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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.

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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New Institute book

A CHALLENGE TO SOCIAL SECURITY: THE CHANGING ROLES OF WOMEN AND MEN IN AMERICAN SOCIETY

edited by

Richard Burkhauser and Karen Holden

Academic Press, 1982, $27.50

The appropriate adjustment of public and private institutions to accommodate the dramatic change in roles within the family over the last decades is a major issue in today's society. The social security system has not been immune to this struggle. Not since the debates during the 1930s over the establishment of social security has the system been so controversial. No issue is more vigorously argued than its treatment of the family, especially its alleged bias against women and men in nontraditional roles. What reforms would address these biases was the question raised at a conference sponsored jointly by the Institute for Research on Poverty and the Women's Studies Research Center of the University of Wisconsin, April 11-12, 1980. *A Challenge to Social Security*, the conference volume, explores the many sides of the controversy and debates how the major reforms that have been proposed would address this bias.

This book shows that the treatment of women and men by the system can only be understood within the system's broader insurance and income-redistribution goals. As Burkhauser and Holden state in their Introduction: "Too often because spouse and survivor benefits are received primarily by women, the rationale and adequacy of the benefits are defined as women's issues. Such a view is too narrowly focused." In discussing the necessity for reform, the history of the system, how it currently works, and four major reform alternatives, the book stresses the often conflicting insurance and income-redistribution goals of the system and the many ramifications of proposed changes.

Included in the volume is an Introduction, which lays out the current challenge to social security posed by the changing roles of women and men, and gives a history of the system and an explanation of how social security currently works. A glossary defines the many terms used in the book.

The contributors to the volume reflect the diversity of views presented in the debate. Indeed there is considerable disagreement among the contributors about the need for radical reform. Some papers debate the appropriate mix in the social security system between insurance and income redistribution and the manner in which these two goals should be met. Others discuss the consequences of change on income adequacy and equity among beneficiary units, with special focus on the consequences of change for aged women. The four major alternatives to the current system (homemaker credits, earnings sharing, and the double-decker and two-tier proposals) are discussed in separate chapters. Two additional papers discuss the ability of private pensions and changes in the disability portion of social security to supplement the old age and survivor benefits in meeting the income needs of the aged. The disability chapter presents new data on how the four major proposals for change will affect disability rolls and the costs of this portion of the social security program.

And what consensus is reached? According to the editors,

> The purpose of this monograph is to sharpen the debate over social security reform. The papers advance our knowledge of the insurance and pure income transfer aspects of each proposal as well as point out different assumptions about family and work behavior underlying each. Whether or not gaps or inequities in the program are justified and whether the minimum income provided is sufficient depend upon the weight put on achieving the goals of adequacy and equity. . . . Other nations have resolved the issue in different ways. Thus the answer is not clear, and the path to reform will be neither easy nor without controversy.

The Reagan administration's budget cuts: Their impact on the poor

by Sheldon Danziger and Robert Haveman

The decision on the part of the Department of Health and Human Services not to fund a center for poverty research is a small indication of an enormous change in the making: the Reagan administration's shift in national priorities.[1] Indeed the President's 1982 and 1983 budget reform plans[2] and the allocation of funds among programs (current and proposed) have represented a sharp break with the recent past. It is evident that the administration is attempting to reverse the trend of the 1960s and 1970s, which had been to move away from military expenditures and toward outlays for social programs. The proposals already implemented as well as those announced as part of the fiscal 1983 budget are designed to reduce government spending as a percentage of the gross national product and to increase the proportion of the budget spent on national defense.

Budget policy since 1965

Between 1965 and 1981, the federal budget grew from 18% of GNP to 23%, doubling in real terms from $330 to $660 billion in 1981 prices. During this period, expenditures for income security (social security, Unemployment Insurance, Aid to Families with Dependent Children, and other programs that provide cash transfers or access to essentials) increased from 22% to 34% of the budget. In percentage terms, the growth in health expenditures—now largely Medicare and Medicaid—was even more rapid, from 1.4% to 10% of the budget. Similarly, the share of the budget devoted to education, training, employment, and social services increased from 1.9% to nearly 5%. Taken together, the budget share of these three categories of social programs doubled from 25% to 50%.

