Session 1: Transfers, market income, and the trend in poverty

This paper's analysis of trends in poverty and antipoverty policy concludes that although poverty has declined substantially, a significant problem remains.

Sheldon Danziger, Robert Haveman, and Robert Plotnick

In this limited sense of redistributing income to those in need without creating undue distortions, current policy is economically efficient.

David Ellwood and Lawrence Summers

The opening session examined trends in poverty as well as the efficacy of policies to counteract it over the past twenty years. Danziger, Haveman, and Plotnick led off with an assessment of how changing levels of social spending, economic conditions, and demographic change have affected poverty as measured in different ways. Ellwood and Summers followed by addressing the question of whether welfare (public assistance) has proved to be the solution or the principal contributing factor to the continued existence of poverty.

Patterns of the past: Trends, costs, and benefits

Danziger, Haveman, and Plotnick first provided a brief review of antipoverty policies in the last two decades. The original strategy of the War on Poverty was to raise labor market productivity and improve the economy in an effort to cure what were regarded as the three fundamental causes of poverty: lagging economic performance, deficiencies in job skills and qualifications of the poor, and discrimination by those who controlled access to employment or goods or services. A great deal of money was accordingly invested in social insurance, public assistance, and public employment programs after 1964. Real average annual growth rates in federal spending on those programs were 7.9 percent during the Kennedy-Johnson years (fiscal years 1961–69) and 9.7 percent during the Nixon-Ford years (1969–77). Spending growth then slowed to less than 4 percent per year during the Carter administration and declined to about 1.5 percent per year during the first Reagan administration.[1]

The authors then summarized trends in poverty. Under the official measure—cash income after transfers but before taxes—poverty at first declined rapidly, from 19 percent of the population in 1964 to 12.1 percent in 1969. It continued downward, but at a slower rate, in the early 1970s, reaching its lowest point of 11.1 percent in 1973, then fluctuated around 11.5 percent for the rest of the decade before accelerating sharply upward after 1979. In 1983 it stood at 15.2 percent. Adjusting the official measure to account for such in-kind benefits as food stamps and health care produces lower percentages but the same course: a sharp decline from 1965 to 1972, then stability until the late 1970s, followed by a rapid increase in the early 1980s.

Decomposition of these overall rates to reflect the experience of particular demographic groups shows that the largest reductions in poverty took place among the elderly, where the decline from the mid-1960s to 1983 was almost 90 percent under the adjusted measure (see Table 1). Among all whites, poverty over that period dropped by 42 percent; among blacks, by 57 percent, although their poverty rate remained much higher than that of whites in both years. In 1983 the incidence of poverty among persons living in households headed by blacks, Hispanics, and women exceeded 20 percent, even when noncash assistance is taken into account.

Table 1
Percentage of Persons in Poverty, by Demographic Group, 1964–83

Demographic Group[a]	Official Measure 1964 (1)	Official Measure 1983 (2)	Adjusted for In-Kind Transfers at Market Value 1983 (3)	Percentage Difference Between Columns (3) and (1)[b] (4)
All	19.0%	15.2%	10.2%	−46.3%
White	14.9	12.1	8.6	−42.3
Black	49.6	35.7	21.2	−57.3
Hispanic[c]	NA	28.4	20.2	NA
Living with female householder, no husband present	45.9	40.2	24.7	−46.2
Elderly (65+)	28.5[d]	14.1	3.3	−88.4
Children under 18	20.7[d]	22.2	15.6	−24.6

Source: Sheldon Danziger, Robert Haveman, and Robert Plotnick, "Antipoverty Policy: Effects on the Poor and the Nonpoor," Institute for Research on Poverty, Conference Paper, revised March 1985, Table 2. Data are from Census Bureau publications.

Note: NA = not available.

[a]These groups are not mutually exclusive because of constraints in the published data. For example, the category "White" includes all persons living in a household where the head is white. Those whites who are, to take an example, elderly female household heads will also be included in the other two groups.
[b]Defined as [(adjusted rate 1983 − official rate 1964)/official rate 1964] x 100.
[c]Hispanics may be of any race.
[d]Figures are for 1966 since they are not published for 1964 or 1965.

Williamsburg Conference Papers

Most of the papers listed below are versions revised after the conference. All include their discussants' comments. Papers may be ordered from the Institute (see order form, inside back cover).

Transfers, Market Income, and the Trend in Poverty

1. "Antipoverty Policy: Effects on the Poor and Nonpoor," by Sheldon Danziger (University of Wisconsin), Robert Haveman (University of Wisconsin), and Robert Plotnick (University of Washington).
2. "Poverty in America: Is Welfare the Answer or the Problem?" by David T. Ellwood and Lawrence H. Summers (Harvard University).

