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Poverty in the United States: Where do we stand?

The Institute for Research on Poverty submitted an agenda for poverty research in a competition in 1981, issued at the request of the Department of Health and Human Services. Although the Institute's agenda received the most points from the outside review panel, HHS chose not to award any funds. This brief overview of poverty policy and its results is drawn from our submission.

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How much poverty?

With the passage into law of the Economic Opportunity Act of 1964, our nation declared its intent to wage war not only on the unacceptably low levels of living endured by a large segment of the nation, but also upon the obstacles that prevented this group from sharing in the prosperity enjoyed by the majority. The Institute for Research on Poverty was established by the Office of Economic Opportunity in 1966 as a national, university-based center to study the nature, causes, and consequences of poverty and the policies by which to eliminate it. As such it has been well situated to monitor the progress that has been made in that war.

Enormous strides have been made in raising the consumption opportunities of the population. The largest social insurance programs—Social Security, Railroad Retirement, Unemployment Insurance, Workers' Compensation, government employee pensions, Medicare, and veterans' pensions—and the major welfare programs—Aid to Families with Dependent Children, Supplemental Security Income, food stamps, Medicaid, and public housing—have succeeded in dramatically reducing the percentage of those living in poverty (see Table 1).

Though progress has manifestly been made in raising the absolute standard of living of the poverty population, no equivalent progress is evident in their market incomes (see box for explanation of how poverty is measured) or their incomes relative to the remainder of the population. No marked reduction in earnings inequality or in family income inequality has occurred. In fact, the proportion of people whose market incomes are below the poverty line has fallen only 6.1% in absolute terms since 1965, and in relative terms has actually increased by 12.2% (see Table 2). We conclude therefore that government transfer policy has played the single most important role in reducing measured poverty. Without the growth in transfers, measured inequality would have increased. The progress that has been made has therefore carried a large and increasing price tag in budgetary cost (Table 3). In real terms budgetary costs have tripled, and doubled their ratio to the gross national product. Total expenditures for fiscal 1981 equaled 10% of GNP and just under half the total federal budget. (The second article in this issue of *Focus* discusses the shift in budget policy now being carried out by the Reagan administration.)

One further dimension of poverty is its duration, for if poverty is a transient experience of the many, the policy response required would be quite different from that needed if poverty remained a persistent fact of life for a small group. Here the findings have been mixed: income mobility—as measured by income including transfers—is quite large, with an enormous amount of churning of households in and out of poverty.[1] That poverty *is* often a transient phenomenon should be a hopeful sign. However, studies of earnings mobility show that a majority of the poor have permanently low earnings;[2] thus progress has been more a matter of eligibility for government programs than of individual advancement. Yet there is evidence that earnings mobility from one generation to the next is increasing.[3] In particular the intergenerational mobility pattern of blacks is now similar to that of whites.[4]

Factors affecting the amount of poverty

Five factors appear to account for most of the trends in poverty since 1965: government transfers, manpower and employment policies, macroeconomic conditions, demographic change, and changing education.

Government transfers

As mentioned above, government transfers have been chiefly responsible for the substantial reductions in income poverty. The various income maintenance programs now in place have been enacted at various times and provide support to different groups. Although they are often referred to collectively as a system, it is certainly not a unified one. There are separate programs for single-parent families; veterans; the aged, blind, and disabled; the unemployed; and the working poor. The impact on different demographic groups has been disparate, with some groups faring better than others.

Measuring Poverty

Because poverty and inequality are complex concepts, they cannot be summarized in a single measure; hence a set of measures is necessary. Income is measured three ways. (1) *Census income* includes money wages and salaries, net income from self-employment, social security income and cash transfers from the other major government programs, property income, and other forms of cash income such as private pensions and alimony. (2) *Adjusted income* is census income adjusted to include all transfers (including those received in-kind, such as food stamps and Medicaid), to exclude taxes paid, and to account for income underreporting. It gives a more complete estimate of spending power. (3) *Market income* (pretransfer income) is census income minus government cash transfers, providing a benchmark against which the effect of transfers can be measured.

