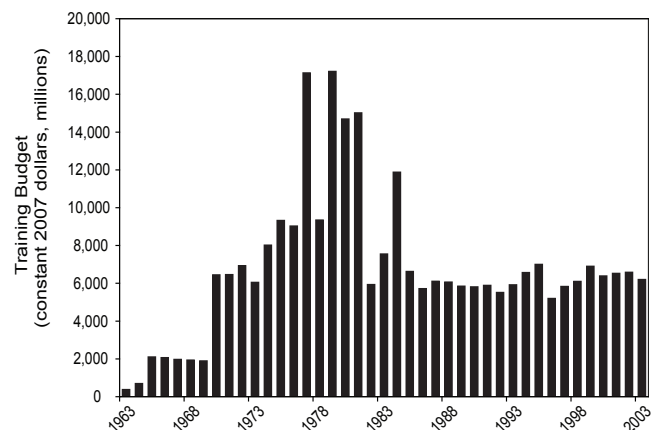


Figure 1. Worker Training in Primary DOL Programs, 1963-2003.

tion that the programs are not cost-effective at raising future earnings of participants. The generally large private and social returns to education and training in our economy are not in doubt. Why might publicly funded training for disadvantaged adults or youth be less effective?

One reason may be that the basic cognitive skills of disadvantaged adults are too weak for limited occupational training to effectively raise. Another might be that the motivation of disadvantaged adults to participate in training is low, especially if the programs are time-consuming. This might be particularly true for working (especially single) parents who are already pressed for time, or for young adults who are not yet ready to “settle down.” Or perhaps prospective employers are not impressed by any government-sponsored training, if the other educational and work experiences of trainees are weak.

Is the general perception of program ineffectiveness warranted by the evidence? The estimated impacts of training programs for disadvantaged workers on their later earnings in this literature vary considerably by demographic group, with more positive impacts generally observed for adult women than men and for adults and in-school youth than for out-of-school youth. The estimated impacts also vary by the following: (1) Whether program participation has been voluntary or mandatory; (2) whether participants are “hard to employ,” with more severe disabilities or barriers to work (such as criminal records, substance abuse, or very poor skills); (3) the duration or intensity of the treatment; (4) the nature and content of the treatment—i.e., whether it focused primarily on classroom training, on-the-job training, work experience; (5) the scale of the program considered, and whether or not it is a replication effort; and (6) whether the evaluation uses survey or administrative data.

After a review of past evaluation results, detailed in the full version of this article, I conclude that many modest programs for disadvantaged adults in the past have worked reasonably well, as have a few intensive efforts for the harder to employ. Similarly, while much remains unknown about exactly what approaches are most successful for disadvantaged (especially out-of-school) youth, the successes detailed in my article challenge the notion that nothing works for these youth.

### **Other approaches, other problems, and a changing labor market**

The conclusion that job training programs for poor adults and youth are not cost-effective, while not very accurate, has been reinforced by several widely held perceptions, including:

- Other approaches for improving the earnings of the disadvantaged are more cost-effective than training, and therefore are more worthy of scarce public dollars;
- Problems of the disadvantaged other than their lack of occupational skills and work experience are more serious; and
- A changing labor market is rendering job training less relevant than it might have been in previous generations.

I review each of these arguments below.

### **Are other approaches more cost-effective?**

For adults, the apparent success of welfare reform in raising employment and earnings among single mothers has been accompanied by a sense that “work first” approaches are more cost-effective than education and training. But wages for former welfare recipients remain quite low, with little evidence of rapid labor market advancement. If wage growth is hard to achieve, then critics of education and training argue for raising employment levels in low-wage jobs through low-cost approaches such as job search assistance, and then publicly supplementing low earnings through extensions of the Earned Income Tax Credit (EITC) and expanded child care subsidies and other work supports.

But is it clear that these other efforts dominate job training in cost-effectiveness? My own calculations suggest that moderately effective training for adults and youth might be at least as socially efficient as the EITC. For instance, my estimates suggest that every \$1 of expenditure on the EITC raises the earnings of single mothers by about \$0.25, and therefore raises their incomes by \$1.25 (without accounting for any welfare cost of taxation).<sup>4</sup> This compares with the near doubling of earnings generated per net dollar spent on the Job Training Partnership Act (JTPA) over a 5-year period.<sup>5</sup> Of course, most training programs are not necessarily this successful, and training and the EITC are not mutually exclusive. However, given the high annual costs of the EITC relative to the very small sums now spent on training disadvantaged adults, increased federal spending on WIA and/or Pell grants (in addition to some possible extensions of the EITC) is clearly warranted.<sup>6</sup>

### **Are other problems more serious?**

Recent efforts to improve skills and long-term earnings potential among the disadvantaged have focused not on adults and youth, but on young children. Many high school reform efforts also focus primarily on cognitive skills and academic achievement and are designed to promote greater college attendance and completion, rather than training and work experience for high school students.

The current emphasis on younger children and academic skills reflect a growing awareness of:

- The large achievement gap between racial and income groups that develops very early in the lives of children;<sup>7</sup>
- The ability of the achievement gap to account for large portions of differences in college attendance and completion and in earnings differences;<sup>8</sup> and
- Evidence that the relative and real wages of high school graduates stagnated while the college/high school earnings gap widened dramatically since the 1970s.<sup>9</sup>

Although the evidence on these three points is very solid, they do not necessarily imply an exclusive focus on early childhood preparation, test scores, and college outcomes. A strong proponent of primarily investing in early childhood



education (perhaps at the expense of later efforts) is Nobel laureate James Heckman.<sup>10</sup> He documents that cognitive skill formation occurs most easily at very early ages, and that these early skills lead to further cognitive skills over time. He also documents that noncognitive skills can be influenced at early (as well as somewhat later) ages, and these also affect labor market outcomes of high school graduates. The importance of early cognitive skill-building leads Heckman to conclude that the social returns to human capital enhancement decrease strongly with age, and that training programs beyond a certain age are not cost-effective. As a result, he advocates a major reorientation of resources away from training of youth and adults towards early childhood programs (along with some additional expenditures later in childhood, as these are viewed as complements to successful early childhood investment).

However, the empirical evidence on returns to education and training does not always fit the predicted declining pattern over the life cycle.<sup>11</sup> In particular, evidence of very strong returns on pre-K is limited to a few small and intensive programs that have never been replicated or scaled up, while rigorous evaluation evidence of positive impacts from efforts that have gone to scale (like Head Start) is more limited and often reflects the state of the program as it was in the 1960s or 1970s rather than today. Also, some newly popular statewide universal pre-K programs show highly varied short-term impacts on achievement and quick fade-out of cognitive impacts.<sup>12</sup> And the strong returns per dollar spent in the estimated impacts of programs like the Career Academies for high school students, the National Supported Work demonstration, and JTPA for adults, suggest that some training programs for youth and adults are quite effective.<sup>13</sup> Once again, I view the earlier investments in children and the later ones in youth and adults as complements, not substitutes, and support some expansion of both.

Similarly, I reject the notion that only test scores and cognitive achievement and ultimately college attendance merit public attention. Universal college attendance seems unachievable in the short term—especially when roughly a quarter of our youth are not finishing high school on time.<sup>14</sup> The more modest goal of “some postsecondary for all” seems appropriate. The returns to a year or more of community college and to various kinds of career and technical education in secondary school are strong enough to justify some continued investment in these efforts.<sup>15</sup>

### **A changing labor market**

Two economic developments that have negatively affected the employment and earnings of the disadvantaged have contributed to the declining interest in training programs. First, some analysts expect that continuing globalization, with greater offshoring of service activities and more immigration, might enable employers to meet their future labor needs more easily with foreign (or foreign-born) labor than by training native-born, less-educated workers.<sup>16</sup> Second, some authors have documented growth in both high-skill and low-skill jobs relative to those in the middle.<sup>17</sup> These developments imply

that there may be little reason to train less-educated workers for relatively unavailable middle-level jobs.

I caution against overstating these trends. Immigrants are heavily concentrated at the bottom and top of the skills distribution; they may be least effective in filling demand for middle-skill jobs.<sup>18</sup> Also, many economic sectors that use middle-skill labor—such as health care, construction, retail trade and the like—exhibit a strong “home bias,” in which the work will remain in the U.S. where customers are located. As for the need of employers for middle-skill labor, a recent study concludes that, while mildly shrinking, the middle of the labor market will continue to generate strong demands for hiring over the next decade and beyond.<sup>19</sup> This is especially true for gross hiring, including replacement demand for retirees, as opposed to net employment shifts across skill-level categories. Thus, I still see a continuing need to train less-educated workers for jobs near the middle of the skill spectrum.

### **Summary**

On close examination, the arguments that investments in workforce development for the poor should diminish because other approaches are more cost-effective, other problems are more serious, and the labor market is changing are, like the arguments of weak cost-effectiveness, not fully convincing. Perhaps the real reasons for why employment and training programs have diminished so dramatically are political, rather than substantive. In a world of scarce fiscal resources, advocates for the poor concentrate their limited political capital on direct cash or near-cash assistance, like welfare or child care, rather than on the more indirect and longer-term benefits that accrue from job training. And, as resources for workforce development programs diminished over time, the interest in fighting for them diminished as well.<sup>20</sup>

### **Recent labor market developments and training approaches**

In recent years, newer approaches to workforce development, which might be more effective for the poor than those reviewed above, have developed, generating more enthusiasm among state and local policymakers. These approaches tend to emphasize the importance of linking education and training more closely to jobs—especially for sectors and employers where well-paying jobs are still readily available for less-educated workers, and where these jobs will not be easily filled by employers on their own. Targeting training for the disadvantaged to these sectors and jobs might thus serve a dual purpose of supporting economic development while also helping the poor, and thus improving labor market efficiency as well as equity.<sup>21</sup>

### **New approaches for disadvantaged adults**

The box on page 66 lists some promising new approaches for meeting employer demands by training disadvantaged adult workers, and some prominent programs around the country that apply these approaches, albeit at relatively small scales.



These approaches generally involve some combination of the following: (1) Education and training (sometimes but not always at community colleges) that give workers a postsecondary credential; (2) direct ties to employers or industries that provide well-paying jobs in key sectors; and (3) a range of additional supports and services to help workers deal with problems that arise (such as child care and transportation), either during the training period or beyond.

In addition, labor market intermediaries often bring together the workers, employers, training providers, and sources of supports needed to make this process work. The intermediaries might help overcome employer resistance to hiring workers (perhaps owing partly to discrimination) by providing more information on positive worker skills and attributes, and by carefully screening the applicants whom they refer to these employers. If the basic skills of the workers are not sufficient for their participation in the needed occupational training, the potential workers take remedial “bridge programs” at the community colleges. Intermediaries provide not only job placements with employers in well-paying jobs, but also in some cases a range of post-employment services to deal with problems that frequently arise in new working contexts. The direct involvement of employers and the availability of jobs at the end of training help improve the match between the skills being acquired and the demand side of the labor market; in some cases, employers are even encouraged to change job structures and promotion ladders, so that more “good jobs” are created to match the new skills of workers. The direct ties to available jobs at wages above their current levels of earnings should motivate the disadvantaged to undertake the training. Workers also often receive a certification that indicates attainment of general and specific occupational skills, thereby providing opportunities for mobility across employers and occupations in the future.

The best-known approaches that combine some or all of these elements include *sectoral* training, *incumbent-worker* training, and the building of *career ladders* or *career pathways*. Sectoral training targets specific economic sectors at the local level where labor demand is strong and well-paying jobs are available for those without four-year college degrees. Incumbent worker training programs sometimes use state funds to subsidize employer-sponsored training and upward mobility for entry-level workers in the firms that currently employ them. Efforts to build career ladders into low-skill jobs, like nursing aide positions, might enable low-wage workers to progress either with their current employers or with other firms in the same industry. Finally, several states have developed career pathway programs that reach into the high schools and community colleges and generate clear progressions to skilled jobs in particular industries through packages of education, training, and work experience.<sup>22</sup>

Because these are small scale programs that have not been rigorously evaluated, we do not know the extent to which they can be successfully scaled up, and whether or not they are cost-effective. But some sectoral programs—like the Extended Care Career Ladder Initiative in Massachusetts or the Wisconsin Regional Training Partnership—have already

achieved impressive scale. The Career Pathways and Ready to Work programs in Kentucky and Arkansas are statewide efforts to link community colleges to the working poor and to higher-wage jobs and employers in those states. The evaluation evidence is so far limited to descriptive outcomes for small programs, although some important evaluations are in progress and the results are pending.<sup>23</sup>

All of these new approaches to employment and training for poor adults require careful attention to natural tensions that can arise between “economic development” and “antipoverty” efforts. Employers are often reluctant to participate in antipoverty programs, which can tend to stigmatize the workers they are designed to help. The employers might well prefer to use public funding for others whom they might have hired and trained anyway. Targeting program resources on disadvantaged workers is needed to ensure that scarce public funds do not provide windfalls to such employers. At the same time, to maintain both employer interest and broader political support, some flexibility might be needed to provide funding to less-educated workers who are not necessarily poor.

### **New programs for ex-offenders and at-risk youth**

Among newer approaches to improve employment options for the hard to employ, transitional jobs have recently gained some popularity. Much like Supported Work, transitional jobs generally provide adults who have little formal work history roughly 6–12 months of paid experience, either in a nonprofit or for-profit setting. This is particularly important for the ex-offender population, which has grown enormously in recent years and faces significant barriers to employment.<sup>24</sup> Thus, the Center for Employment Opportunity (CEO) in New York provides every ex-offender leaving Rikers Island Prison the opportunity for transitional jobs. CEO has been evaluated with a random assignment design, and preliminary results suggest a sizable drop in recidivism for those entering transitional jobs soon after release.<sup>25</sup> Other programs for ex-offenders (like the Safer Foundation in Chicago) provide training and job placement services without the guarantee of a transitional job; these programs are considerably less expensive, though we do not know how cost-effective their services are.<sup>26</sup> But whether any of these actually improve employment outcomes over the longer-term for ex-offenders and the hard to employ more generally remains uncertain.