Whereas the budget in 1965 could have been characterized as defense-oriented, by 1981 it was clearly oriented toward social welfare (Table 1). The budget share devoted to national defense, international affairs, and veterans' benefits and services declined from 50% to 29%. In spite of the Vietnam war, solutions to the problems of

Table 1

The Composition of the Federal Budget, Fiscal Years 1965, 1981, and 1986 (in percentage terms)

Category	(1) 1965	(2) 1981	(3) 1986[a]
National defense, international affairs, and veterans' benefits and services	50.4%	29.5%	40.1%
Transportation, community and regional development, and revenue sharing	6.5	6.0	3.6
Natural resources and environment, energy, and agriculture	5.8	4.5	1.5
Income security	21.7	34.3	33.0
Health	1.4	10.0	11.0
Education, training, employment, and social services	1.9	4.8	1.9
General government, interest on the debt, general science, space and technology, other	14.8	15.5	14.7
Offsetting receipts	-2.6	-4.6	-5.8
Total	100.0	100.0	100.0
Total outlays as a percentage of GNP	18.0	23.0	19.9
Total outlays (billions of current dollars)	$118.4	$657.2	$927.0
Total outlays (billions of real 1981 dollars)	$333.3	$657.2	$711.4

Sources: Office of Management and Budget, *The United States Budget in Brief, Fiscal Year 1975* (Washington, D.C.: GPO, 1975), p. 48; Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1983* (Washington, D.C.: GPO, 1982), pp. 3-34, 9.50-9.56

[a]Estimate.

poverty, inequality, urban decay, and limited access to health care and education were the focal points of a concerted federal effort.

The Reagan budget cuts

The pendulum has now swung in the other direction. Many of the programs which grew most rapidly from 1965 to 1981 (Food Stamps, Comprehensive Employment and Training Act, federal guaranteed loan programs for higher education, and Legal Assistance, for example) have sustained the largest cuts. Compared to Carter's proposed 1982 budget, the fiscal 1982 budget that was proposed by Reagan represented a reduction of $44 billion, or 5.7%, and all categories except national defense were reduced.[3] Over half of the $44 billion budget reduction came from two areas: income security; and education, training, employment, and social services.

The full extent of the shift in priorities being carried out by President Reagan can be seen in the estimates for the 1986 budget, in which 19.9% of GNP, rather than the current 23%, is scheduled to be spent. The composition by category of the 1986 budget is shown in the third column of Table 1. By that time, national defense, international affairs, and veterans' benefits and services will account for 40% of the total budget. All of the other categories except health will be reduced in relative importance.

The effects of fiscal retrenchment

The budgetary retrenchment and reallocations are likely to affect income distribution and to alter economic behavior. The 1982 budget cuts exceed 20% in many of the programs introduced or expanded since the 1960s and are likely to increase poverty, despite assurances that the "safety net" will be maintained.

Table 2 shows the size of the 1983 budget for social programs, both with and without the new cuts proposed by the Reagan administration. It gives the anticipated budgetary costs for each program through 1987. Table 3 shows the percentage by which each program will be reduced in fiscal year 1983 by the Reagan cuts. It can be readily seen that while deep cuts are planned for programs designed for the poor and near poor—such as AFDC, Food Stamps, Medicaid, education aid, Low-Income Energy Assistance, and training and employment programs, there will be almost no change in the level of spending in most of the programs that benefit the middle class as well as the poor.