The differences in these measures allow us to disentangle, from the perspective of absolute living standards, some of the various factors that underlie changing trends in economic hardship. But economic well-being is at its heart a comparative concept. In any society, particularly one in which living standards are increasing, those whose incomes fall sharply below the prevailing levels in their society will be considered poor by the standards of that society no matter what their absolute incomes may be. Thus, in addition to an official poverty threshold we provide relative income thresholds, often a fixed percentage of the median income. Using such measures we can examine what has happened to poverty in the last seventeen years.

Table 1

Persons Living below Absolute Income Thresholds, 1965-1980 (Percentages)

	Census Income	Adjusted Income	Market Income
1965	15.6%	12.1%[a]	21.3%
1968	12.8	10.1	18.2
1970	12.6	9.4	18.8
1972	11.9	6.2	19.2
1974	11.6	7.8	20.3
1976	11.8	6.7	21.0
1978	11.4	n.a.	20.2
1980	13.0	6.1	20.0
Percentage change	-16.7	-49.59	-6.10

Sources: S. Danziger and R. Plotnick, "The War on Income Poverty: Achievements and Failures," in *Welfare Reform in America*, ed. P. Sommers (Hingham, Mass.: Martinus Nijhoff, 1982); adjusted income for 1968-74 is from T. Smeeding, "Measuring the Economic Welfare of Low-Income Households and the Antipoverty Effectiveness of Cash and Noncash Transfer Programs," Ph.D. diss., Department of Economics, University of Wisconsin-Madison, 1975; and T. Smeeding, "The Anti-poverty Effectiveness of In-Kind Transfers," *Journal of Human Resources, 12* (1977), 360-378. Adjusted income for 1976 and 1980 are from Smeeding, "The Anti-poverty Effect of In-Kind Transfers: A 'Good Idea' Gone Too Far?" *Policy Studies Journal*, forthcoming.
Note: Measurements of income explained in box, Measuring Poverty.
[a]Estimated from Smeeding's results for 1968.

Table 2

Persons Living below Relative Income Thresholds, 1965-1978 (Percentages)

	Census Income	Market Income
1965	15.6%	21.3%
1968	14.6	19.7
1970	15.1	20.8
1972	15.7	22.2
1974	14.9	22.9
1976	15.4	24.1
1978	15.5	23.9
Percentage change	-0.6	+12.2

Sources: See Table 1.
Note: The relative thresholds used are 44% of the median.

Table 3

Estimated Total Expenditures for Major Income Support Programs, Fiscal Year 1981 ($ Billions)

Program	Expenditures
Total	$294.8
Social Insurance	*217.0*
Cash benefits	
Old Age and Survivors and Disability Insurance and Railroad Retirement	143.6
Special compensation for disabled coal miners	1.0
Unemployment Insurance	18.8
Veterans' and survivors' service-connected compensation	7.5
Workers' Compensation	8.7
Total	179.6
In-kind benefits	
Medicare	37.4
Refundable Tax Credits	
Earned Income Tax Credit	*1.9*
Welfare	*75.9*
Cash benefits	
Aid to Families with Dependent Children	12.7
Supplemental Security Income	8.5
Veterans' and survivors' non-service-connected pensions	4.0
General Assistance	1.3
Total	26.5
In-kind benefits	
Food Stamps	9.7
Child Nutrition and other Department of Agriculture food assistance	4.2
Medicaid	27.6
Housing Assistance	5.5
Basic Educational Opportunity Grants	2.4
Total	49.4

Source: I. Garfinkel, ed., *Income-Tested Transfer Programs* (New York: Academic Press, 1982), Chap. 1.

The elderly in particular have benefited. Table 4 shows that in 1965, 87.6% of households headed by an aged person received cash transfers; by 1978 almost all (95.9%) received transfers. These benefits not only constituted a greater percentage of household income than they did for other groups, but were also most effective in reducing poverty.

For households headed by nonaged men, much of the decline in poverty during the 1965-1978 period is also accounted for by the increased transfers. About a quarter of such households were receiving transfers in 1978. Households headed by nonaged women form a sharp contrast. In 1965 their poverty incidence was similar to that of the aged. By 1978, the average cash transfer of an aged household, in real terms, had increased by 50% but that of a nonaged female recipient had increased only 13%. Nonaged females in 1978 had the highest incidence of posttransfer poverty—29%, over 4 times that of nonaged males (Table 4). The ratio of the median incomes of female-headed to male-headed households also declined between 1965 and 1978.