As for at-risk out-of-school youth, a number of model programs are being investigated in a variety of settings. Several dropout prevention programs for youth in high school, both during and after school hours, are being developed; some of these are programs within existing high schools, and others involve broader efforts.<sup>27</sup> In addition, new “dropout recovery” models in alternative/charter schools now combine high school completion with the beginning of postsecondary education.<sup>28</sup> Recent evaluation evidence shows strong short-term impacts of the National Guard’s Challenge Program on the attainment of GEDs or high school diplomas among young people who had dropped out. The Job Corps shows fairly strong early impacts on earnings that fade somewhat with time, though the program still appears cost-effective for those aged 20 and

## New Training Approaches: Promising State and Local Programs

### *Sectoral Training Programs*

- Cooperative Home Care Associates (CHCA)—Developed by the Paraprofessional Health Care Institute in the Bronx, CHCA is a worker-owned home health care cooperative that trains and employs home health care aides. Founded on the belief that higher quality jobs will lead to higher quality care, CHCA aims to restructure the long-term care industry by serving as a model employer that offers higher wages and benefits, supportive services, full-time work, opportunities for career growth, and reduced turnover. The program provides classroom training, on-the-job training, and peer mentorship. As employees of CHCA, program participants are guaranteed a paid wage for a minimum of 30 hours per week, receive free health insurance, and earn dividends. Internal career ladders offer employees the opportunity to move into higher-paying administrative positions. Over 900 workers are members of the cooperative, and over 200 per year join annually and receive training.
- AFSCME 1199c Training and Upgrading Fund—Funded through the provision of 1.5 percent of gross payroll by participating hospitals, nursing homes and other providers in Philadelphia, this program provides training and career ladders for certified nursing assistants (CNAs) and licensed practical nurses (LPNs). Each student is placed with a case manager to provide ongoing career and personal counseling. In 2005, the program provided training to over 4,000 individuals.
- Wisconsin Regional Training Partnership (WRTP)—WRTP is a nonprofit association of businesses and unions that has served employers, employees, job seekers, and unions in the Milwaukee area since 1996. WRTP works in several industries including manufacturing, health care, construction, and hospitality. Firms that join WRTP agree to develop education and training programs on-site or at community colleges and provide a payroll contribution. In return, they receive technical assistance to strengthen technology and workplace practices, improve the skills of incumbent workers, and recruit and train new workers. Nearly 100 employers with about 60,000 workers participate.

### *Career Ladder Programs*

- Kentucky Career Pathways—Operating at all 16 community and technical colleges in the state, this initiative generates partnerships with businesses and has developed “pathways” in health care, manufacturing, construction, and transportation. It mostly targets incumbent workers for training and upgrading in their companies. Participating institutions are encouraged to offer curricula in modularized formats, at alternative times (such as evening and weekends), and at alternative sites, such as at the workplace. Colleges are also encouraged to integrate intensive student support systems including improved advising, mentoring, and career counseling strategies. Currently over 1,100 workers participate.
- Arkansas Career Pathways—Instituted at 11 community colleges (out of 22) around the state, the program has created career pathways in a variety of sectors and has served about 2,000 workers in a short time period. The program features training programs that are clearly and closely linked to real local job opportunities upon graduation; “bridge” classes providing basic skills and workplace competencies that bring students to skill levels required for college entry; “fast track” two-semester developmental education programs that provide contextualized instruction to reach skill level required for advanced college courses; and intensive support services offered by a case manager that provide academic advising and access to other supports, including child care and transportation.
- Massachusetts Extended Care Career Ladder Initiative (ECCLI)—ECCLI aims to improve the quality of nursing home care through instituting career ladders and promoting skill development and other supportive practices among nursing home staff. The program provides grants to nursing homes and home health agencies who may partner with other long-term care facilities, community colleges, WIBs, and others to create new career ladders for direct care staff and to address staff training, work environment, and quality of care issues. Partnerships involve 15 community colleges around the state and over 150 nursing homes (about 20 percent of the total). Over 7,500 workers have participated to date. Most are CNAs seeking to upgrade skills and perhaps become LPNs.

### *Incumbent Worker Programs*

- New Jersey Workforce Development Program—Operated by the New Jersey Department of Labor and all 19 community colleges in the state, the program funds incumbent worker training through grants to employers. It also includes the Supplemental Workforce Fund for Basic Skills, to finance basic education related to work. In Fiscal Year 2006 the supplemental program alone funded over 14,000 individuals. The program pays for the cost of the training, and employers pay workers wages while they attend classes (usually at the worksite). The programs are financed by Unemployment Insurance (UI) taxes on both employers and workers.
- Pennsylvania Incumbent Worker Training Fund—This is a large-scale statewide initiative to enhance the skills and earnings of incumbent workers in key targeted industries. The program provides grants to regional partnerships among employers, workforce development systems, and educational institutions and has trained over 4,000 individuals. Begun in 2005, the program is complemented by the Workforce and Economic Development Network of Pennsylvania, which provides grants to 28 community colleges to deliver basic skills to workers at their employer.

**Source:** H. Holzer and K. Martinson, “Helping Poor Working Parents Get Ahead: Federal Funds for New State Strategies and Systems.” Washington DC: The Urban Institute (2008).

above (but not for teens). And programs like YouthBuild and the Youth Service and Conservation Corps need more evaluation evidence before we can gauge their impacts.

## Conclusions

In a labor market that places a greater premium on skill development than ever before, we now spend dramatically fewer resources on the training of disadvantaged workers than we did in the 1970s. In general, the evidence for adults indicates that modest training and work experience programs can generate modest impacts that are cost-effective even though they do not dramatically improve the lives of the poor. Some programs for youth who are still in school, like Career Academies, appear to be cost-effective. Those for out-of-school youth have not been as successful, though we are starting to see more positive evidence emerge on newer efforts (like the National Guard Challenge program). For ex-offenders, some preliminary evidence on “transitional jobs” for ex-offenders suggests a reduction in recidivism, though less impact on subsequent earnings.

Overall, the conventional wisdom that “nothing works” in the training of disadvantaged youth and adults, or that investments in other kinds of education (like early childhood programs) or in work supports (like the EITC) are more cost-effective than workforce development, is not clearly supported by the evidence. I thus reject the view that the dramatic declines in federal investments in workforce development for the poor can be justified by a lack of cost-effectiveness or by other labor market developments.

On the other hand, I am skeptical that workforce development will ever be sufficient on its own to dramatically improve the life chances of disadvantaged adults and out-of-school youth. Many among the current stock of poor workers will likely never have access to additional training and might not benefit from it if they did. Perhaps workforce development is best seen as an important component of a broader strategy that also includes stronger income supplementation for the poor (like extensions of the EITC to childless adults and noncustodial fathers who do not now qualify for much); additional work supports (like child care and transportation) and benefits (like health insurance and parental leave); as well as a range of educational approaches that begin (but do not end) with high-quality early childhood and pre-K programs. And, since so much remains unknown about exactly what is cost-effective in workforce development efforts for youth and adults, we need to generate a great deal more knowledge to guide policymakers in their choices.

Thus, I argue for the following workforce development policy priorities:

1. *Greater funding should be available for Pell grants, since they now finance much of the community college training at the core of our workforce development system, and since funding has not kept up with growing needs. Indeed, the recent funding increases that were part of the American Recovery and Reinvestment Act*

for the next two years should be maintained over time. These should be supplemented by additional reforms to make Pell grants more effective and more accessible to low-income adults and youth.<sup>29</sup>

2. *Funding for the federal workforce system for adults should be expanded as well, to restore at least some of what has been cut so dramatically in recent years. WIA now pays for a range of employment services and training not funded by Pell grants and an array of other workforce development programs: core and intensive services; funding of training for displaced workers; adult basic education (especially English instruction for immigrants); and administration of One-Stop offices. These are worth preserving and expanding. However, the reauthorization (or replacement) of WIA in 2009 or beyond should also incorporate a greater emphasis on building state-level workforce development systems that target good jobs in growing sectors for the disadvantaged, with the kinds of demand-oriented training programs plus support services described above. Additional funding for programs that reduce recidivism among ex-offenders, and for other hard-to-employ workers, is warranted as well.*
3. *Funding for effective programs for at-risk youth—such as high-quality career and technical education, efforts to expand their access to higher education, and various categories of youth development and mentoring—should also be increased. States should receive greater federal support as they experiment with new dropout prevention and recovery efforts and develop youth systems at the local level.*
4. *In all of the above categories, an aggressive program of rigorous evaluation should accompany all expansions of funding. The areas most in need of demonstration projects are where our knowledge remains most limited—such as what works to improve earnings for out-of-school youth and ex-offenders.*

This list of priorities suggests that program expansion and rigorous evaluation should proceed simultaneously, and in ways that allow evaluation to continuously inform program expansion over time. At least some of the funding increases should be implemented by competitive rather than formula grants to states or cities, and renewal of these grants should be conditional on strong observed performance and use of proven programs. Elsewhere I have outlined how the federal government could fund competitive grants for states to develop innovative programs.<sup>30</sup> The federal government would provide states with substantial oversight and technical assistance, and would also provide bonuses for performance.<sup>31</sup> Rigorous evaluation would be required, and renewal of grants to states in subsequent years would be conditional on the incorporation of lessons learned through evaluation. Such a system could be designed as a complement to the current WIA system, or as a major part of a new reform effort.

Whatever path is taken, we need to expand funding for a range of workforce development efforts for disadvantaged



youth and adults. At the same time, some consolidation of the dozens of programs in the federal budget that now fund employment and training, and some reforms aimed at improving system performance, is also warranted. ■

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<sup>1</sup>This article draws upon “Workforce Development as an Antipoverty Strategy: What Do We Know? What Should We Do?” in *Changing Poverty, Changing Policies*, eds. M. Cancian and S. Danziger (New York: Russell Sage Foundation, 2009).

<sup>2</sup>D. Autor, L. Katz, and M. Kearney, “The Polarization of the U.S. Labor Market.” National Bureau of Economic Research (NBER) Working Paper, 2006.

<sup>3</sup>See C. O’Leary, R. Straits, and S. Wandner, “U.S. Job Training: Types, Participants, and History,” in *Job Training Policy in the United States*, eds. C. O’Leary et al. (Kalamazoo MI: W.E. Upjohn Institute for Employment Research, 2004) for a listing that includes remedial training in the classroom (including both basic academic and “soft skills,” such as language and communication); “customized” training for particular employers and sectors; and “postemployment training” in classrooms or directly on the job. Work experience programs that try to generate basic job-readiness for the “hard to employ” can also fit into this definition.

<sup>4</sup>Details of these calculations are available from the author.

<sup>5</sup>H. Bloom, L. Orr, S. Bell, G. Cave, F. Doolittle, W. Lin, and J. Bos, “The Benefits and Costs of JTPA Title II-A Programs,” *Journal of Human Resources*, 32, No. 3 (1997): 549–576.

<sup>6</sup>Elsewhere I have argued for extending the EITC to childless adults, especially adult men who are noncustodial parents of children and who pay child support. See A. Carasson, H. Holzer, E. Mag, and E. Steuerle, *The Next Age for Social Policy: Encouraging Work and Family Formation among Low-Income Men* Washington, DC: The Urban Institute, 2008.

<sup>7</sup>R. G. Fryer and S. D. Levitt, “Understanding the Black-White Test Score Gap in the First Two Years of School,” *Review of Economics and Statistics* 86, No. 2 (2004): 447–464.

<sup>8</sup>W. Johnson, and D. Neal, “Basic Skills and the Black-White Earnings Gap,” in *The Black-White Test Score Gap*, eds. C. Jencks and M. Phillips (Washington DC: The Brookings Institution, 1998).

<sup>9</sup>R. Blank, S. Danziger, and R. Schoeni, *Working and Poor* (NY: Russell Sage Foundation, 2007).

<sup>10</sup>For example, J. Heckman, “Schools, Skills, and Synapses,” NBER Working Paper, 2008.

<sup>11</sup>L. Karoly, “Caring for our Children and Youth: An Analysis of Alternative Investment Strategies,” Los Angeles CA: The Rand Corporation (2003). Karoly’s findings were at least partly based on strong estimated impacts of the Job Corps and Quantum Opportunities, which faded out or failed to be fully replicated in subsequent evaluations. Her summary still includes many interventions for youth and adults that appear fairly cost-effective.

<sup>12</sup>For achievement impacts see: V. Wong, T. Cook, S. Barnett and K. Jung, “An Effectiveness-Based Evaluation of Five State Pre-Kindergarten Programs,” *Journal of Policy Analysis and Management*, 27, No. 1 (2008): 122–154. For cognitive impacts, see: C. J. Hill, “The Longer-Term Effects of a Universal Pre-Kindergarten Program,” working paper, Georgetown University, 2007.

<sup>13</sup>Heckman himself notes the quite positive impacts of JTPA, at least under some assumptions, and of the National Supported Work demonstration for disadvantaged adult women in J. Heckman, R. Lalonde and J. Smith, “The Economics and Econometrics of Active Labor Market Programs,” in *Handbook of Labor Economics*, Vol. 3A, eds. O. Ashenfelter and D. Card (Amsterdam: North Holland, 1999). In keeping with his view that positive noncognitive impacts on adolescents and teens are achievable, he praises youth development and mentoring programs for in-school youth in some of his writings as well.

<sup>14</sup>J. Heckman, and P. LaFontaine, “The American High School Graduation Rate: Trends and Levels,” unpublished manuscript, University of Chicago, 2007.

<sup>15</sup>R. Lerman, “Career-Focused Education and Training for Youth,” in *Reshaping the American Workforce in a Changing Economy* eds. H. Holzer and D. Nightingale (Washington, DC: Urban Institute Press, 2007).