Particularly hard hit will be the demographic group with the lowest mean census income—households headed by women with children. This is a rapidly growing group. The percentage of children now living in one-parent households is 17.6, a figure which has doubled since 1965. Available data indicate that 55.6% of these households receive transfers, which account for 21.5% of their cash income. Although 65% of these women work, 40% of them fall below the poverty line after transfers. Among mothers who never married and mothers in minority ethnic groups, the incidence is much higher. It was estimated by the University of Chicago's Center for the Study of Welfare Policy that the typical AFDC mother who worked would experience a 20% to 30% decline in her monthly income.[4] For example, in New York the typical working welfare mother with two children was expected to experience a decline in monthly income from 119% to 90% of the poverty line; in Texas the decline for the same woman would be from 63% to 48% of the poverty line; in Michigan from 108% to 87%.

Blacks will suffer disproportionately from the Reagan programs. Because a higher proportion of blacks are poor than whites, a greater proportion will be affected by the reductions in transfers. Furthermore, since 55% of the net employment increase for blacks has occurred in the public sector, and much of that in social welfare programs, reductions in these programs will cause a higher percentage of blacks than whites to lose their jobs.

Also greatly affected will be the near poor. This group has been losing ground over the last decade relative to the top income groups. Although their incomes tend to be too high for them to qualify for most transfer programs, their wages are neither high enough nor stable enough to carry them through economic or personal hard times. This group has stayed above the poverty line with the help of food stamps and extended unemployment insurance coverage in economic downturns; it has depended upon job training and education subsidies to provide opportunities for a better life. Yet because the near poor are not being classified as truly needy, their eligibility for food, housing, medical care, and cash benefits is being most restricted.

Ironically, the cuts in social programs may well reduce the work effort of many lower-income families, and in doing so increase the budget costs. One of the immutable laws of public finance is that the adequacy and moderate work disincentives of income transfer programs cannot both be held constant while the population covered is simultaneously reduced. The Reagan program has aimed at maintaining adequacy (the safety net), while removing a large number of families just above the poverty line from the benefit rolls. As a result, work disincentives have increased for those still receiving benefits. For example, before the fiscal year 1982 changes, the typical working welfare mother with one child in Wisconsin earned $432 per month, reported average work expenses of $108, and

Table 2

The Budget and Social Programs: Costs
($ Billions per fiscal year)

Cost	1981	1982	1983	1984	1985	1986	1987
Food stamps[a]							
Without Reagan cuts	$10.3	$10.6	$11.8	$12.1	$12.5	$12.8	$13.1
With Reagan cuts	10.3	10.3	9.6	9.7	10.0	10.2	10.4
AFDC							
Without Reagan cuts	8.1	7.8	6.6	6.6	6.7	6.8	6.9
With Reagan cuts	8.1	7.6	5.5	5.5	5.6	5.6	5.7
Medicaid							
Without Reagan cuts	16.8	18.1	19.0	21.0	24.2	26.5	29.2
With Reagan cuts	16.4	17.8	17.0	18.6	20.4	22.1	24.3
Medicare							
Without Reagan cuts	42.5	49.9	57.8	66.3	76.2	87.0	99.1
With Reagan cuts	42.5	49.6	55.4	61.2	68.4	75.6	83.1

Source: R. Pear, "Benefits for Poor Face Deepest Cuts," *New York Times*, Feb. 14, 1982. © 1982 by the New York Times Company. Reprinted by permission.
Note: The 1981 figures are actual outlays; the other figures are projected spending.
[a] Figures do not include Puerto Rico.

received $217 from AFDC. Her monthly disposable income was $140 higher than that of a nonworking AFDC mother with one child, who received $401 per month. Now after four months of welfare recipiency, her earnings reduce her welfare benefits even further, and she receives only $44 from AFDC. Her income after work expenses is now actually $33 per month lower than that of the nonworking woman, and 32% lower than it was in fiscal year 1981. Such an arrangement is hardly likely to encourage work effort.

These work disincentives may be offset to some extent if the lower benefit reduction rates for those no longer eligible for welfare induce individuals who are affected to increase their work effort. The Reagan administration also seeks to offset the increased work disincentives for welfare recipients by enforcing work requirements.