Although the incidence of poverty has declined for all groups since 1965, it is still more than twice as high for blacks and Hispanics as it is for whites. Again there are differences among groups. The incidence of poverty for persons living with nonaged, nonwhite men, for example, was more than halved, declining from 35% in 1965 to 13% in 1978. For persons living with nonaged, nonwhite women during the same period, in contrast, poverty declined only from 66% to 53%. Even at the highest rates of poverty reduction experienced during the late 1960s, parity with white poverty levels or median incomes is still far away.[5]

Manpower and employment policies

A basic premise of the war on poverty was that the ultimate solution of the problem would come through increasing the earnings of those at the bottom of the income distribution. This hope was based on the assumptions that sufficient jobs existed—or could be generated—in the private economy; that lack of education and training were at the root of the problems of the poor; and that antipoverty strategies should be consistent with the American work ethic. Government policies were therefore directed at fostering high employment and economic growth, providing education and training programs for those with inadequate skills, and remedying the flaws in the labor market (such as discrimination and lack of information) by legislation and services (e.g., antidiscrimination legislation

Table 4

Income Maintenance Transfers, Household Income, and Poverty among Demographic Groups, 1965 and 1978

	Nonaged Male Head[a]	Nonaged Female Head[a]	Aged Male or Female Head[a]	All Households
A. Percentage of all households receiving any cash transfer[b]				
1965	23.2%	36.6%	87.6%	37.1%
1978	25.8	38.4	95.9	41.8
B. Probability of pretransfer poor households being removed from poverty by cash transfers[b]				
1965	.157	.182	.506	.330
1978	.336	.210	.727	.490
C. Percentage of households with income less than the official poverty line after the receipt of cash transfers				
1965	9.7%	34.1%	32.3%	17.2%
1978	6.9	29.1	17.2	13.0

Source: S. Danziger and R. Plotnick, "Income Maintenance Programs and the Pursuit of Income Security," *Annals (of the American Academy of Political and Social Science)*, *453* (January 1981).

[a]Nonaged are less than 65 years of age; aged are 65 years or more.

[b]Cash transfers include social security, railroad retirement, unemployment compensation, workers' compensation, government employee pensions, veterans' pensions and compensations, AFDC, SSI (Old Age Assistance, Aid to the Blind, and Aid to the Partially and Totally Disabled in 1965), and general assistance.

and the Employment Service). This hope and philosophy led to the Manpower Development Training Act of 1962, the Elementary and Secondary Education Act of 1965, and such programs as Head Start, Neighborhood Youth Corps, and Job Corps. Although the postprogram earnings of participants in these training programs often exceeded program costs, the increased earnings did not play a large role in reducing poverty. Important questions remain regarding the types of training that are most appropriate for various kinds of people under various labor market conditions.

The earlier efforts, with their emphasis on education and training, gave way to emphasis upon direct job creation under the Comprehensive Employment and Training Act (CETA) of 1974, and government subsidies to employers of the disadvantaged. Recent demonstrations of public employment strategies indicate that properly designed employment programs can substantially increase the employment and earnings of some groups among the disadvantaged,[6] but they have yet to be tried on a national scale.

Tax credits, such as the New Jobs Tax Credit of 1976, which gave employers an incentive to hire low-skilled workers and substitute labor for capital, the WIN tax credit (a Work Incentive Program) for employers who hired welfare recipients, the Targeted Jobs Tax Credit, which subsidized the wages of certain targeted groups of workers (such as disadvantaged veterans of the Vietnam war), have attempted to increase earned income in the private sector. They have not been in use long enough for their effects to be measured.

Economic conditions

Macroeconomic conditions have a varied effect on the extent of poverty. It is axiomatic that there are more poor in bad times than in good. Until recently it was also assumed that economic growth would reduce poverty, but there is no evidence that in the face of continuous economic growth the earnings of the poor will grow sufficiently to enable them to escape poverty without government assistance.[7]

There is evidence, on the other hand, that reducing unemployment has more of a poverty-reducing effect than does economic growth. Since labor income provides 70% of the income of the pretransfer poor and near poor, unemployment drops many near-poor households into poverty either through lost jobs or reductions in hours worked. It has been estimated that an increase of only 10% in the unemployment rate leads to roughly a 2.5% increase in the incidence of pretransfer poverty.[8] Further, unemployment may contribute to higher rates of poverty in the future, because youth who fail to obtain jobs miss opportunities for on-the-job training and for occupational advancement.