<sup>16</sup>Freeman, R., “Is a Great Labor Shortage Coming? Replacement Demand in a Global Economy,” in *Reshaping the American Workforce*.

<sup>17</sup>D. Autor, L. Katz, and M. Kearney, “The Polarization of the U.S. Labor Market.”

<sup>18</sup>“Middle-skill” jobs might be defined as those requiring something more than a high school diploma, in terms of education or training or work experience, but less than a bachelor’s degree. See G. Borjas, “Immigration Policy and Human Capital,” in *Reshaping the American Workforce* for detail on the skills distribution.

<sup>19</sup>H. J. Holzer and R. Lerman, “America’s Forgotten Middle-Skill Jobs: Education and Training Requirements for the Next Decade and Beyond,” Washington, DC: The Workforce Alliance, 2007.

<sup>20</sup>Indeed, the willingness of big-city mayors to fight for employment and training funds has dropped considerably since the late 1970s, when CETA expenditures on public service jobs and other kinds of training were so much more substantial.

<sup>21</sup>Andersson et al. stress the importance of improving the access of the poor to well-paying jobs in high-wage firms and sectors to improve their advancement prospects in the labor market; F. Andersson, H. J. Holzer, and J. Lane, *Moving Up or Moving On: Who Advances in the Low-Wage Labor Market?* (New York: Russell Sage Foundation, 2005).

<sup>22</sup>D. Jenkins, “Career Pathways: Aligning Public Resources to Support Individual and Regional Economic Advancement in the Knowledge Economy,” New York: Workforce Strategies Center, 2006.

<sup>23</sup>M. Conway, L. Dworak-Munoz, and A. Blair, “Sectoral Workforce Development: Research Review and Future Directions,” Washington, DC: Workforce Strategies Institute, The Aspen Institute, 2004.

<sup>24</sup>J. Travis, *But They All Come Back: Facing the Challenge of Prisoner Re-entry*, Washington DC: The Urban Institute, 2005.

<sup>25</sup>D. Bloom, C. Redcross, J. Zweig, and G. Azurdia, “Transitional Jobs for Ex-Prisoners.” New York: MDRC, 2007.

<sup>26</sup>These programs tend to focus on the labor market, but provide little treatment for substance abuse or mental health issues (like Post Traumatic Stress Disorder), and therefore are already targeted towards the relatively more job-ready portion of the offender population.

<sup>27</sup>J. Quint, *Meeting Five Critical Challenges of High School Reform*, New York: MDRC, 2006.

<sup>28</sup>N. Martin and S. Halperin, “Whatever It Takes: How Twelve Communities Are Reconnecting Out-of-School Youth,” Washington, DC: American Youth Policy Forum, 2006.

<sup>29</sup>S. Dynarski, Susan and J. Scott-Clayton, “College Grants on a Postcard: A Proposal for Simple and Predictable Federal Student Aid,” Washington, DC: The Brookings Institution, The Hamilton Project, 2007.

<sup>30</sup>H. J. Holzer, “Better Workers for Better Jobs: Improving Worker Advancement in the Low-Wage Labor Market,” Washington DC: The Brookings Institution, The Hamilton Project, 2007.

<sup>31</sup>Since performance measures for program participants can be manipulated through who is allowed to enter or exit the program, these should be supplemented or even replaced by state-wide measures where improvement is expected in employment outcomes. This would also encourage states to build greater scale into their efforts.



# Health care for the poor: For whom, what care, and whose responsibility?

Katherine Swartz

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## Introduction

Public programs to help poor Americans obtain medical care have evolved as the country has grown richer and medical advances have increased life expectancy and improved quality of life.<sup>1</sup> The evolution has not been a direct path of increased generosity towards poor people. Instead, it reflects a mix of philosophical beliefs, greater understanding of the links between health and ability to work, and swings in the economy.

Since the late 1940s, when the share of Americans with employer-sponsored, private health insurance started to grow rapidly, the primary approach to helping poor people obtain medical care has been to make public health insurance available to a growing share of the poor. Underlying this approach is the assumption that if poor people have health insurance, physicians and other providers of medical care will provide the same services to poor people as they do to middle-class people. But as experience with public insurance has grown, it has become clear that poor people face barriers to obtaining health care beyond simply their inability to afford it. A shortage of physicians and nurses exists in many poor areas of the country, and not all physicians and other medical care providers are willing to treat people with public insurance coverage. Many poor people are unaware of symptoms of medical need or do not know how to explain their symptoms to medical personnel. Others face language or cultural difficulties when seeking care. As understanding of these barriers has increased, efforts to help low-income people obtain health care have expanded to include more funding for community health centers, public health clinics, language translators, and educational programs about health issues specifically targeted at groups of poor people. These public policy efforts, however, have been secondary to expanding health insurance coverage for low-income people.

The dramatic increase over the past 50 years in medicine's ability to increase life expectancy and improve quality of life (especially for people with chronic conditions) has made disparities in access to health care more troubling. There is no doubt that poverty is a contributing factor to poor health outcomes. Poor people have lower life expectancies, higher prevalence of chronic illnesses and health conditions, and more unmet health needs than people with middle-class and high incomes. But the causal path between poverty and poor health outcomes is complex. Other factors that are correlated

with low income, such as low education, the inability to speak English, and residence in areas with high levels of pollution, also contribute to poor health.<sup>2</sup> Equally important, the link between poverty and poor health does not go in just one direction. Poor health is a contributing factor to low incomes and poverty. People with chronic medical conditions frequently are poor because they cannot work, and people who suffer a sudden decline in health often become poor after losing their job. Moreover, people with chronic illness often have difficulty accessing medical care because they are not good advocates for themselves and too few medical providers are nearby, and they then remain poor because they cannot work.

The fact that people in poor health often have low incomes as a result of their health problems is an increasingly important driver of efforts to expand eligibility for public insurance. This is especially the case in efforts to increase coverage of children. As we have come to appreciate how poor health can affect learning, which in turn is related to a person's productivity and earnings, awareness has grown that investing in ways to improve access to health care pays off in areas beyond health outcomes. Thus, the recent history of public policies to help poor people obtain health care is an evolving mix of efforts to address the reasons poor people have poor health. Some policies increase public insurance, and other initiatives are targeted at addressing language and cultural problems particular to the poor or increasing the supply of medical providers knowledgeable about difficulties facing poor people.

This article focuses on the recent history of public policies intended to help the poor obtain health care, including the concerns now surrounding public insurance.

## Health care assistance for the poor, past and present

A brief history of major efforts to provide health care to the poor since 1900 is shown in the box on this page.<sup>3</sup> Two themes are apparent when examining the last century of health care assistance for the poor. First, there has been a preference for state rather than federal control of how health care assistance is administered. Second, health care assistance for the poor has been administered more as a welfare program than as part of a national system of financing health insurance and medical care. Both themes have contributed to large disparities across states in who among the poor has access to what types of medical care.

## Recent state innovations in insurance programs for the poor and near-poor

Medicaid enrollment increased between 2000 and 2007, partly because of increases in the number of people who either lost or were not offered employer-sponsored insurance.

### History of Major Efforts to Provide Health Care to the Poor Since 1900

1900–1935:	Medical care assistance provided ad hoc by civic and religious groups, primarily to “deserving poor”
1935–1945:	Social Security Act passed, rise of public hospitals and clinics for poor, beginning of two-tiered system of medical care
1945–1965:	Private insurance coverage expands, setting the stage for Medicaid
1965:	Medicare and Medicaid Implemented
1984–1990:	Expansion of Medicaid
1990s:	Efforts to slow Medicaid spending growth, waivers, and welfare reform
1997:	Creation of the State Children’s Health Insurance Program (SCHIP)
Early 2000s:	Efforts to control Medicaid spending growth and state experiments to expand options for poor people

In 2007, 55 percent of the nonelderly uninsured had incomes below 200 percent of the poverty level; and almost a third of all nonelderly people with incomes below 200 percent of the poverty level were uninsured (Table 1). Most of these uninsured people were not eligible for Medicaid because they either did not meet categorical eligibility requirements or they had incomes exceeding their state’s eligibility ceiling.

In response to the growing number of uninsured working people, several states created programs in the early 2000s to expand eligibility for public insurance or encourage low-income people who were not eligible for Medicaid to buy private health insurance with state subsidies. The states did this not only to expand coverage but also to reduce pressures on hospitals and physicians who were providing more uncompensated care to the uninsured. Three programs of note, described briefly below, are described in detail in the book chapter. Healthy New York, started in 2001, is available for people who are not eligible for Medicaid but whose income is below 250 percent of the poverty level. Commonwealth Care, implemented in late 2006 by Massachusetts, provides a choice of four managed care plans (with some further choice of benefits depending on a person’s income) to people who do not qualify for Medicaid but have incomes below 300 percent of the poverty level. BadgerCare Plus began enrolling children under 19 years of age in Wisconsin in early 2008. The program is open to all children regardless of income who do not have access to health insurance, as well as self-employed parents, pregnant women with annual incomes up to 300 percent of the poverty level, and farmers.

**Table 1**  
**Distribution of Nonelderly Uninsured by Income**  
**Relative to Poverty, 2007**

Family Income Relative to Poverty	Number Uninsured (millions)	Percent of Uninsured	Percent of Cohort Uninsured
Below poverty level	11.404	25.4%	33.4%
1–1.49 x poverty	7.371	16.4	32.4
1.5–1.99 x poverty	5.777	12.9	27.1
2–2.99 x poverty	8.784	19.5	20.1
3–3.99 x poverty	4.594	10.2	12.5
4 x poverty and higher	7.026	15.6	6.8
TOTAL	44.956	100	17.1

Source: Author’s tabulations of March 2008 Current Population Survey.

### Community Health Centers: An alternative to insurance coverage for the poor?

Since the “War on Poverty” was initiated in 1965, the federal government has funded Community Health Centers (CHCs) to provide medical care to the poor and uninsured. Over the last four decades, levels of enthusiasm for and disillusionment with these public providers of medical care have waxed and waned. Proponents of CHCs argue that they take better care of the health problems of low-income people because they know more about their clients’ lives—their living conditions, willingness to discuss symptoms and tendency to follow directions about prescriptions or nutrition—than medical personnel in physicians’ offices or health plans. They argue that expanding public health insurance programs is less efficient than expanding CHCs.

About a quarter of the people served by CHCs are uninsured while the rest are covered by public insurance, and almost two-thirds are members of minority or immigrant groups.<sup>4</sup> Despite a recent increase in funding for CHCs, there is a consensus of opinion that uninsured patients at CHCs who need specialty services, including diagnostic tests and medically necessary referrals for medical specialists and mental health and substance abuse services, face greater difficulties than do Medicaid enrollees.<sup>5</sup> Most analysts believe that CHCs need additional resources to provide better quality care, though it is not yet known whether it is more cost-effective to expand CHCs than to expand public insurance programs that pay for care by all types of providers.

### Current concerns with public health insurance programs

Beyond concerns about the rising costs of Medicaid, SCHIP, and other public health programs, there are four major concerns about how these programs collectively meet the needs of low-income people.

#### Quality of care for elderly and disabled beneficiaries

Medicaid is the largest source of financing for long-term care; elderly and disabled beneficiaries make up only 25 percent of Medicaid enrollees, but account for about 70 percent of spending.<sup>6</sup> Recent efforts to limit Medicaid spending on elderly and disabled beneficiaries have focused on restrict-

## Health Insurance in the United States

A brief explanation of the broad types of health insurance now held by Americans is useful for understanding why the primary approach to helping poor people obtain medical care has been to expand eligibility for public health insurance.

About 61 percent of people younger than 65 years old have employer-sponsored, private health insurance. Another 5 percent of the nonelderly have insurance policies that they buy themselves in the individual (or non-group) insurance market from private insurance companies. In addition, about 3 percent have military or Veterans Administration coverage and 2 percent to 3 percent have Medicare (either because they have end-stage renal disease or are otherwise disabled and cannot work). Of the remaining nonelderly, about 13 percent are covered by Medicaid and almost 18 percent have no insurance coverage at all. (Some people report having more than one type of insurance during a year so the numbers sum to more than 100 percent.) Medicaid covers about a third of all people in poverty; most recipients are children and pregnant women, but about a fourth of Medicaid recipients are disabled or elderly. Almost everyone 65 years of age or older is covered by Medicare.

Health insurance is available in many different forms. The most common are known as indemnity policies and managed care plans. Indemnity policies usually have a deductible (an amount of medical care expenses that a person has to pay all of before the insurance starts to pay anything) and a coinsurance rate (a percentage of the medical expenses that a person continues to pay after the deductible is met). Catastrophic health plans are indemnity policies with quite large deductibles—generally \$2,000 for an individual and \$5,000 for a family policy. The deductible and coinsurance are intended to make people aware of the costs of medical care and restrain unnecessary demands for care. In contrast, most managed care plans do not have deductibles although they may require a copayment for medical care. Copayments are relatively modest amounts (\$10 to \$25 for a physician visit in 2008) and are independent of the full costs of the encounter (for example, diagnostic tests ordered and length of visit). Some managed care plans try to restrain health care spending by tight restrictions on which physicians and hospitals their members can use; others have less restrictive networks of providers but create long waiting periods for certain types of specialists by not having many of them in their networks. Some managed care plans have strict guidelines on when further diagnostic testing or surgery is appropriate. Most of these managed care mechanisms for slowing health care spending have also been adopted by indemnity policy providers.

Health insurance provides the highly useful service of pooling millions of people's individual risks of needing expensive medical care. Since only a very small number of people will need expensive care during a year, insurance allows each enrolled individual to pay a relatively modest amount to avoid incurring large costs in the event of a medical emergency. But health insurance also creates what is known as moral hazard: because insurance pays most of the cost of care (above a deductible for those with indemnity policies), people are less hesitant to see a physician and request diagnostic and other services when something bothers them. Thus, health insurance is a double-edged sword; it protects us from catastrophic medical expenses but it may also increase demand for medical care above medically justifiable levels.