   Comments by Morton Paglin (Portland State University), Timothy Smeeding (University of Utah), and Kenneth Clarkson (University of Miami).

Family Background, Family Structure, and Poverty

3. "Household Composition and Poverty: Which Comes First?" by Mary Jo Bane (Harvard University).
4. "Poverty and Family Structure: The Widening Gap between Evidence and Public Policy Issues," by William Julius Wilson and Kathryn M. Neckerman (University of Chicago).

   Comments by Lee Rainwater (Harvard University) and June O'Neill (Urban Institute).

Social Services, Civil Rights, and Poverty

5. "Social Policies, Civil Rights, and Poverty," by Charles V. Hamilton (Columbia University) and Dona C. Hamilton (Lehman College).

   Comment by Peter Eisinger (University of Wisconsin).
6. "Legal Rights and Welfare Change: 1960–1980," by Michael Sosin (University of Wisconsin).

   Comment by Lawrence M. Mead (New York University).

The Labor Market and Poverty

7. "Macroeconomics, Income Distribution, and Poverty," by Rebecca M. Blank and Alan S. Blinder (Princeton University).

The Labor Market and Poverty (Cont.)

8. "The Effect of Direct Job Creation and Training Programs on Low-Skilled Workers," by Laurie J. Bassi (Georgetown University) and Orley Ashenfelter (Princeton University).

   Comments by Peter Gottschalk (Bowdoin College) and Joseph Antos (U. S. Office of Management and Budget).

Health, Education, and Poverty

9. "Health Care and the Poor: The Last Twenty Years," by Paul Starr (Princeton University).

   Comment by Jack A. Meyer (American Enterprise Institute).
10. "Education and Training Programs and Poverty; *or,* Opening the Black Box," by Nathan Glazer (Harvard University).

    Comment by Christopher Jencks (Northwestern University).

Budgetary and Social Costs of Antipoverty Policy

11. "Public Spending for the Poor: Trends, Prospects, and Economic Limits," by Gary Burtless (Brookings Institution).
12. "The Political Foundations of Antipoverty Policy," by Hugh Heclo (Harvard University).

    Comments by James Patterson (Brown University) and John Palmer (Urban Institute).

Summing Up and Looking Ahead

13. "A Rapporteur's Reflections on the Main Themes of the Conference," by Edward M. Gramlich (University of Michigan).
14. "A Poverty Research Agenda for the Next Decade," by Daniel Weinberg (U.S. Department of Health and Human Services).

Poverty concepts and measures

The authors examined concepts of poverty that vary according to source of income. "Pretransfer poverty" refers to those whose income lies below the official poverty threshold after earnings and other personal income are counted and before government transfers are received. These numbers provide a measure of the public-sector effort that would be required to remove those people from poverty after the private sector has distributed its rewards. The "prewelfare poor" are those who remain impoverished even after receiving social insurance benefits, such as unemployment insurance and retirement income from Old Age and Survivors Insurance, most of which are related to previous earnings. Information about the prewelfare poor tells us which persons and families would need such cash assistance programs as AFDC and Supplemental Security Income to escape poverty.[2]

In terms of where we stand today, the record for both those poor before any transfers and those poor before welfare receipt is somber. The pretransfer poverty rate in 1965 was 21.3 percent. After declining to 17.7 percent in 1969, it stayed between 19 and 22 percent until the early 1980s, then rose to 24.2 percent in 1983. Prewelfare poverty also fell; its lowest point was 12.4 percent in 1973, but by 1983 it was 16.1 percent, only slightly lower than in 1965. The authors offered two summary statements: "If solving the poverty problem means eliminating reliance on any income support program to obtain non-poverty incomes, no progress toward a solution is evident. If solving the poverty problem means eliminating the need for public assistance to achieve above-poverty incomes, a solution still eludes us" (pp. 14–15).

Forces driving poverty up or down

To identify the forces that have impelled these trends over time, the authors emphasized three factors: economic performance, government transfers, and demographic change. Viewed in this way, the years 1965 to 1983 fall into four different periods. From 1965 to 1969 a strong economy made pretransfer poverty decline, while the antipoverty effect of transfers (defined as the percentage of pretransfer poor removed from poverty by them) increased; the result was that poverty fell rapidly. From 1969 to 1975 pretransfer poverty rose as the result of recession, but transfers also grew more effective; the result was that poverty remained fairly steady. From 1975 to 1978, pretransfer poverty declined somewhat as the economy improved, while the effects of transfers did not change, so poverty fell slightly. From 1978 to 1983, the antipoverty effect of transfers declined and pretransfer poverty rose, owing to recession; the rate consequently climbed steeply. Meanwhile, increases in the size of demographic groups with higher than average poverty rates, particularly single women with children—the subject of the next conference session—increased the aggregate poverty rate even when market income and transfer growth both worked to lower the rate.