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Edited by E. Uhr

Inflation affects the economic welfare of all. However, the working poor suffer less from inflation than from unemployment. Hence policies to combat inflation through higher unemployment always adversely affect low-income workers—especially those seeking jobs. Those among the poor who are not expected to work have some protection from inflation. Social security and food stamp benefits are indexed to the overall Consumer Price Index, which provides recipients with larger benefits as prices rise. AFDC is indexed in California. Elsewhere its real value has steadily declined with inflation.

Demographic change

With the aging of the population and the rising incidence of divorce and separation, those demographic groups which have been identified as being at high risk of poverty are growing, thereby exacerbating the poverty problem. These changes resulted as (1) the character and size of families and households, which have been altering for some time, began to change ever more rapidly; (2) the "baby boom" of the 1950s entered the labor force; and (3) substantial migrations of people took place.

Marriage ages rose rapidly; divorce and separation rates continued their upward movement; fertility rates plunged in the early 1970s and have remained low. As a result, average household size decreased, and the fraction of one-person and nonfamily households grew. Changes in age and household composition among poor and nonpoor alike affect income transfer programs, since eligibility and benefits are geared to age, age-related needs, and living arrangements. Further, these transfer programs themselves can influence demographic behavior, particularly choices of living arrangements. (For instance, public assistance payments usually rise with recipient unit size at a decreasing rate per person; there is some evidence that this has encouraged larger households to fragment into smaller ones, or has led families to shift dependents into units with lower incomes.)

The baby boom has had adverse effects on the economic fortunes of young workers—on their earnings, unemployment experience, and rate of advancement. Young families have been under pressure to put off having children, and those women who choose motherhood often attempt to combine the care of children with a job. Marital strains are high, divorce is frequent, and there is greater frequency of suicide, crime, and a sense of alienation. Ironically, when the products of the baby boom are ready for retirement, they will be supported by the much smaller generation of the 1970s (the baby bust)—a fact that has generated much anxiety about the solvency of the social security system.

At the present time demographic changes are thought by some to be largely responsible for the increase in pretransfer inequality that we have documented: a larger proportion of households are now headed by the young, the old, and women without spouses—all groups with below-average incomes.[9] But these changes alone do not account for the failure of inequality to decline. In fact recent studies have shown that inequality within specific demographic groups, including nonaged married men, has increased.[10] In addition, inequality between cohorts has also increased: the ratio of the earnings of the young and of the elderly to those of prime age has fallen.[11]

At the same time that these household trends have been taking place, shifts of population on a large scale have been occurring. The nation's oldest and largest cities have, for decades, been undergoing a steady loss of their population, employment, and industry to the expanding suburbs and to new, fast-growing metropolitan areas in the South and West; while low-income people—largely blacks—have moved from the rural South to metropolitan areas in the North and, more recently, in the South.

These migration patterns have had both socioeconomic and racial aspects that have greatly compounded the strains on our cities. One consequence has been increased attention to the implications for migration patterns of proposed urban programs such as the ghetto enrichment policies suggested by the National Advisory Committee on Civil Disorders (1968) and the call for job incentive programs in central cities issued by the President's Urban and Regional Policy Group (1978). Such programs, it has been argued, would fuel the suburban movement of whites ("white flight") and black inmigration, intensifying the crisis they were intended to alleviate.[12] School desegregation programs were viewed with similar apprehension.

Education

Schooling has long been thought to be the keystone of economic advancement, and public policy has thus sought to encourage more schooling as a means to provide individuals with economically valuable skills and credentials. Research results over the last decade, however, have led to some pessimism about the value of higher education for increasing mobility. Recent analysis of sibling data has led to the conclusion, nonetheless, that four years of high school raise an individual's occupational status modestly, and raise annual earnings by between 15% and 25%.[13] Completion of four years of college raises occupational status substantially, both among men in general and among men with identical test scores from the same family, and raises earnings by 30% to 40%.

Who are the poor?