Competition in the market for health insurance has caused insurers to negotiate the fees they pay physicians, hospitals, and other health care providers in local markets. Medicare and Medicaid also negotiate the fees they pay providers, but they pay rates that are below the private insurance fees. People without any health insurance are charged much higher fees than insured people. Thus, for low-income people without employer-sponsored insurance, Medicaid and other publicly funded insurance programs provide access to medical care that they could not otherwise afford.

ing the supply of nursing home beds and increasing access to community and home care providers of long-term care. Several studies have shown large disparities in Medicaid spending on long-term care services across the states, which together with low payments to providers raise concerns about the quality of care provided to elderly and disabled Medicaid recipients.<sup>7</sup> As the population ages, pressures on states to expand the supply of long-term care services will increase. Because elderly and disabled beneficiaries have far higher per capita costs than do children and non-disabled adults, the tensions between improving quality of care and restraining spending will grow.<sup>8</sup>

### The poor who are left out of Medicaid

A third of all nonelderly people in poverty were uninsured in 2006.<sup>9</sup> Some are eligible for Medicaid, but many are not

because they are not members of the categorical groups of eligible people: children, pregnant women, some parents of children, elderly, and children and adults with physical or mental impairments. As Table 2 shows, in 2007 between 41 percent and 52 percent of poor adults between 19 and 54 years of age were uninsured, as were 31 percent of poor adults aged 55 to 64.

The proportion of people with private health insurance increases steadily with income. For a variety of reasons, fewer than half of those with incomes below 200 percent of the poverty level have private coverage. One reason a majority of low-wage workers do not have employer-sponsored insurance is that many work for small firms; only about a third of firms with fewer than 50 workers offer such insurance.<sup>10</sup> In addition, many low-wage workers may not be able to afford the employee share of the premium. While only about 3

**Table 2**  
**The Uninsured by Age Cohort and Income Relative to the Poverty Level, 2007**

Age Cohort	Family Income Relative to Federal Poverty Level						Total
	< Poverty Level	1.0–1.49	1.5–1.99	2.0–2.99	3.0–3.99	>=4.0	
Younger than 19	18.4%	18.6%	15.9%	11.8%	7.2%	4.0%	100%
19–24	45.1	45.2	38.3	31.2	25.1	15.4	100
25–34	52.2	46.5	40.1	28.1	16.8	10.7	100
35–44	46.8	42.3	31.5	21.3	12.6	6.7	100
45–54	40.7	36.8	31.2	23.2	12.6	5.6	100
55–64	31.5	30.1	21.6	16.2	9.9	5.1	100

**Source:** Author’s tabulations of March 2008 Current Population Survey.

percent of all workers who are offered employer-sponsored insurance turn it down and remain uninsured, increasing numbers of anecdotal stories indicate that low-wage workers decline insurance due to the rising cost.<sup>11</sup>

People who reside legally in the United States but are not yet citizens accounted for 22 percent of the uninsured in 2006.<sup>12</sup> Not quite half of the nonelderly foreign-born residents who were not yet citizens were uninsured, in contrast with 15 percent of native citizens and 20 percent of naturalized citizens. A majority of foreign-born noncitizens are younger adults with low levels of formal education and low wages who do not have employer-sponsored health insurance at their jobs. Under the 1996 welfare reform, legal immigrants who are not citizens are not eligible for Medicaid (or SCHIP) until they have lived in the United States longer than 5 years. The 2009 SCHIP reauthorization legislation removed this barrier for children who meet the income and categorical requirements.

Poor people who are disabled by mental health problems are categorically eligible for Medicaid. But low-income people who can work at least part time do not qualify for disability status and therefore cannot obtain Medicaid coverage for their mental health problems. Similarly, low-income people who have substance abuse problems are not likely to qualify for Medicaid and, if they do, are likely to receive only limited services to address their substance abuse problems.

### **Potential crowding out of employer-sponsored insurance by Medicaid and SCHIP**

Since the establishment of Medicaid, policy analysts and politicians have raised concerns about the possibility that low-income people might substitute public coverage for private insurance. This concern was raised again after the Medicaid eligibility criteria were expanded in the late 1980s, and the term for such substitution became known as “crowding out” in the mid-1990s. Crowd-out could occur, it was reasoned, because low-wage workers would find it cheaper to enroll their children in Medicaid than to pay the additional premium for dependent coverage. Another proposed cause for crowd-out was that firms that employed mostly low-wage workers would no longer feel that they needed to offer insurance since Medicaid was available for more children and pregnant women. While the first three decades’ experience with Medicaid did not confirm these fears, the law establishing SCHIP required states to take measures to prevent SCHIP from substituting for employer-sponsored insurance.

### **Increasing the enrollment and re-enrollment of eligible people**

Not everyone who is eligible for public programs aimed at providing access to medical care for low-income people enrolls in them. Thomas Selden and colleagues estimated that not quite three-fourths of children eligible for either Medicaid or SCHIP were enrolled in 2002.<sup>13</sup> Efforts to raise take-up rates and retain people in the programs once they enroll have grown in recent years as evidence has mounted that people who do not have continuity of care often have avoidable health problems.

Short-term loss of eligibility is also a concern. For children whose family incomes are close to the income eligibility ceilings of public programs, income dynamics can cause “churning” in and out of enrollment in SCHIP or Medicaid.<sup>14</sup>

### **Issues that affect the future of public health insurance**

#### **Inequities in eligibility across states and by type of person**

The current set of state-administered public insurance programs for low-income people—Medicaid, SCHIP, and state-only financed programs—create two kinds of inequities. One occurs across states: uninsured people with the same income and family circumstances who live in different states often do not have the same publicly financed coverage. The second inequity occurs across persons within states: Medicaid and SCHIP eligibility criteria do not allow people who have access to employer-sponsored insurance to enroll. This prevents low-income people who cannot afford the employee share of the premium from enrolling in the public programs even though their incomes are the same as other people who are eligible.

#### **Disparities in states’ ability to fund public programs and spending per enrollee**

The inequities in income eligibility limits are largely due to differences in states’ ability to fund public insurance programs. These differences occur despite the fact that federal matching rates under Medicaid and SCHIP are highest for the states with low per capita incomes. For example, in 2008, California, New York, and Massachusetts, with high per capita incomes, received one federal dollar for each state dollar spent on Medicaid, whereas Arkansas, Louisiana, and Mis-



Mississippi, with low per capita incomes, received between \$2.64 and \$3.22 for each state dollar. The SCHIP matching formula is more generous than the Medicaid formula—the higher per capita income states received \$1.86 and the lower per capita income states received up to \$5.00 per state dollar in 2008.

A primary reason for the disparity in the generosity of public programs across states is that a state has to spend its own funds to obtain the federal matching dollars and the poorer states are not able to or choose not to spend as much of their own funds on Medicaid and SCHIP as the higher income states. Medicaid spending per enrollee in 2004 varied from about \$10,200 in New Jersey and New York to \$4,100 in Alabama and \$3,700 in California.<sup>15</sup> The disparities in states' ability to pay for Medicaid and SCHIP and the differences across states in spending per enrollee raise questions about the wisdom of the state-federal structure of these programs. A design structure that provides benefits to some poor people and not to others simply because of where they live is not equitable.

### **How to slow the growth in spending on Medicaid**

The growth in spending on Medicaid over the past 40 years has been driven to varying degrees by increases in enrollment and increases in health care costs. Enrollment has grown in response to downturns in the economy, expansions of eligibility criteria, stepped-up efforts to enroll eligible people, and a general increase in the U.S. population. The increases in the costs of health care provided to Medicaid beneficiaries are related to which services are covered, the costs of different types of services, changes in norms regarding the intensity of care provided, and the reimbursement rates paid to providers.

For policymakers, the fact that expenditures for the elderly and disabled have accounted for a majority of the spending growth in recent years makes it difficult to rein in spending on Medicaid. This is particularly true in the current environment of rising concerns about the quality of care provided in nursing facilities compounded by the expected rapid growth in need for long-term care as baby-boomers retire. Reversing the past two decades' expansions of eligibility criteria for children and non-disabled adults will not radically slow the growth in overall Medicaid spending. Given concerns about ensuring access to care, policymakers cannot cut Medicaid payments to health care providers much below what they are now. Thus, Medicaid spending growth is unlikely to fundamentally change without changes in the underlying medical care system.

### **The role of Medicaid and SCHIP in the system of financing health care**

Medicaid has a particularly important role in providing access to health care for low-income people who are most likely to have high medical expenses: disabled and elderly people and pregnant women. Without Medicaid, private insurance markets would use even more mechanisms than they do now to avoid insuring potentially high-cost people, and there would be more uninsured.<sup>16</sup> Thus, because Medicaid insures people deemed high-risk for needing high-cost medical care, everyone who has private insurance experiences

lower premiums and easier access to insurance than would be the case if Medicaid did not exist.

However, Medicaid cannot control the growth in its own costs caused by the rising intensity of services provided when someone is sick. Medicaid now accounts for almost 15 percent of total health spending, but this share of total spending is too small to have great influence on the costs of medical care services. Moreover, because states set the payment rates for Medicaid health care providers and there is great variation in those rates, Medicaid lacks sufficient coherence to influence the norms for the intensity of services provided for diagnoses. Changes in these norms, particularly the increase in the use of new technologies and pharmaceuticals, are believed by most policy analysts to explain most of the growth in health care spending since 1960.<sup>17</sup>

Because Medicaid by itself cannot control the share of spending growth that is due to greater intensity of services and use of new technologies, and because many poor people remain uninsured, questions can be raised about how financing health care for the poor might change in the future. A national system of health care financing that included everyone could be based on a combination of individual payments (premiums) and payroll-based taxes. This financing structure could ensure a progressive payment system that would subsidize low-income people. A universal national system would also reduce the expenses for administrative procedures that are in place now to verify a person's eligibility for Medicaid or SCHIP and that have discouraged eligible people from enrolling in both programs.

The present problems of employer-sponsored health insurance may be a catalyst for restructuring our financing of health insurance. Employers are increasingly likely to limit their role in paying for health insurance, thereby increasing the number of uninsured. Many of these newly uninsured will be low-income people but others will be middle-class workers. Thus, options for restructuring health care financing that include the poor should take on greater urgency.

## **Conclusions and recommendations**

For at least the past century, Americans have charted an inconsistent course to providing health care assistance to poor people. When economic times have been good, the country has expanded the groups of low-income people who are eligible for assistance. When the costs of providing care have increased more rapidly than the economy or tax revenues, governments have either paid providers of health care less or made it more difficult for eligible people to enroll. Some of this inconsistency reflects our federalist system of government. Under Medicaid, the federal government provides at least half of Medicaid funding to states and sets general guidelines about which poor people are eligible, and the states have flexibility over optional services and people to cover as well as the payment rates to providers. The federal government pays more of the SCHIP costs but states have control over the income eligibility criteria.

Some of the inconsistency in how we provide assistance to the poor reflects tensions surrounding our views of different subgroups of the poor. Poor children and pregnant women have fared well compared to poor childless adults. Access to medical care for children is viewed as a good investment because healthier people are more productive members of society. The disabled poor and poor elderly are viewed as deserving of our help because they cannot earn more income. There is far less sympathy for non-disabled adults without children; many people believe they should be able to find a job with health insurance, despite the decline over the past decade in the fraction of employers offering insurance.

Thus, we return to the fundamental question of how medical assistance should be provided to the poor. Should poor people participate in the same health care financing system as other Americans, or should assistance with medical care be provided to the poor as a welfare program, and only to groups thought to be “deserving” of it? Answering this question involves examining our system of health insurance for everyone. Currently, most Americans rely on employer-sponsored coverage. However, because employers are not willing to continue to absorb the growth in health care spending, the number of uninsured workers is rising. Among the issues that must be considered are two that particularly affect the poor: how much higher-income people and companies should be taxed in order to provide subsidies to low-income people, and what package of health care services will be considered the minimum to which everyone is entitled regardless of income. How we answer these questions will determine how we share the responsibility for providing health care access to the poor in the coming decades.

The United States should move to a national system of health insurance so everyone—regardless of income—would have a minimum set of medical services that are covered, much like Medicare covers a minimum set of services. A national insurance system would achieve three other objectives. First, it would eliminate the current inequities in eligibility criteria for Medicaid and SCHIP, and states’ ability to fund assistance programs for the poor. Second, it would provide a mechanism for slowing the rate of growth in health care spending. Without such a slowdown, the country will have increasing disparities in the medical care available to high- and lower-income people. Finally, a national system of health insurance would efficiently and quickly redistribute income to poor people when they get sick.

The federal government also should provide funding to expand the number of primary care medical personnel. Funding should be devoted particularly to increasing the number of registered nurses, nurse practitioners, and physicians who are knowledgeable about issues that affect low-income people’s health and their ability to articulate symptoms and concerns. Community health centers are one mechanism for providing medical care in poor areas, but they are not a substitute for increasing the number of knowledgeable primary care providers.

Finally, greater attention must be paid to providing information about health issues to low-income people. Public health

campaigns for brushing teeth and smoking cessation worked to increase oral health and reduce smoking in poor areas. Targeting understandable information about links between obesity and diabetes and cardiac problems would similarly help lower-income people avoid some health issues that restrict their ability to earn more. Moreover, because large shares of the poor are foreign-born, greater sensitivity to cultural nuances concerning health care must be included in information developed for low-income people. ■

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<sup>1</sup>This article draws upon “Health Care for the Poor: For Whom, What Care, and Whose Responsibility?” in *Changing Poverty, Changing Policies*, eds. M. Cancian and S. Danziger (New York: Russell Sage Foundation, 2009).