What does this permit us to say about government efforts to reduce impoverishment? When the Great Society programs were conceived, it was thought that government assistance could better the condition of the working poor by ensuring economic growth and providing job training and education, and that reliance on transfers would be minimized as earnings went up. This expectation has not been realized: much of the change in poverty since 1965 results from improvement in the transfer system, a method that is both costly and conflicts with the American ethic of self-reliance.

Gains and losses for the nonpoor

Danziger, Haveman, and Plotnick also provided a rough estimate of what the gains and losses from antipoverty policies have been for those not poor—those who paid most of the bill for whatever gains were achieved by the poor. Among the losses are increased taxes to finance government outlays, as well as lower earnings that stem from a reduction in labor supply by the nonpoor in the face of greater benefits combined with higher taxation. On the other hand, this decreased work effort may be seen as a benefit in the form of more leisure and home activities. Other "spillover" benefits include higher levels for the nonpoor of transfer income, education and training, and medical care services. The nonpoor also benefit through increased economic security.

Summing the totals of the approximate values assigned to the quantifiable items produced an estimated net loss to the nonpoor equivalent to 2–3 percent of personal income in 1980. A small price, the authors thought, in return for the benefits to society of poverty reduction and enhanced income security.

Hindsight and foresight

The paper concluded by offering lessons from the past and recommendations for the future. One lesson is that we have made gains against poverty, purchased at large budgetary cost and modest efficiency losses such as those resulting from reduced work effort. Second, transfer benefits have helped the poor but have not enabled them to move into the labor market and earn their own way. Third, economic prosperity and poverty reduction go hand-in-hand. The record tells us, however, that economic disparities based on race, gender, and household headship have remained obstinately difficult to reduce. And short-term, nonintensive interventions such as brief training courses, counseling, or placement services have not significantly improved work effort or earnings. Finally, the poor as well as the nonpoor respond to incentive effects of transfers.

In a list of recommendations for reorienting antipoverty policy, the authors urged that benefits not be reduced for those unable to work (the elderly, the disabled); that a national minimum AFDC benefit be introduced; that employment programs be implemented for recipients able to work; that the earned income tax credit for low-income workers with children be expanded and indexed for inflation; that the current system for awarding and enforcing child support payments be reformed;[3] and that the poor be aided more through changes in the personal income tax so as to minimize the need for welfare.

Poverty and welfare

Ellwood and Summers responded to recent charges that programs intended to reduce the numbers of the poor have actually made the situation worse over time, since the incidence of poverty is higher today than in the early 1970s despite large and increasing social expenditures.[4]

They first reviewed trends in poverty, antipoverty spending, and economic performance. After describing the divergent trends for two groups—the elderly, whose poverty rate has steadily declined for the past twenty-five years, and the nonelderly, whose rate fluctuated in the 1970s and then rose sharply from 1979 to 1983—the authors pointed to the close connection between the trend in median family income and the poverty rate among those of working age. Those two series run virtually parallel from 1959 to 1981: as median family income rose, the incidence of nonelderly poverty fell, and vice versa. That pattern suggests that change in median family income is the dominant determinant of the fortunes of the poor, which in turn suggests that various factors such as changes in the state of the economy, or the work of wives, or the composition of households are the primary tools to reduce poverty.

That the economy has weakened over past years is demonstrated by the fact that median family income in 1980 was no higher than in 1969. Should the flatness of that line be attributed to mistaken welfare policies? It would be "absurd" to do so, Ellwood and Summers asserted, since other indicators that are largely immune to the effects of social spending—the market valuation of physical capital, for example—show a similar trend. Clearly, the worsening condition of the poor is one part of poor economic performance, whose causes have been discussed, but not agreed upon, by analysts.

Spending on social welfare nevertheless mushroomed after 1960 (see Table 2), and a major question is why more people were not pushed over the poverty line as a result. Ellwood and Summers's answer was that the bulk of social spending has been targeted on the elderly, not on the nonelderly poor. In 1982, cash assistance programs for the nonelderly amounted to less than 1 percent of GNP and less than 2 percent of the federal budget. In sharp contrast with social insurance outlays, which are not means tested, levels of cash aid for the poor rose very little in the 1970s. Over that entire decade, annual cash expenditures (in 1980 dollars) for a nonelderly poor person rose by a total amount of only $93. In-kind benefits increased much more, and although those programs certainly improve the well-being of the poor, they do not affect the official poverty rate.