We have suggested that reductions in poverty since 1965 have been attained primarily through growth in the scope and effectiveness of government transfer policies. Lack of progress in reducing poverty that results from low market incomes makes it important to identify the demographic groups most likely to be poor. Table 5 highlights the characteristics of those who were poor before transfers in 1976.

These groups are most likely to be poor:

1. *The aged.* Almost half the pretransfer poor live in households whose heads are 65 years of age or over. Since in our society the aged are not expected to work, this group should not be regarded as a labor market problem. Indeed, they are no longer even a transfer policy problem, in the sense that social security, Supplemental Security Income, food stamps, Medicare, and Medicaid now provide sufficiently generous benefits to move all the aged receiving them over the poverty line. (The changes now being brought about by cuts and shifts in these programs may change the situation drastically, as may raising the retirement age for social security.)

2. *The disabled.* Next to the aged, the disabled represent the largest group in pretransfer poverty. The likelihood of significant numbers of them escaping poverty through enhanced earnings is also low, although subsidized or sheltered employment may mitigate the pure transfer burden in some cases.

3. *Single women with children under six.* In 1976, almost 7% of households in pretransfer poverty were headed by women with children under six. Twenty years ago such women were expected to stay home and care for their children, but as more and more married women enter the labor force, it is increasingly expected that single mothers with young children should also work. Although enhanced earnings will help, the likelihood of most of these women earning enough to escape poverty and still afford child care is low.

The poverty of this group is attributable in part to the failure of absent fathers to make child support payments. Programs to ensure that levies on absent parents are enforced should improve the economic status of women who head families.

4. *Male and female household heads who are full-time workers.* Most of the 7.6% of the pretransfer poor in this category are poor because they have few skills, low wages, and/or large families. Since this group already works full time, further labor market work is not a feasible antipoverty device, although programs that increase wages may be effective. Expansion of the Earned Income Tax Credit and/or nonwelfare supplements related to family size—such as children's allowances—would also aid the working poor.

Table 5

Causes of Poverty for Households with Market Incomes below the Poverty Line, 1976

Description of Household	Number (millions)	Percentage of the Poor
Aged head (65 years and over)	9.763	46.8%
Disabled head	2.542	12.2
Female head, with a child under 6 years	1.409	6.8
Persons working full time full year	1.583	7.6
Single persons working less than full time full year	1.881	9.0
Male head working less than full time full year	1.465	7.0
Female head, no children under 6, working less than full time full year	1.123	5.4
Students	1.087	5.2
All pretransfer poor households	20.853	100.0

Source: Calculated by Institute staff from the March 1977 Current Population Survey.
Note: Classification is mutually exclusive and is hierarchical: Any household who fits in more than one category has been classified only in the one closest to the top of the table.

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5. *Household heads working less than full time: single persons, male family heads, female family heads without small children.* These groups together account for 21.4% of the pretransfer poor; all are expected by society to work.

For all Americans, poverty varies dramatically by educational attainment, holding region constant (Table 6). Holding education constant, however, poverty varies little across regions, though the Northeast has the highest incidence for each population-sex group. Nonwhite and Hispanic men with less than a high school education are more likely than comparable white men to be poor, before transfers. The differences narrow, however, for those with more than a high school degree, and even reverse for college graduates. Although poverty among women heading households also declines dramatically as education increases, the predicted incidence of poverty among women is much higher at all levels, and the differences by population group are greater. How much of this differential is due to discrimination in wage rates or employment, voluntary differences in labor supply, or differences in experience or other skills remains to be sorted out. Although two traditional policy levers to reduce poverty—assistance to rural out-migrants and greater education—remain relevant, finding or creating jobs and increasing the earnings from those jobs are the most desirable antipoverty strategy for all who are able to work.

6. *Students.* The considerable number of students among the pretransfer poor is largely an artifact of the failure of the Current Population Survey to record transfers received from parents, student financial aid, or loans. Even those students poor today are not likely to remain poor after they graduate.