<sup>2</sup>See, for example, *Access to Health Care: Promises and Prospects for Low-Income Americans*, eds. M. Lillie-Blanton, R. M. Martinez, B. Lyons, and D. Rowland (Washington, DC: Kaiser Commission on Medicaid and the Uninsured, 1999).

<sup>3</sup>See the book chapter for a much more detailed version of this history.

<sup>4</sup>L. S. Hicks, A. J. O’Malley, T. A. Lieu, T. Keegan, N. L. Cook, B. McNeil, and colleagues, “The Quality of Chronic Disease Care in U.S. Community Health Centers,” *Health Affairs* 25, No. 6 (2006): 1712–23.

<sup>5</sup>N. L. Cook, L. S. Hicks, A. J. O’Malley, T. Keegan, E. Guadagnoli, and B. E. Landon, “Access to Specialty Care and Medical Services in Community Health Centers,” *Health Affairs* 26, No. 5 (2007): 1459–68.

<sup>6</sup>D. Rowland, “Medicaid’s Role for People with Disabilities,” testimony before the U.S. House of Representatives Committee on Energy and Commerce Subcommittee on Health, January 16, 2008.

<sup>7</sup>See, for example, E. O’Brien, “Long-Term Care: Understanding Medicaid’s Role for the Elderly and Disabled,” Washington, DC: Kaiser Commission on Medicaid and the Uninsured, 2005.

<sup>8</sup>From J. Holahan, M. Cohen, and D. Rousseau, “Why Did Medicaid Spending Decline in 2006? A Detailed Look at Program Spending and Enrollment, 2000–2006,” Washington, DC: Kaiser Commission on Medicaid and the Uninsured, 2007; the per capita costs have been adjusted to exclude all prescription drug spending for dual eligibles (\$16,142 compared to \$2,987, respectively, in 2006).

<sup>9</sup>K. Swartz, “Uninsured in America: New Realities, New Risks,” In *Health at Risk: America’s Ailing Health System – and How to Heal It*, ed. J. S. Hacker (New York: Columbia University Press, 2008).

<sup>10</sup>K. Swartz, *Reinsuring Health: Why More Middle-Class People Are Uninsured and What Government Can Do* (New York: Russell Sage Foundation, 2006).

<sup>11</sup>J. Haas and K. Swartz, “The Relative Importance of Worker, Firm, and Market Characteristics for Racial/Ethnic Disparities in Employer-Sponsored Health Insurance,” *Inquiry* 44, No. 3 (2007): 280–302.

<sup>12</sup>Swartz, “Uninsured in America: New Realities, New Risks.” The issues surrounding foreign-born legal residents who are uninsured are highly nuanced, and some relate to the delays they face in becoming citizens.

<sup>13</sup>T. M. Selden, J. L. Hudson, and J. S. Banthin, “Tracking Changes in Eligibility and Coverage among Children, 1996–2002,” *Health Affairs* 23, No. 5 (2004): 39–50.

<sup>14</sup>B. D. Sommers, “Why Millions of Children Eligible for Medicaid and SCHIP Are Uninsured: Poor Retention Versus Poor Take-Up,” *Health Affairs* Web Exclusive (26 July 2007): W560–7.

<sup>15</sup>Holahan, Cohen, and Rousseau, “Why Did Medicaid Spending Decline in 2006?”

<sup>16</sup>K. Swartz, “Let’s Not Neglect Medicaid’s Vital Role in Insurance Markets,” *Inquiry* 33, No. 4 (1996/1997): 301–3.

<sup>17</sup>See for example, J. P. Newhouse, “Medical Care Costs: How Much Welfare Loss?” *Journal of Economic Perspectives* 6, No.3 (1992): 3–21.

# Poverty politics and policy

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In 1992, “ending welfare as we know it” was an important theme in Bill Clinton’s presidential campaign.<sup>1</sup> It polled well, and was consistent with other aspects of the New Democrat agenda including “making work pay” and “reinventing government.” Candidate Clinton talked a good deal about welfare in the context of an approach to poverty that emphasized work and responsibility.

In May 2008, when Hillary Clinton and Barack Obama were neck and neck for the Democratic nomination, neither of their campaign issues Web sites mentioned welfare. Both had issue papers on poverty, Clinton’s a sub-topic under the broad issue of “Strengthening the Middle Class,” Obama’s one of 20 issue areas. John McCain, the Republican nominee, included neither poverty nor welfare in his list of important issues, though he did have an economic plan that included proposals directed at the struggling middle class. He began his general election campaign with a “poverty tour,” but abandoned that strategy quickly. Barack Obama’s campaign and post-election rhetoric focused on the middle class and working families.

Much has happened in politics and policy around poverty and welfare after, and to some extent because of, Clinton’s 1992 campaign agenda. In this article, I address three questions:

- What changed in policy, practice, and the lives of the poor?
- What changed, if anything, in public opinion and the political context around poverty and welfare?
- What are the prospects and the best political strategies for improvement in the lives of the poor going forward from 2009?

## What changed in policy, practice, and the lives of the poor?

### The end of welfare

Welfare as we know it has indeed ended. The importance and magnitude of this change cannot be overemphasized. The number of recipients of AFDC/TANF fell by 68 percent between 1994 and 2006 and constant dollar spending on AFDC/TANF fell by 48 percent over the same period.<sup>2</sup> These are dramatic changes. A survey conducted by *The New York Times* in early 2009 suggested that even the recession of

2008 led to only miniscule increases in caseloads between 2007 and 2008.<sup>3</sup>

In claiming that “welfare as we know it” has ended, I have defined “welfare” as cash assistance received through AFDC or TANF. I believe that this is the correct way to characterize what candidate Clinton and the voters who supported him were determined to reform. But it is worth noting that the Food Stamp Program as we know it has not ended. Food stamp receipt declined quite dramatically after welfare reform, but has been rising since about 2000 and is now above its 1996 level.<sup>4</sup> It appears that potential recipients are making the distinction between welfare and food stamps, and are applying for and receiving food stamps even as they have been removed or deterred from cash assistance. The Food and Nutrition Service certainly makes the distinction.<sup>5</sup>

### The structure and operation of poverty policy

A second big change, running in parallel with the first, is that the structure of antipoverty policy shifted quite dramatically, away from AFDC/TANF toward supports for work. The most impressive change is the increase in the number of recipients of the Earned Income Tax Credit (EITC) from 19 million in 1994 to 22.8 million in 2005, and in spending on the EITC from \$29.5 billion to \$45 billion over the same period.<sup>6</sup> Child care assistance spending has also increased. In addition, 30 percent of the households receiving food stamps in 2006 reported earned income, up from 19 percent in 1990, moving food stamps more toward a work support program.<sup>7</sup> Spending for work supports now dwarfs spending for cash and food assistance for the nonelderly.

An important implication of this change is that the operation of poverty programs has shifted somewhat to differently conceptualized welfare offices, to different government agencies, and to nongovernmental organizations (NGOs). State and county welfare departments now play a smaller and a different role. Welfare offices in many states are also different places than they used to be. In some states, welfare bureaucracies have been reinvented or at least renamed as temporary assistance, work-oriented operations.<sup>8</sup> In some places they have been merged with workforce development agencies, which deal with employment and training programs more generally. This seems to have been accompanied by a change in the culture of the agencies toward a much greater emphasis on working and moving toward independence.<sup>9</sup>

The increasingly large and diverse networks of providers of offering services have also changed the ways in which the poor interact with government programs. Child care assistance appears to be administered by the states through a variety of agencies including state social services agencies, education departments, and independent child care agencies.<sup>10</sup> Child care is provided by a wide variety of private and nonprofit organizations, some schools, and a few government providers.



Work-related services, including job search, placement, and job training, are increasingly delivered by broader networks of providers, both for-profit and nonprofit, including faith-based organizations. The role of faith-based service providers is much discussed. The 1996 welfare reform legislation included provisions for “charitable choice,” which were meant to increase the opportunity for religious organizations to apply for and receive state and federal grants for providing services such as job placement and training, mentoring, and child care. The Bush administration established a well-publicized office of faith-based and community initiatives in the White House, and similarly named offices within a number of federal agencies. Grant and contract funding to these organizations increased modestly. But the changes should not be exaggerated—in 2004, only 8 percent of Health and Human Services grant funds went to faith-based organizations.<sup>11</sup>

These are all important if not exactly earth-shattering changes in the organizational landscape through which the poor interact with public programs. They are part of a changed landscape of organizational culture and capacity that may have implications for what is possible in the future.

### **The lives of the poor**

In fall 1996, after President Clinton signed the welfare reform bill, three senior officials in the Department of Health and Human Services, including myself, resigned in protest.<sup>12</sup> We believed that the abolishment of the entitlement to assistance, the five-year hard time limit, and the block granting of funds would increase poverty among children to an unacceptable degree. Our belief was shared by Senator Daniel Patrick Moynihan, who predicted on the Senate floor that passage of the bill would lead to “children sleeping on grates.”<sup>13</sup> It was supported by a study done by the Urban Institute, which estimated that one million children would be thrown into poverty if welfare reform was enacted.<sup>14</sup>

Our predictions were wrong, at least for the period between 1996 and the December 2007 beginning of a severe recession. The overall poverty rate fell between 1994 and 2001 from 14.5 percent to 11.3 percent. The poverty rate for children in female-headed families, the group mostly likely to be affected by welfare reform, fell from 53 percent in 1994 to 38 percent in 2001.<sup>15</sup> This is not a heart-warming number, to be sure, but it is certainly not an increase in poverty. In 2007, after the economic downturn had begun, the poverty rate for children in female-headed families was 43 percent, still well below the 1994 number.

A minor academic industry has developed around trying to explain both the changes in poverty and the changes in caseloads during the 1990s and early 2000s. The general consensus is that a combination of a very good economy, expansion of work supports, and welfare reform all contributed. Whatever the explanation, though, it seems clear that poverty rates went down, not up, after welfare reform, though they still remain distressingly high.

It is also clear that the income sources of the poor have changed. The Congressional Budget Office published a 2007 analysis that shows, consistent with other analyses, that welfare essentially ended, work increased, and the EITC made up for some though by no means all of the decrease in AFDC/TANF.<sup>16</sup> The report also shows that average income for these families went up, consistent with the decline in poverty rates. Here too, the direction of the movement was reassuring, though the income level itself remains too low to provide much satisfaction.

The period between welfare reform and the 2008 recession was characterized by marginal improvements in the material well-being of the poor, almost entirely because of increased earnings, presumably helped by the very good economy of the 1990s. Government has played a lesser role, with the expansion of the EITC not quite making up for the decline of AFDC, even among married-couple families. Large groups among the poor, such as nonelderly individuals living alone, have been largely neglected by policy. These changes in the structure and operation of programs and in the lives of the poor all set the stage for meeting the challenges of poverty in the next decade.

## **What changed in public opinion and the political context?**

### **Public attitudes**

In the years prior to the welfare reform legislation of 1996, the politics around poverty were dominated by rancorous discussion of welfare. Simultaneously with the “end of welfare as we know it,” public concern with welfare fell as well. Welfare hardly shows up when poll respondents in the years around 2007 are asked to name the major issues facing the country or the issues that give them concern about parties or candidates. This is no doubt partly because other issues have become much more salient, but also presumably because of welfare reform and the restructuring of poverty policy.

Attitudes about government help for the needy seem to have become slightly more positive since 1994. An analysis by the Pew Research Center reports increases from 1994 to 2007 in the percentage of poll respondents who agreed: that “it is the responsibility of the government to take care of people who can’t take care of themselves”; that the government should “guarantee food and shelter for all”; and that the government should “help more needy people even if debt increases.”<sup>17</sup>

In contrast, negative stereotypes about the poor and about welfare persist. For example, Joe Soss and Sanford Schram report from their analysis of poll data that a near majority of Americans in the early 2000s agree that “poor people today do not have an incentive to work because they can get government benefits without doing anything in return.”<sup>18</sup> The same Pew analysis quoted above found that 71 percent of respondents in 2007 agreed that “Poor people have become



too dependent on government assistance programs.” The complexity, or confusion, of public attitudes is illustrated by the fact that 63 percent of those who say the poor are too dependent also agree that the government should take care of people who cannot take care of themselves.<sup>19</sup>

These data paint a mixed picture: the disappearance of welfare as a contentious issue; increased approval of government help for the needy; and continued stereotypes (now demonstrably inaccurate) about the dependence of the poor on government handouts.

Poll respondents may interpret the questions they are asked as being about two distinct groups of people. The first is the “poor” who are too dependent on government; these are people who are unwilling to work and who receive “welfare,” a group that is now extremely small. Even for those who don’t work, however, a majority of poll respondents seems to believe that the government has a responsibility to guarantee food and shelter. The second implicit group is “people who can’t care for themselves” or people laid low through no fault of their own by hard economic times: the elderly, the disabled and sick, the unemployed, who deserve government help and ought to get more.

If these distinctions are important and are indeed behind the poll responses, then the findings may be neither as contradictory nor as depressing as they first appear. And they may reflect a public and political climate in which it is possible to build support for recognizing and addressing the problems that are still with us, after the end of welfare as we knew it.

### Political rhetoric

Despite persistent negative public attitudes about the overdependence of the poor on the government, recent nasty talk about welfare by politicians and public officials has been relatively scarce. Constructive talk about poverty has also been scarce. In his State of the Union speeches, George W. Bush used the word “poverty” three times; each time the reference was to poverty in Africa and other developing countries. In his inaugural address, Barack Obama did not speak of poverty, though he did refer to “poor nations.” In their State of the State speeches, most governors barely mention poverty, though they do discuss health care and education at length. It seems fair to conclude that politicians in 2009 do not see a poverty agenda as important politically, either as a potential positive aspect of their campaigns or as something to be attacked—at least not under the label of “poverty.”