Thus at the same time that income tax reductions are cutting tax rates for the rest of the population and thereby increasing their prosperity, many lower-income families who receive welfare benefits and already face high benefit reduction rates are confronted by even higher rates, the elimination of programs that made economic advancement possible, and work disincentives.

Table 3

The Budget and Social Programs:
Reagan's Proposed Cuts, 1983
(Percentage change)

Programs designed primarily for the poor	
Child nutrition	9.4%
Medicaid	10.4
Welfare	17.5
Social services block grant	17.8
Education aid	17.9
Food stamps	19.1
Low-income energy assistance	25.8
Training, employment	46.2
Programs serving poor and nonpoor	
Social Security	0
Veterans' disability compensation	1.4
Medicare	4.3
Civil Service retirement	2.2
Guaranteed student loans	23.0

Source: R. Pear, "Benefits for Poor Face Deepest Cuts," *New York Times*, Feb. 14, 1982. © 1982 by the New York Times Company. Reprinted by permission.

The outlook for the future

But what of the supply-side miracle? Suppose that the administration's program does succeed in stimulating economic growth. Peter Gottschalk has examined the evidence concerning the trickle-down hypothesis.[5] He concludes that there is little reason to think that the earnings gains from economic growth that accrue to those with labor market disadvantages are likely to be large enough to significantly reduce poverty. He analyzed the economic situation of a sample of middle-aged married men over the 1966-1975 period and found that even though real earnings increased on average, inequality and the proportion of husbands with low earnings also increased. In fact, 43% of those with low earnings in a given year had low earnings in all the years surveyed, and 78% had low earnings in more than half of them. This indicates a good deal of permanence within the low-earnings population, even during prosperous years.

Gottschalk also shows that, unless policies are implemented to alter the structure of the labor market facing the poor, poverty will decline little in the 1980s even if the unemployment rate is 6% and cash transfers were to grow as fast as national income.[6] Table 4 provides data on the incidence of poverty from 1968 to 1980, and some projections to 1986. The projections are based on the administration's own estimates of unemployment rates, price levels, and social spending. Even if the Reagan administration succeeds in achieving its projected levels of economic growth, poverty in 1986 will be higher than it was at the end of 1980. As for the immediate future, poverty as officially measured is estimated to rise above 15% by the end of 1982, a level not seen since the late 1960s, shortly after the declaration of the war on poverty. ■

Table 4

Percentage of Persons with Incomes below Poverty Line, Selected Years 1968-1980 with Projections to 1986

Year	Official Measure[a]	Adjusted to Account for In-Kind Transfers and Taxes[b]
1968	12.8%	9.9%
1972	11.9	6.2
1974	11.2	7.2
1979	11.6	6.1
1980	13.0	7.5[c]
1981[c]	13.7	8.2
1982[c]	15.2	10.2
1984[c]	14.3	9.3
1986[c]	13.7	8.7

[a] U.S. Bureau of the Census, *Current Population Reports*, "Money Income and Poverty Status of Families and Persons in the United States: 1980," P-60, No. 127, August 1981, for 1968 to 1980.

[b] T. Smeeding, "The Anti-poverty Effect of In-Kind Transfers: A 'Good Idea' Gone Too Far?" *Policy Studies Journal*, forthcoming, for 1968 to 1979.

[c] Estimated by S. Danziger and P. Gottschalk, Institute for Research on Poverty, University of Wisconsin, using data on projected unemployment rates, price levels, and social spending as reported in *Budget of the United States, Fiscal Year 1983* (Washington, D.C.: GPO, 1982).

[1] This article is taken in part from Danziger and Haveman, "The Reagan Budget: A Sharp Break with the Past," *Challenge, 24* (May-June 1981), 5-13 (IRP Reprint 434); Danziger, "Children in Poverty: The Truly Needy Who Fall Through the Safety Net," *Children and Youth Services Review, 4* (1982), 35-51; and Danziger, "The Distribution of Income: An Account of Past Trends and a Projection of the Impacts of the Administration's Economic Program," testimony presented to the Joint Economic Committee, U.S. Congress, February 10, 1982.