Table 6

Predicted Incidence of Poverty among Nonaged, Able-Bodied Household Heads, 1978 (Percentages of Appropriate Population Group)

	A. Incidence of market income poverty, by years of schooling completed				
	Less than 8	8-11	12	13-15	16
White male[a]	10.85%	6.85%	3.24%	2.64%	2.36%
Nonwhite male[a]	14.69	12.72	4.67	3.04	1.33
Hispanic male[a]	12.20	9.23	8.22	3.33	1.22
White female[b]	50.11	52.22	24.91	16.02	5.81
Nonwhite female[b]	72.25	65.00	37.75	22.73	10.18
Hispanic female[b]	76.61	73.25	50.82	47.65	24.11

	B. Incidence of market income poverty by region			
	Northeast	Northcentral	South	West
White male[c]	6.85%	3.69%	4.41%	5.30%
Nonwhite male[c]	12.72	9.63	8.36	11.37
Hispanic male[c]	4.23	4.02	7.10	4.73
White female[d]	52.22	49.65	44.10	38.82
Nonwhite female[d]	65.00	58.26	63.54	59.03
Hispanic female[d]	73.29	67.98	52.70	51.45

Source: Estimation of logistic regressions, from March 1979 Current Population Survey, by Institute staff.
[a]Head lives in a metropolitan area, in Northeast region, is 35-54 years of age, not disabled, in a family of three or four persons.
[b]Same characteristics as "a," except woman is divorced or separated.
[c]Head lives in metropolitan area, has completed 8-11 years of school, is 35-54 years of age, not disabled, in a family of three or four persons.
[d]Same characteristics as "c," except woman is divorced or separated.

What can be done about the poor?

- Approximately one-third of household heads with poverty-level market incomes are expected to work. This suggests a role for employment policy.

- Of the remaining two-thirds, most but not all are brought out of poverty by transfers; gaps and inadequate coverage persist.

- The incidence of poverty remains high for certain groups—minorities, households headed by women, the sick, and the disabled. They face difficulties in both the labor market and the transfer system, and research must reflect that interdependence.

What's wrong with our transfer programs?

In view of the fact that the transfer system (which includes both social insurance and welfare programs) has been the chief government instrument for alleviating poverty, and because the Institute for Research on Poverty has special expertise in analyzing policy and programs in this area, we focus in this section on the flaws in the transfer system.

For the past 15 years many analysts have urged replacing the transfer system with a uniform, universal scheme. Nevertheless, the policy response to dissatisfaction with the system has been to continue the categorical, incremental approach that has characterized the system since its inception. This approach reflects the general reluctance to provide transfers to employed and potentially employable persons. Added to this reluctance is the determination on the part of the current administration to reduce government's role in providing for the welfare of its citizens. Although less money will be available to accomplish the goals of the system, much can still be done.

Defects in design

Coverage. Gaps in coverage have long been apparent. In 1979, nearly one-half of the total unemployed were ineligible for benefits from unemployment insurance. Unemployed fathers are ineligible for AFDC benefits in 24 states. Even in states where they are eligible, participation has been low—only 15% to 30%.[14] The Food Stamp program, enacted in 1964 and amended in 1971, 1974, and in 1977, is the sole income maintenance program which offers universal coverage, including intact families with a working member, single adults, and childless couples.[15]

While some low-income persons do not receive any assistance, others are served by a multitude of programs administered by many different agencies with little or no coordination of objectives or operating procedures. The Reagan administration has called public attention to overlaps between Social Security and SSI. A more striking example is the coverage of disability. Over 80 public programs presently provide protection against the risk of disabling illness or injuries in the form of cash, services, or subsidies.[16] Despite this proliferation of public programs, approximately 20% of the nonaged disabled remained poor in 1977.[17]

Adequacy. The adequacy of social security benefits, food stamps, SSI, and a number of other programs depends on their being linked to the CPI, so that they rise with the cost of living. Not all programs are indexed, however. Recently, the adequacy of the AFDC system has come under close examination. Most states refer to the official poverty lines when setting up the minimum standards the poor need in order to get by,[18] but in 1979 only two states set their standards at or above the poverty line, and in no state was the maximum benefit as high as the poverty line.

As mentioned earlier, only in California are AFDC benefits indexed for increases in the cost of living. Over the last decade the real values of AFDC need standards and payment levels have, on average, been eroded by inflation by 27% and 17% respectively. By the common standard of adequacy, AFDC falls short and large differences in benefit levels continue to exist across states.