### State and local level activity

There has been, however, some interesting recent activity at the state and local levels directed explicitly at poverty alleviation. (It remains to be seen whether these efforts will survive the state budget crises generated by the recession.) A 2008 survey found that twelve states have set up poverty initiatives of one sort or another, and that three additional states have initiatives pending.<sup>20</sup> In eight states, poverty commissions have been set up, and two states have new legislative

caucuses. One state has held a state summit. Five states have established poverty-reduction targets, and four states have issued recommendations.

None of the states with poverty initiatives are large. The states with poverty reduction targets are Connecticut, Delaware, Minnesota, Oregon, and Vermont. The states that have issued recommendations are Alabama, Connecticut, Iowa, and Washington. The state that held a summit is Wisconsin.

In a 2007 survey intended to identify poverty initiatives at the city level, 29 cities (32 percent of those responding) indicated that they had a poverty initiative.<sup>21</sup> Among the most interesting are the initiatives in New York City and Providence, Rhode Island. In New York, the new Center for Economic Opportunity has the mission “to reduce the number of people living in poverty in New York City through the implementation of result-driven and innovative initiatives.”<sup>22</sup> One of their programs is an experimental conditional cash transfer modeled on Mexico’s Oportunidades program—the first such program to be tried in the United States.<sup>23</sup> The Center has also formulated a new poverty measure to be used in tracking poverty and assessing the effectiveness of the new initiatives in NYC.<sup>24</sup>

In Providence, a poverty, work, and opportunity task force issued a report with recommendations that are directed at the city, state, and federal governments and that aim to “help low-wage workers to improve skills and obtain quality jobs; connect youth to jobs and college; make work pay; reduce the high cost of being poor; and prevent poverty in future generations.”<sup>25</sup>

### The current context

The changes described above provide some grounds for modest optimism about the prospects for future progress in improving the lives of the poor. The positive changes include:

- The end of the rancorous welfare debates in the media and in political campaigns;
- A relatively supportive public opinion climate regarding the needy;
- A restructuring of cash assistance policies toward work support and as a result greater consistency with generally held values;
- A restructuring of program operations such that programs for the poor are more integrated into programs for the working class and for families more generally;
- Some activity at the state and local levels that is evidence-based and pragmatic, with the potential for demonstrating that government programs for the poor can be both effective and efficient; and
- Inclusion of expansions of many programs important to the poor in the stimulus and recovery packages of early 2009.

At the same time, other contextual factors potentially limit the prospects for new efforts to address the problems of the substantial number of poor Americans:

- The severe recession that began in December 2007 and which is as of the time of this writing predicted to last several years;
- The impact of the recession on state revenues and spending ability;
- The huge federal budget deficit, dramatically increased by the financial bailouts and stimulus spending, which will at some point limit the ability of any presidential administration, Republican or Democrat, to increase spending on social programs;
- The combination of high and growing economic inequality in America and the increased influence of affluent Americans in politics; and
- The potentially contentious effects of immigration policy on debates about poverty.

## **Possible strategies**

Given this background, I turn now to the more speculative topic of general strategies for addressing the continuing problems related to poverty.

### **Changing language**

Public opinion results suggest that the word “poor” in the U.S. context connotes unwillingness to work and dependence on government. This is an inaccurate description, especially post-welfare reform, of those who are defined as poor in the official measures and by most academics. It is worth asking whether attempting to change public perceptions about the American “poor” is a battle worth having, or whether using different language might be a more productive strategy.

The public appears to be quite sympathetic to “people who can’t take care of themselves,” presumably the elderly, the disabled, the involuntarily unemployed, and perhaps some groups of children. There is public and political support for programs that help struggling working families make ends meet, such as child care and the Earned Income Tax Credit. There is also a surprisingly high level of public support for “guaranteeing food and shelter for all.” Using the language of “people who can’t take care of themselves,” “struggling working families,” and “guaranteeing food and shelter” may make little difference in terms of actual policies, but a big difference in public perception and public support.

### **Recognizing the importance of state, local, and nongovernmental actors**

Because of the constraints of the federal deficit and the nature of American politics in an age of inequality, opportunities for large-scale antipoverty initiatives at the federal level are limited. As noted above, however, considerable antipoverty innovation is going on at the state and local level. Some of

these efforts are in large and challenging environments, and are taking a very practical, evidence-based, problem-solving approach. Because state and local efforts are necessarily directed at locality-specific manifestations of the poverty problem, they are more likely than federal programs to be concrete and innovative. Encouraging these developments is likely to be a promising strategy.

### **Changing specifications of the problem and measures of progress**

The more practical and promising of the current state and local initiatives build on some basic principles of good management. They recognize that for goals to be achieved, the goals have to be specified, time frames must be developed, and those with responsibility for achieving goals must be held accountable with realistic measures of progress. Plans and activities need to be continually updated as evidence is gathered about what is and is not working.

Under these principles, the specification of “poverty” becomes very important, as is recognizing that different definitions may be more appropriate for addressing different issues. Some states have set a goal of a percentage reduction in income poverty, either for children or for the overall population. In some places where hunger is a serious concern, increased food security may be a more appropriate goal than a reduction in income poverty. Different approaches to increasing food security, from expanding Food Stamp participation to educating families about food budgeting, can be developed, tried out, and assessed for their effectiveness. Another specific goal might be increasing the employment rate of young minority men, which has implications for poverty more generally.

Part of the reason that the public is skeptical of a new “War on Poverty” is that they have seen no evidence that such efforts actually work. Making sure that goals are specified appropriately and that both learning and accountability are built into program efforts can help change both the perception and the reality.

### **Recognizing that operational improvements are possible and important**

Policymakers often forget, or never knew, how important operational choices can be in whether programs are seen as useful in people’s lives and whether interactions with programs are experienced as positive or negative. It really does make a difference whether it is easy or hard, pleasant or unpleasant, time-consuming or efficient to apply for, say, Food Stamps, child care, or the EITC. There are many opportunities for improving services and improving the lives of the poor through streamlining application and service delivery processes.

### **A large strategic question: Globalization and poverty beyond our borders**

Globalization—increased trade, freer movements of capital, the growth of increasingly sophisticated and increasingly

competitive industries in China, India, and other developing countries—is thought by some to be exacerbating the plight of the American poor, or at least making it more difficult to address American poverty. There is controversy among experts about the effects of globalization, trade, and immigration on the American poor. Overall, the effects appear to be beneficial for Americans, but there is some evidence that some low-wage workers are hurt by global competition and certainly a perception by some Americans that immigrants and outsourcing are taking “good jobs” away from Americans.

These facts tempt some who worry about the American poor to advocate or at least flirt with protectionist and exclusivist policies. However, these types of policies are unlikely to work. The low cost of goods produced in China, India, and other developing countries has not escaped the attention of American consumers and retailers. The combination of a long porous border and a wage differential of a factor of five or six mean that the U.S. economy exercises an irresistible draw for Mexican workers. Mexican immigrants, both legal and illegal, now make up about 30 percent of the very low-skilled (education less than high school) workforce.

Protectionist and exclusivist impulses are unfortunate for another reason as well: Americans should be and to at least some extent are concerned about poverty in the world, not just in the United States. Interestingly, when the word “poverty” is currently used by public officials or reporters it is as likely, indeed more likely, to refer to Sub-Saharan Africa or other regions of the developing world as to the United States. There is increased interest in world poverty from the World Bank, the United Nations, the G-8, and the governments of many developed countries.

The main reason to avoid increased protectionism, and to continue to reduce our trade barriers, is that exporting to the United States and other industrialized countries has been crucial in fueling development in Asia and will also be crucial for development in Africa, if such is ever to occur. Trade with Mexico, as well as investment in that country, is crucial for addressing poverty in North America.

Suppose North America—Canada, the United States, and Mexico—were one country of 443 million people. Suppose poverty were defined using the current U.S. income poverty line, with regional cost-of-living adjustments. In this world, we would find that about 100 or 110 million people were counted as poor, with about two-thirds of them living below the Rio Grande. We would also find that poverty was much more concentrated geographically than it is in the current United States, with the largest concentrations occurring in the southern states of Mexico.

How would we think about economic and social policy in this world? We would think very hard about how to encourage economic development in areas of concentrated poverty, especially what are now the southern states of Mexico; we would build physical infrastructure and perhaps design in-

centives for firms to locate in those regions. We would think about education, health, and human capital development more generally in all the areas of concentrated poverty. We might focus on how to build decent, but affordable, housing in all of the places where the poor live. We would worry about how best to deliver nutrition assistance to those who need it and how best to structure social insurance and safety net programs to support economic development. We might be less obsessed with whether government programs were creating dependency.

## Conclusions: Changing poverty

The end of welfare has been accompanied by a shift in the income sources of the poor and in the programs and policies through which government assists the poor. At the same time, poverty and poverty policy need changing to address the fact that the incidence of poverty in the United States and more generally in North America and the world remains distressingly high. Poverty policy in the next decade should build on, rather than attempt to reverse, the end of welfare. And perhaps, in this country, it should not be “poverty policy” at all. ■

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<sup>1</sup>This article draws upon “Poverty Politics and Policy,” in *Changing Poverty, Changing Policies*, eds. M. Cancian and S. Danziger (New York: Russell Sage Foundation, 2009).

<sup>2</sup>J. K. Scholz, R. Moffitt, and B. Cowan, “Trends in income support,” in *Changing Poverty*.

<sup>3</sup>Jason DeParle, “Welfare Aid Isn’t Growing as Economy Drops Off,” *The New York Times*, February 2, 2009.

<sup>4</sup>J. K. Scholz, R. Moffitt, and B. Cowan, “Trends in income support.”

<sup>5</sup>In late 2008, the Food Stamp Program was renamed SNAP—Supplemental Nutrition Assistance Program—partly to emphasize the nutrition mission of the program in contrast to the income support mission.

<sup>6</sup>J. K. Scholz, R. Moffitt, and B. Cowan, “Trends in income support.”

<sup>7</sup>Data from the Food and Nutrition Service Web site: <http://www.fns.usda.gov/oane/MENU/Published/FSP/FILES/Participation/2006CharacteristicsSummary.pdf>.

<sup>8</sup>The Web site for the American Public Human Services Association gives the names and links for all human services agencies at the state level: <http://www.aphsa.org/Links/links-state.asp>.

<sup>9</sup>I. Lurie, *At the Front Lines of the Welfare System: A Perspective on the Decline in Welfare Caseloads* (Albany, NY: Rockefeller Institute Press, 2006).

<sup>10</sup>The Web site of the child care bureau at ACF gives information on state child care agencies: <http://nccic.acf.hhs.gov/statedata/dirs/display.cfm?title=ccdf>.

<sup>11</sup>L. M. Montiel and D. J. Wright, *Getting a Piece of the Pie: Federal Grants to Faith-Based Social Service Organizations* The Roundtable on Religion and Social Welfare Policy, Washington, DC.

<sup>12</sup>I was at the time Assistant Secretary for Children and Families. The others who resigned were Peter Edelman, then Assistant Secretary for Planning and Evaluation, and Wendell Primus, Deputy Assistant Secretary.

<sup>13</sup>The speech was reported in *The New York Times*: <http://query.nytimes.com/gst/fullpage.html?res=990CE6D6153EF934A1575AC0A963958260>. Jason DeParle gives the reference to the speech: 104<sup>th</sup> Congress, 1<sup>st</sup> session, Congressional Record 141 (September 6, 1995): S 12705 (DeParle, 2004).

<sup>14</sup>S. Zedlewski, S. J. Clark, E. Meier, and K. Watson, "Potential Effects of Congressional Welfare Reform Legislation on Family Incomes," The Urban Institute, Washington, DC, 1996. It is worth noting that much of the increase in poverty predicted by the Urban Institute analysis resulted from the exclusion of most immigrants from public programs. This aspect of the legislation was changed soon after passage.

<sup>15</sup>Data from historical poverty tables available on the Census Bureau CPS Web site <http://www.census.gov/hhes/www/poverty/histpov/hstpov10.html>.

<sup>16</sup>Congressional Budget Office, *Changes in the Economic Resources of Low-Income Households with Children*, Washington, DC: Congressional Budget Office, May, 2007.

<sup>17</sup>The Pew Research Center for the People and the Press, *Trends in Political Values and Core Attitudes: 1987–2007* (Washington, DC: Pew Research Center, 2007).

<sup>18</sup>J. Soss and S. F. Schram, "A Public Transformed? Welfare Reform as Policy Feedback," *American Political Science Review* 101, No. 1 (2007): 111–127, p. 16.

<sup>19</sup>The Pew Research Center for the People and the Press, *Trends in Political Values and Core Attitudes: 1987–2007*.

<sup>20</sup>J. Levin-Epstein and K. M. Gorzelany, *Seizing the Moment: State Governments and the New Commitment to Reduce Poverty in America*, A Joint Report from the Center for Law and Social Policy and Spotlight on Poverty and Opportunity, Spotlight on Poverty and Opportunity: Washington, DC, 2008. Available online at <http://www.aecf.org/KnowledgeCenter/Publications.aspx?pubguid={B3200B7A-E4E5-4CB4-A917-61E8632993B9}>.

<sup>21</sup>National League of Cities and Institute for Youth, Education and Families, *Combating Poverty: Emerging Strategies from the Nation's Cities* (Washington, DC: National League of Cities, 2007).

<sup>22</sup>NYC Center for Economic Opportunity Web site: <http://www.nyc.gov/html/ceo>. A report issued in 2007 on their activities is available at [http://www.nyc.gov/html/ceo/downloads/pdf/ceo\\_2007\\_report\\_small.pdf](http://www.nyc.gov/html/ceo/downloads/pdf/ceo_2007_report_small.pdf).

<sup>23</sup>A description of New York's conditional cash transfer program is available at [http://www.nyc.gov/html/ceo/html/programs/opportunity\\_nyc.shtml](http://www.nyc.gov/html/ceo/html/programs/opportunity_nyc.shtml).