[2] President of the United States, *America's New Beginning: A Program for Economic Recovery* (Washington, D.C.: The White House Office of the Press Secretary, February 18, 1981); and Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1983* (Washington, D.C.: GPO, 1982), pp. 3-34, 9.50-9.56.

[3] Because of poor economic performance and continuing high interest rates, it is now estimated that the fiscal year 1982 budget will be $725.3 billion, substantially higher than the $695.3 billion expected when the budget was proposed in February 1981.

[4] University of Chicago, Center for the Study of Welfare Policy, "The Poor: Profiles of Families in Poverty," March 20, 1981, mimeo.

[5] P. Gottschalk, "Earnings Mobility: Permanent Change or Transitory Fluctuations?" *Review of Economics and Statistics*, 1982, in press.

[6] Gottschalk, "Transfer Scenarios and Projections of Poverty into the 1980s," *Journal of Human Resources, 16* (1981), 41-60.

Featured article

Sheldon Danziger and Robert Haveman, "The Reagan Budget: A Sharp Break with the Past," *Challenge, 24* (May-June 1981), 5-13 (IRP Reprint 434).

New Institute book

INCOME-TESTED TRANSFER PROGRAMS: THE CASE FOR AND AGAINST

edited by

Irwin Garfinkel

Academic Press, 1982

Although there is no disagreement among Americans that everyone in our society should have some minimum level of income (the "safety net"), there has been continuous dispute over both what that level of support should be and how it should be provided. The programs which, taken together, make up the American income maintenance system can be categorized in a number of ways, such as whether they distribute benefits in cash or in kind, whether they are run by federal, state, or local government, and whether they are income-tested or non-income-tested.

Income-Tested Transfer Programs, a volume resulting from a conference sponsored by the Institute, is concerned with the third issue. "Income-tested" programs are restricted to the poor. "Non-income-tested" programs are available to everyone in our society (or to classes of people, such as the aged) irrespective of income and assets. Public education, Old Age Security Income, and Unemployment Insurance are examples of non-income-tested programs. Participation does not depend upon income—or the lack of it. Examples of income-tested programs are Aid to Families with Dependent Children, Supplemental Security Income, and Food Stamps. (For a complete list of the programs in the U.S. income-support system see Table 3, p. 3 in this issue.)

"The degree to which benefits should be income-tested may now be the critical issue in income maintenance policy," writes Irwin Garfinkel, the editor of the book:

> It is the principal source of disagreement between advocates of alternative methods of integrating the Supplemental Security Income and the Old Age Insurance programs. It plays a key role in determining alternative positions on the national health insurance issue. It crops up in the debate over what kind of public financing should be provided for day care and higher education. It is the primary source of difference between the credit income tax and the negative income tax [and] it underlies differences in approach to increasing the well-being and/or work effort of female-headed families with children. More broadly, the income-tested issue devolves into the issue of what kind of a society and economy we wish to have.

Brought together to examine and evaluate the pros and cons of income-testing are some of the most prominent members of the academic and public policy communities. Lee Rainwater, James Coleman, and Gordon Tullock discuss the effects of income-testing on behavior and society; Arnold Heidenheimer compares U.S. social policy with its development in Europe. David Betson, David Greenberg, Richard Kasten, Jonathan Kesselman, Efraim Sadka, Irwin Garfinkel, and Kemper Moreland use simulation techniques to compare tax-transfer systems of income-tested and non-income-tested designs.

Brian Abel-Smith analyzes the issue of which in-kind subsidies should be income-tested. Stephen H. Long and John L. Palmer examine the special problem of financing health care, while Harold Watts, George Jakubson, and Felicity Skidmore concentrate on the value of income-testing programs for single-parent families, and David Berry, Garfinkel, and Raymond Munts look at income-support programs for the aged.

In his Conclusion, Garfinkel weighs the evidence on both sides of the issue and draws implications for future policy.

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