Accessibility. Estimates of the participation rates of eligible persons in welfare programs range from 45% to 90% and they exceed 75% for only two programs: AFDC and circuit-breaker property tax relief (a rebate on the income tax of a portion of the property tax paid by some low-income groups). For AFDC-Unemployed Fathers, the rate is 15%; for experimental housing allowances, it varies between 26% and 45%; for food stamps, it hovers around 45%.[19] In contrast, participation in the old age insurance programs is virtually 100%. The problem of participation is clearly a major one, but attempts to identify the reasons that people do not or will not participate have met with only limited success.[20]

Efficiency. In administering a social welfare program, efficiency is a matter of spending the money where it will do the most good. The concept of "target efficiency" is often used to judge poverty programs. It measures the proportion of the allocated money that goes to the poor. The higher the proportion, the more efficient the program is deemed to be. But this measure obscures a number of costs, such as work disincentive effects of a high marginal tax rate on the poor. Some of these disincentives are described below.

Adverse incentive effects

Failure of transfer programs to achieve all of their intended goals is only part of the problem. As critical an issue, and one that has received much attention, is the charge that the programs adversely affect economic and social behavior.[21]

Work disincentives. Although, as mentioned earlier, 60% of those who remain poor are not expected to work (e.g., the old) the over 30% who, in the judgment of society, should work, have been the subject of a long-running debate. Both economic theory and common sense suggest that cash payments can induce lower work effort. These disincentives can increase poverty and inequality at the same time that benefit payments decrease them.

Studies have revealed that work effort is adversely affected by marginal tax rates on earned income. Moreover, the responsiveness to tax rates of groups currently aided most by the transfer programs—the aged, disabled, single parents, the poor, the unemployed—is substantially greater than that of able-bodied employed married men who have not reached 65, especially married men living above the poverty line. (Married women also vary the amount of paid work they do much more readily in response to variations in the tax rate.)

Given these strong conclusions on the impacts of tax rates, the high effective rates incorporated into the nation's income support system take on new significance. It is estimated that income transfer programs reduced aggregate labor supply in the late 1970s by about 4.8% per year.[22] The percentage reduction in total economic activity will be less than 4.8%, however, because recipient earnings are well below the U.S. average for all workers.

Effects on savings. In recent years, a large number of researchers have engaged in a spirited debate over the social security-savings nexus.[23] They have reached few firm conclusions, other than that social security may have depressed private savings by a small amount. This disincentive effect probably does little to explain pretransfer poverty among the aged.

Marital instability. It is frequently alleged that various government policies encourage marital dissolution. This criticism has been leveled at the income tax, social security, and particularly at welfare programs. The empirical evidence for the proposition is by no means secure.[24] Most of our evidence comes from AFDC, a program in which the earnings of a father are sometimes less than the value of the AFDC cash payments, the food stamps, and the Medicaid for which his family would be eligible if he were to desert them. These perverse incentives may increase marital instability, but even though empirical studies have found a positive relationship between the level of AFDC payments and rates of women heading families, statistically significant effects have been found in only a few cases. The most recent evidence comes from the Seattle-Denver Income Maintenance Experiment (SIME-DIME), a negative income tax experiment run in these two cities. While some analysts have concluded that a negative income tax would increase the rate of marital dissolutions even as compared to the existing AFDC system, others disagree.[25] A reanalysis of the data is now under way.

Conclusion

In 1981 the incidence of poverty in the United States stood at about 6%, but pretransfer poverty and income inequality remained at or above their 1965 levels.

Although many move into and out of poverty each year, a majority of the poor have permanently low earnings.

Most of the reduction in poverty can be attributed to increased transfer payments. Public employment and training policies have given way to private-sector job creation and subsidies, but determining their effectiveness in lowering poverty requires further research. High unemployment, inflation, and various demographic trends have contributed to the poverty problem. However, migration and a reduction in differences in educational attainment have tended to reduce poverty and inequality.

Growing transfer costs raise issues of efficiency, while reduced savings and work effort generate concern over the incentives inherent in the current transfer system.

Only one-third of those who remain poor can be expected to work; the remaining two-thirds are likely to remain dependent upon transfers. This means that no amount of economic growth and expansion of the labor market will serve as a panacea for poverty. And any actions taken to dismantle the transfer system could conceivably wipe out the large gains that have been made in reducing poverty since 1965. ■

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