<sup>24</sup>The mayor's press release on the new poverty measure is available at <http://nyc.gov/html/om/html/2008b/pr271-08.html>.

<sup>25</sup>Poverty, Work and Opportunity Task Force, *Pathways to Opportunity: Building Prosperity in Providence*, Providence City Government, 2007.



# What does it mean to be poor in a rich society?

Robert Haveman

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## Introduction

Mollie Orshansky, whose contributions led to the nation's official poverty measure, passed away in 2007 after a notable career as an analyst for the federal government.<sup>1</sup> In the early 1960s when she developed her poverty measure, Orshansky's proposal—based on family cash income and an absolute poverty threshold—made perfect sense. President Johnson had declared a War on Poverty in 1964, and the nation needed a statistical picture of the poor. Although Orshansky recognized the shortcomings of her measure, she also knew that it provided the first official gauge of poverty that could be analyzed across years.

Since Orshansky's proposal was adopted, the U.S. official poverty measure has stood nearly unchanged. This, in spite of extensive efforts designed to improve the measurement of both financial means (for example, extensions of the income concept to include the value of in-kind transfers and tax liabilities) and the poverty threshold (for example, alternative equivalence scales and revised needs standards).

## Concepts of poverty

Improving the well-being of deprived people is a nearly universal goal among policymakers in all nations. However, no commonly accepted way of identifying who is deprived or who has an unacceptably low level of well-being has emerged.

Economists tend to prefer a concept of hardship that reflects “economic position” or “economic well-being,” which is typically measured by an indicator of *command over resources*, typically annual income.<sup>2</sup> These economic poverty measures seek to identify families whose command over resources (income) falls below some minimally acceptable level. This approach requires precise definitions of both available economic resources and the minimum level of economic needs, both of which must be measured in the same units.

Such economic poverty measures allow for differentiation according to household size and composition. They also have the potential advantage of not imposing norms on people's preferences among goods or services (for example, their sense of necessities versus luxuries) or between work and leisure. However, by focusing on “command over resources,” they ignore many noneconomic considerations that

may affect individual utility or well-being. To the extent that such factors—for example, living in unsafe surroundings, being socially isolated, or experiencing adverse health or living arrangements not remediable by spending money—are neglected by these measures, policy efforts designed to reduce economic poverty may overlook important aspects of what it means to be poor.

Because of such concerns, income-based poverty measures are increasingly challenged, particularly in other western industrialized countries. Critics argue for a multidimensional poverty concept. For example, people deprived of social contacts (with friends, families, and neighbors) are described as socially isolated, and hence poor in this dimension; people living in squalid housing, as “housing poor”; and people with health deficits, as “health poor.” However, those who prefer a broader approach to the measurement of poverty face a difficult task in changing the official U.S. measure. Dimensions of well-being beyond income need to be identified and agreed upon, indicators that accurately reflect these dimensions must be defined, data necessary to accurately measure them for individual living units must be collected, and the several indicators must be weighted to produce an index of the size of the poor population and its composition.

While debates over the appropriate concept of poverty seem unlikely to cease, a basic question lurks over the discussion: “Does the measure of poverty that is chosen matter?” Nearly all observers believe that it does. Different measures imply a different size and composition of the target poverty population, different patterns of change in the extent of poverty over time, and thus a different set of antipoverty policies. Policymakers and citizens react to information on these patterns. Changes in poverty over time lead to questions about the direction of the nation, the effectiveness of its social policies, and the level of equality or inequality in the distribution of income.

## Measuring economic poverty

Even among those who prefer income-based or command-over-resources poverty measures, there are substantial differences of opinion regarding which is the best measure. For example, the official U.S. measure relies on the annual cash income of a family, and compares this to a minimum income standard or “poverty line.” An alternative position is that annual consumption better reflects a family's level of living, or that some measure of a family's ability to secure income identifies a nation's truly needy population. Others advocate reliance on families' own assessment of their economic well-being. Once the measure of economic position has been chosen, poverty measures can still be either absolute or relative. The indicator is absolute if the definition of “needs” is fixed, so that the poverty threshold does not change with the standard of living of the society. A relative measure uses a

poverty line that increases along with the general standard of living of the society.

### **The official U.S. measure of absolute income poverty**

The official U.S. poverty measure seeks to identify families whose annual cash income—from either government support or their own efforts—falls below the official poverty threshold. It compares two numbers for each living unit—the unit’s annual cash income and the poverty threshold for a unit of its size and composition. It is an absolute measure because it is adjusted each year only for changes in prices, not for changes in living standards.

This official measure assumes that (1) money can buy those things the absence of which make people feel deprived, (2) cash income is a good proxy for welfare (or utility), and (3) a particular year’s income is an acceptable indicator of longer-run income. Although people may experience hardship in many dimensions—education, housing, food, social contacts, security, environmental amenities—only a low level of cash income matters in determining who is poor.

The U.S. Census Bureau performs the official poverty measurement each year, and each year presents a public report on the level of poverty in the prior year and changes in the level and composition of the poor from year to year. All major news media carry the story and reflect on who is winning, who is losing, and how the nation is doing in fighting poverty.

This annual news story also provokes a barrage of commentary on the nature of the official measure, and whether or not the message it conveys is reliable. Although the cash income numerator of the measure may reflect the extent to which a family can meet its immediate needs, this value may fluctuate substantially from year to year due to unemployment, job changes, health considerations, and especially income flows from farming and self-employment. For this reason, some claim that the measure conveys an unreliable picture of who is poor over the longer run.

It is also argued that even as an indicator of a family’s ability to meet its immediate needs, the measure is flawed. The income reported by families to census surveyors tends to be artificially low, and often income from various nonstandard sources is not reported at all. As a result, the overall poverty rate tends to be higher than it should. Moreover, the annual income measure reflects neither the value of in-kind transfers (for example, food stamps and Medicaid) nor taxes paid nor tax credits received, including the Earned Income Tax Credit. Indeed, virtually all major social policy reforms since the 1960s have been in the form of giving families benefits such as food, health care, and child care that don’t count in the poverty statistics. Similarly, the assets available to families are not counted, nor is the value of leisure (or voluntary nonwork) time reflected in the measure. As a result the consumption spending of a family in any given year may differ substantially from the family’s reported income. Although there are major differences in the needs of workers and nonworkers, those with and without

serious medical care needs, or those living in high cost areas relative to those in low cost areas, none of these considerations are reflected in the official measure.

The denominator of the poverty ratio—the poverty line threshold—also comes under fire. Critics claim that this needs indicator has little conceptual basis and rests on empirical evidence about food consumption from the mid-1950s.<sup>3</sup> The same criticism applies to the equivalence scales used to adjust needs for differences in family size.

In addition to these criticisms, conservative commentators also emphasize that many of those who are poor by the official measure do not live in destitute circumstances; that they own color television sets, automobiles, refrigerators, stoves, and in some cases homes; and that they are not undernourished. At the other end of the political spectrum, some liberal analysts find that in order to meet “basic needs,” income must to be substantially greater than the current poverty thresholds; they find a much higher poverty rate than the official measure.<sup>4</sup> These critiques highlight the complex nature of political sentiment about American poverty, and emphasize the need for improvements in the official poverty measure.

Some attempts have been made to improve the nation’s official poverty measure. In 1995, the National Research Council of the National Academy of Sciences reported the results of a comprehensive study of the strengths and weaknesses of the official measure, and proposed a major revision designed to correct many of the criticisms that have been levied against it.<sup>5</sup> The reform proposed would involve a new threshold based on budget studies of food, clothing, shelter (including utilities), and amounts that would allow for other needs to be met, such as household supplies, personal care, non-work-related transportation. The thresholds would reflect geographic differences in housing costs. The income measure would also be reworked to include the value of near-money benefits that are available to buy goods and services (for example, food stamps), and would subtract from income required expenses that cannot be used to buy goods and services (for example, income and payroll taxes, child care and other work-related expenses, child support payments to another household, and out-of-pocket medical care costs, including health insurance premiums).

Since that report, the Census Bureau and other governmental statistical agencies have developed a variety of improved poverty measures reflecting the recommendations of the 1995 report. Two extensive reports by the Census Bureau present estimates of these alternative measures since 1990; in addition, the Bureau has released a number of alternative poverty measure estimates in supplements that accompany the annual official poverty report. However, none of these alternatives has been adopted to replace the existing official poverty measure.<sup>6</sup>

### **Alternative measures of economic poverty**

In addition to the official U.S. absolute income poverty measure (and extensions of it), a wide range of other indicators

of economic poverty have been proposed and implemented. In this section, I briefly describe a few of these, and indicate some of their pros and cons.

**Relative income poverty.** Many accept the access to resources (income) basis for measuring poverty, but reject an absolute poverty threshold. Instead, relative income measures compare the income of a family to a norm reflecting the economic position of the overall society (say, the income of the median family), adjusted for price level changes. Because overall measures of social well-being, such as median income, tend to increase over time, the poverty standard will also tend to increase. Both the United Kingdom (UK) and countries in the European Union (EU) measure income poverty using such a relative definition.

Relative poverty measures have their weaknesses. Absolute poverty standards have the advantage of allowing citizens to judge the effectiveness of antipoverty programs by whether the programs move families above the fixed standard; in contrast, poverty will decline under relative measures only if the income of families in the bottom tail of the distribution increases more than that of the median family.<sup>7</sup>

**Consumption poverty.** One of the main criticisms of measures of income poverty concerns the highly transitory nature of an annual income measure of resources. For many households, income may temporarily dip below the poverty line because of something that happened that year, such as unemployment or a bad harvest. An alternative is to use annual family consumption rather than annual income as a more permanent indicator of resources.<sup>8</sup>

Although a consumption poverty measure probably does better reflect the “permanently poor” population, it is difficult to obtain the accurate and complete family expenditure data necessary to construct a consumption-based index. Furthermore, consumption may not fully reflect a family’s true well-being; it is possible that simple frugality may be mistaken for poverty.<sup>9</sup>

**“Capability” poverty.** Poverty indicators based on income or consumption presume that families should have actual resources to meet some minimum standard. An alternative objective would identify the poor as those who do not have the capability to secure a sufficient level of resources to meet this standard. To many analysts and policymakers, policy interventions should seek to provide a pathway to self-sufficiency. A capability measure of poverty focuses attention on policies that foster economic independence.<sup>10</sup> Such measures are preferred by some to income-conditioned in-kind or cash support, which are viewed as encouraging dependence.

Haveman and Bershadker have proposed an “earnings capacity” self-sufficiency poverty measure based on a family’s education level and other indicators of earnings capacity.<sup>11</sup> Their measure of earnings capacity adjusted the full-time,

full-year earnings of all adults in a family for health and other constraints on full-time work and for the required expenses (largely child care) associated with full-time work. The resulting net family earnings capacity value is compared to the official U.S. poverty line.

This measure rests on several norms and assumptions. First, it assumes that full-time, full-year work indicates the full (or capacity) use of human capital. Second, the adjustments to family earnings capacity reflecting constraints on and costs of working full time are assumed to be accurate. Finally, the measure captures only those capabilities that are reflected in market work and earnings; the potential services of other valuable, though nonmarketed, capabilities are neglected.

**Asset poverty.** There has been much interest recently in the role of asset (wealth) holdings in understanding the level and composition of poverty in the U.S. In the words of Oliver and Shapiro, “Wealth is ... used to create opportunities, secure a desired stature and standard of living, or pass class status along to one’s children. In this sense the command over resources that wealth entails is more encompassing than is income or education, and closer in meaning and theoretical significance to our traditional notions of economic well-being and access to life chances.”<sup>12</sup>

Haveman and Wolff estimated the level and composition of asset poverty in 2001, presuming that net worth equal to less than one-fourth of the official poverty line (reflecting the ability to live for 3 months at the poverty line by drawing down assets) indicates asset poverty.<sup>13</sup> In 2001, one-fourth of American families were asset poor; among blacks and Hispanics, the asset poverty rate was 62 percent, among those with less than a high school degree it was 60 percent, and among non-aged female heads with children the asset poverty rate stood at 71 percent. From 1983 to 2001, the rate of asset poverty grew by over 9 percent, much faster than the growth of income poverty.

**Subjective poverty.** Some researchers have measured poverty by relying on the subjective responses of individuals to questions about their perceptions of economic position or well-being, relative to some norm. Because the norms applied by people are likely to change over time (as their incomes change), subjective poverty measures are relative poverty indicators. These measures survey households and ask them to specify the minimum level of income or consumption they consider to be “just sufficient” to allow them to live a minimally adequate lifestyle.

Establishing an overall poverty rate requires an assumption that individual perceptions of these notions reflect the same level of real welfare for all respondents. The effectiveness of subjective measures is limited by the small sample sizes on which they are based; most estimates show wide variation around the mean, impeding the setting of a reliable and generally accepted poverty threshold.<sup>14</sup>

## Measuring other dimensions of deprivation

In both the U.S. and in Europe, social scientists and policy-makers have expressed concerns about using money-valued indicators to measure the well-being of citizens and to evaluate the effect of policy changes on various groups of people. In the 1960s, these concerns led to substantial efforts by U.S. and European government and university researchers to develop a wide variety of indicators both to measure the social and economic performance of society and to evaluate the effectiveness of policy efforts. These efforts resulted in a number of prominent government and other reports presenting a variety of social indicators.

In the context of measuring poverty, this interest in broader measures of well-being was the strongest in the European Union countries. A basic argument in support of a broader, multidimensional concept of poverty contends that markets fail and are incomplete so that cash income cannot always be readily transformed into fundamental goods and services necessary for the attainment of well-being. If this is the case, then the measure of poverty must explicitly recognize these shortfalls. A policy judgment provides a second argument in support of this approach; if one believes that antipoverty policies should target those with multiple disadvantages, it follows that the poverty measure should also be multidimensional.

Recently, the EU countries and the United Kingdom have emphasized this multidimensional nature of deprivation, and have developed supplementary indicators of poverty based on indicators of material hardship and a broad concept of “social exclusion.” Some use the term “social exclusion” to refer to concepts such as “marginalization,” “ghettoization,” and “the underclass”; others use the term to refer to a broader concept of poverty, encompassing polarization, discrimination, and inequality.

### Measuring poverty and social exclusion in the UK

British social scientists have advanced this multidimensional approach to poverty measurement.<sup>15</sup> Their writings implicitly accept the proposition that, because of lack of information and other market failures, important dimensions of well-being cannot be purchased in markets with money, and thus require independent measurement.

Even if this proposition is accepted, any proposal for including non-income aspects of well-being in a formal poverty measure has to confront difficult questions. One concerns how to deal with people with substantial amounts of cash income who voluntarily choose low levels of certain non-income dimensions of well-being (such as housing or vehicle access). A second concerns the selection of appropriate indicators and how to weight them.

Atkinson reflected these concerns in his analysis of the concept of social exclusion.<sup>16</sup> In his view, there are three key issues in thinking about social exclusion—*relativity* (which element of society an individual is being excluded from);

*agency* (being excluded requires an act, either by the person excluded or by others); and *dynamics* (being excluded implies a lack of long-term prospects).

In this framework, being long-term unemployed because of lack of aggregate demand or changing technology may classify as social exclusion, but being long-term unemployed because of unwillingness to accept an available job will not. Failure to receive public benefits for which one is eligible (due, say, to lack of information, the time costs of applying, or stigma associated with receipt) or failure to obtain certain goods and services such as housing, health care, credit, or insurance (through, say, explicit discriminatory practices by property owners or banks) may all classify as social exclusion. In these cases, it is the acts of others that lead to the exclusion of some from benefits, work, or consumption.

**Political support in the UK for a multidimensional approach to poverty measurement.** Efforts to include dimensions beyond income were supported by the government of Prime Minister Tony Blair, who described social exclusion as “the greatest social crisis of our time.”<sup>17</sup> In 1997, the New Labour government set up the Social Exclusion Unit as a Cabinet office headed by a Minister.<sup>18</sup> Since 1999, reports presenting measures of social exclusion in the UK have been published under the title *Opportunity for All*, the most recent of which appeared in 2007.<sup>19</sup> These reports indicate the government’s commitment to annually monitor the state of poverty and social exclusion through a set of quantitative indicators.

### Measuring poverty and social exclusion in the European Union (EU)

The European Commission recently developed a formal protocol for measuring poverty and social exclusion for the EU countries. The indicators, and their measurement, include those shown in the box on page 85.

## Toward measuring the many dimensions of low well-being in the U.S.: A modest proposal

Researchers and policymakers in the UK and the EU have adopted a broader concept of poverty than have their U.S. counterparts. The European developments reflect the view that rich societies require officially recognized measures that track progress in meeting many dimensions of needs and that income alone fails to capture the complex situation in which the most-deprived citizens find themselves. These developments also reflect the judgment that as societies become more affluent, the non-money aspects of well-being take on increased salience. While an income poverty measure served western nations well a half-century ago, today a variety of additional considerations—including the level of cognitive and non-cognitive skills, access to important social institutions (for example, the labor market), attaining minimum standards of food and shelter, sufficient available time for home production and child care—need to be taken into account.



## Partial list of indicators for measuring poverty and social exclusion in European Union countries

- At-risk-of-poverty rate (share of persons aged 0+ with an equivalised disposable income below 60 percent of the national equivalised median income);
- Persistent-at-risk-of-poverty rate (share of persons aged 0+ with an equivalised disposable income below the at-risk-of-poverty threshold in the current year and in at least 2 of the preceding 3 years);
- Relative median poverty risk gap (difference between the median equivalised income of persons aged 0+ below the at-risk of poverty threshold and the threshold itself, expressed as a percentage of the at-risk of poverty threshold);
- Long-term unemployment rate (total long-term unemployed population ( $\geq 12$  months' unemployment; ILO definition) as a proportion of total active population aged 15 years or more);
- Population living in jobless households (proportion of people living in jobless households, expressed as a share of all people in the same age group);
- Early school leavers not in education or training (share of persons aged 18 to 24 who have only lower secondary education);
- Employment gap of immigrants (percentage point difference between the employment rate for non-immigrants and that for immigrants);
- Material deprivation (to be developed);
- Housing (to be developed);
- Unmet need for care (to be developed); and
- Child well-being (to be developed).

The European developments also reflect the fact that rich societies possess vastly improved data sources on individual living units than in the 1960s. In the 1960s, when the first efforts to measure poverty were undertaken in the U.S., cash income was one of the few accurately recorded indicators of well-being available in survey or census-type data. Today, numerous continuing cross-section and longitudinal datasets with large and nationally representative samples are available. Many datasets reveal multiple aspects of the well-being of living units beyond their annual cash income.

U.S. academic and policy discussions should move beyond the concept of income poverty, and additional statistical measures of U.S. poverty and deprivation should be developed and published as supplements to an improved set of official income-poverty measures. Any proposal for additional, formal measures of "disadvantage" encounters the issue of whether or not to combine or weight these measures. Techniques are available for developing either a single measure based on the weighting of multiple indicators of deprivation or describing deprivation by using counts of the presence of disadvantage in multiple dimensions.

To perform a multidimensional poverty measurement analysis, a large scale, detailed survey including information on a wide range of living conditions is needed; ideally, the survey would be longitudinal in nature. Currently, such information is not available for the U.S. population. What is possible, however, is to make use of annual survey data from the U.S. Census Bureau's American Community Survey (ACS) to develop an illustrative multidimensional measure of depriva-

tion in the U.S.<sup>20</sup> The ACS includes many indicators of the living circumstances of American households in addition to income. Like the Current Population Survey on which the current official U.S. poverty measure rests, the ACS measures income, educational attainment, and labor force and employment status. The ACS also includes information on the quality of housing (such as the degree of crowding and the existence or lack of plumbing or kitchen facilities), health and disability status, vehicle availability, and linguistic isolation.

A research study that made use of the ACS data could illustrate the many-faceted nature of deprivation, and demonstrate the possibility of a U.S. poverty measure that reflected dimensions of disadvantage beyond cash income. Both researchers and policymakers would be well served by complementary measures of poverty that reveal the complexity and multifaceted nature of deprivation. Such an illustration of the extent of multiple forms of deprivation in America would incorporate the income and threshold reforms proposed in 1995 and highlight the many other dimensions of what it means to be poor in a rich society. It would also accelerate debate on needed changes in the official poverty measure.

## Conclusion

Any poverty measure is an indicator of a nation's performance in improving social conditions, and as such it serves many functions. The poverty measure documents the size and composition of the deprived population within a country and allows citizens and policymakers to assess the nation's

progress against poverty. The measure also provides guidance for policymakers in assessing the potential of proposed measures for reducing poverty and for evaluating the impact of social policy measures in effect. I have argued that moving toward broader measures of poverty and deprivation has a number of advantages.

First, measures of material hardship or social exclusion capture intrinsic elements of the underlying deprivation that people face and complement income-based measures by providing “important insights into different dimensions of people’s well-being.”<sup>21</sup>

Moreover, because antipoverty policy measures are often directed at increasing access to particular goods, services, or environments, it is important to use measures of deprivation that reflect these needs. Ongoing reports detailing how many citizens of working age are excluded from health, disability, or unemployment insurance coverage; how many families fail to live in adequate housing; or how many families are excluded from employment because of health problems or disabling conditions, could be influential in policy discussions and choices.

Finally, measures that reflect the lack of access to various non-income dimensions of deprivation also indicate different patterns of hardship by particular sociodemographic groups than do measures of income poverty, making it possible to measure the effectiveness of targeting policies to these groups.

Some analysts emphasize the inherent difficulties in developing meaningful measures of material hardship or social exclusion. While these obstacles are formidable, they need to be weighed alongside the benefits of a more complete picture of deprivation in a rich society. Progress in addressing these issues would also advance the agenda for improving the current national measure of income poverty. ■

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<sup>1</sup>This article draws upon “What Does It Mean to Be Poor in a Rich Society?” in *Changing Poverty, Changing Policies*, eds. M. Cancian and S. Danziger (New York: Russell Sage Foundation, 2009).

<sup>2</sup>As discussed below, this economic concept underlies the official U.S. poverty measure and measures of relative income poverty as implemented in the UK and Western Europe. It also underlies the proposed revisions of the U.S. measure by the National Research Council’s Panel on Poverty and Family Assistance, which are found in C. F. Citro and R. T. Michael, eds., *Measuring Poverty: A New Approach* (Washington, DC: National Academy Press, 1995). See also U.S. Census Bureau, 2007, Current Population Survey, Annual Social and Economic Supplements.

<sup>3</sup>P. Ruggles, *Drawing the Line: Alternative Poverty Measures and Their Implications for Public Policy* (Washington, DC: Urban Institute Press, 1990).

<sup>4</sup>See T. J. Renwick and B. R. Bergmann, “A Budget-Based Definition of Poverty, with an Application to Single-Parent Families,” *Journal of Human Resources* 28, No. 1 (1993): 1–24.

<sup>5</sup>Citro and Michael, *Measuring Poverty*.

<sup>6</sup>R. Blank, “How to Improve Poverty Measurement in the United States,” *Journal of Policy Analysis and Management* 27, No. 2 (2008): 233–254 contains an extensive discussion of the weaknesses of the official poverty

measure, and an analysis of why adoption of a more reliable measure of poverty has been so difficult to achieve.

<sup>7</sup>R. Lampman, *Ends and Means of Reducing Income Poverty* (New York: Academic Press, 1971) emphasized this weakness of the relative standard as an indicator of the effectiveness of antipoverty policies in reducing poverty: “While income poverty is a relative matter, I do not think we should engage in frequent changes of the poverty lines, other than to adjust for price change. As I see it, the elimination of income poverty is usefully thought of as a one-time operation in pursuit of a goal unique to this generation.”

<sup>8</sup>For example, Daniel Slesnick estimated such a consumption-based poverty measure; see D. T. Slesnick, “Gaining Ground: Poverty in the Postwar United States,” *Journal of Political Economy* 101, No. 1 (1993): 1–38.

<sup>9</sup>See R. K. Triest, “Has Poverty Gotten Worse?” *Journal of Economic Perspectives* 12, No. 1 (1998): 97–114.

<sup>10</sup>One of the earliest proponents of this view was Charles Murray; see C. Murray, *Losing Ground: American Social Policy, 1950–1980* (New York: Basic Books, 1984). He argued that government policy should stop assisting the destitute and start emphasizing individual self-reliance.

<sup>11</sup>See, for example, R. Haveman and A. Bershadker, “The ‘Inability to be Self-Reliant’ as an Indicator of Poverty: Trends for the U.S., 1975–1997,” *Review of Income and Wealth* 47, No. 3 (2001): 335–360. This concept is similar to one suggested earlier in G. S. Becker, “A Theory of the Allocation of Time,” *Economic Journal* 75, No. 299 (1965): 493–517.

<sup>12</sup>M. L. Oliver and T. M. Shapiro, *Black Wealth/White Wealth: A New Perspective on Racial Inequality* (New York: Routledge, 1997).

<sup>13</sup>R. Haveman and E. Wolff, “The Concept and Measurement of Asset Poverty: Levels, Trends and Composition for the U.S., 1983–2001,” *Journal of Economic Inequality* 2, No. 2 (2005): 145–169.

<sup>14</sup>Citro and Michael, *Measuring Poverty*.

<sup>15</sup>See, for example, A. Sen, *On Economic Inequality* (Oxford: Clarendon Press, 1997); and A. Atkinson, “Social Exclusion, Poverty and Unemployment,” in *Exclusion, Employment and Opportunity*, eds. A. Atkinson and J. Hills, CASE Paper 4, Centre for Analysis of Social Exclusion, London School of Economics, London, UK, 1998. The work of Sen and Atkinson builds on Townsend’s pioneering study in 1979 urging attention to lack of access to important goods or services, rather than only a lack of income: P. Townsend, *Poverty in the United Kingdom: A Survey of Household Resources and Standards of Living* (Harmondsworth, MX: Penguin, 1979).

<sup>16</sup>A. Atkinson, “Social Exclusion, Poverty and Unemployment.”

<sup>17</sup>P. Mandelson, *Labour’s Next Steps: Tackling Social Exclusion*, Fabian Pamphlet 581, London, UK, 1997.

<sup>18</sup>In 2006, the Unit was replaced by the Social Exclusion Task Force, also headed by a Minister. The Web site of the Task Force defines social exclusion as follows: “Social exclusion is a shorthand term for what can happen when people or areas have a combination of problems, such as unemployment, discrimination, poor skills, low incomes, poor housing, high crime, and family breakdown. These problems are linked and mutually reinforcing. Social exclusion is an extreme consequence of what happens when people do not get a fair deal throughout their lives and find themselves in difficult situations. This pattern of disadvantage can be transmitted from one generation to the next.” [http://www.cabinetoffice.gov.uk/social\\_exclusion\\_task\\_force/context.aspx](http://www.cabinetoffice.gov.uk/social_exclusion_task_force/context.aspx)

<sup>19</sup>UK Department for Work and Pensions, *Opportunity for All: Indicators Update 2007*, available online at <http://www.dwp.gov.uk/ofa/reports/2007/OpportunityforAll2007.pdf>. The 2007 report included 41 primary indicators, and 59 total indicators of low income, access to services, health, education, and social isolation.

<sup>20</sup>For a description of the American Community Survey, see <http://www.census.gov/acs/www/index.html>.

<sup>21</sup>J. Iceland, “Measuring Poverty: Theoretical and Empirical Considerations,” *Measurement* 3, No. 4 (2005): 199–235.

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