Table 2

Costs of Major Income Transfer Programs for the Elderly, the Totally Disabled, and All Others, 1960–80 (Billions of 1980 dollars)

	1960	1970	1980
Programs for the Elderly			
Cash social insurance[a]	$38.9	$82.6	$149.0
Cash public assistance[b]	4.5	4.0	2.7
In-kind transfers[c]	0.1	21.6	40.8
Programs for the Totally Disabled			
Cash social insurance[d]	1.6	6.5	15.4
Cash public assistance[e]	0.7	2.1	5.0
In-kind transfers[f]	0.0	2.2	11.5
Programs for Others			
Cash social insurance[g]	12.0	15.8	32.5
Cash public assistance[h]	3.7	11.6	13.9
In-kind transfers[i]	0.4	5.8	20.8

Source: Adapted from David T. Ellwood and Lawrence H. Summers, "Poverty in America: Is Welfare the Answer or the Problem?" Institute for Research on Poverty, Conference Paper, revised March 1985, Table 1. Most of the data are from *Social Security Bulletin, Annual Statistical Supplement, 1982*, and *Statistical Abstract of the United States, 1978, 1984.*

[a] Social security retirement (Old Age and Survivors Insurance), railroad retirement, and public employee retirement benefits.

[b] In 1960 and 1970, the Old Age Assistance programs administered by the states; in 1980, the benefits-to-aged component of Supplemental Security Income. The smaller figure for 1980 reflects the dramatic increases in social insurance benefits during the 1970s.

[c] In 1960, housing assistance (estimated); in 1970 and 1980, housing assistance (estimated), Medicare, Medicaid, and food stamps.

[d] Social Security Disability Insurance (enacted 1956).

[e] In 1960 and 1970, the Aid to the Disabled programs administered by the states; in 1980, the disability component of Supplemental Security Income.

[f] In 1970, Medicaid only; in 1980, Medicaid plus Medicare (extended to the disabled in 1974).

[g] Unemployment Insurance and Workers' Compensation.

[h] Aid to Families with Dependent Children and General Assistance.

[i] In 1960, housing assistance (estimated); in 1970 and 1980, housing assistance (estimated), Medicaid, and food stamps.

Disability, single parenthood, and jobless youth

Have government programs actually aggravated the problem of poverty, as sometimes alleged, by breaking up families and discouraging work effort? Ellwood and Summers examined three groups commonly cited as adversely affected by existing policies: the disabled, members of single-parent families, and black youth.

They concluded that the Social Security Disability Insurance program cannot be held responsible for the decline in recent years of the labor force participation of men. As evidence they cited the subsequent earnings pattern of those who applied to the program but were denied benefits—a group which, on average, should be considerably more employable than those who were accepted. Surveys show that rejected applicants performed very little work thereafter. "The lesson appears to be that the disability programs are one example where a carefully targeted program can give generous benefits without generating large adverse incentive effects" (p. 23).

Aid to Families with Dependent Children (AFDC) has been accused of causing marital disruption and instilling economic dependency among recipients. Ellwood and Summers compared the percentage of children living in female-headed households with the percentage of children living in AFDC households. If welfare payments have encouraged mothers to separate from their husbands or to forego marriage, both percentages should rise. Yet, since 1972 the proportion of children in AFDC families has held steady at about 12 percent, while the proportion of children living with a single mother has risen from 14 to 20 percent. The number of black children in AFDC families actually went down 5 percent from 1972 to 1980.

Another test of the AFDC marital-disruption thesis lies in a comparison of the benefit levels across states—which vary greatly—with corresponding divorce rates, birth rates to unmarried women, and percentages of children in single-parent households. If welfare is a causal agent, the rates in each state should vary according to benefits available there. But the authors found no obvious correlation on any of those dimensions, reinforcing their conclusion that AFDC is not a major determinant of changes in family structure.[5] Nor can it be charged with keeping women out of the work force, since a number of recent studies have shown that women who were working and receiving welfare benefits did not quit work and return to the rolls when the 1981 welfare reforms terminated them from the program.[6]

Concern over long-term dependency on AFDC is justified in the case of a small portion of women: earlier research by Ellwood and Mary Jo Bane (another conference participant) showed that about 15 percent of AFDC recipients remain in the program for eight or more years. Most, however, use the program as a short-term stopgap; more than 50 percent leave the rolls within two years.[7]

The authors' review of black youth unemployment found the problem grave and the policy options unclear. Other papers, particularly that of William Julius Wilson and Kathryn Neckerman in Session 2, also focused on that problem. Despite civil rights legislation and the increasing convergence of educational patterns of blacks and whites over the past thirty years, the gap in unemployment rates of black and white youth has been growing wider. Whereas the rate remained fairly stable for whites, in the range of 10 to 15 percent from 1954 to 1980, it rose in that period from 16 to 36 percent for blacks. Have social welfare programs significantly affected this trend? Apparently not, according to Ellwood and Summers, who found that the black-white differentials were similar regardless of geographic location, family type (one- versus two-parent), or income group. And in any case, single men are eligible for few welfare benefits (generally only food stamps).

Recommendations

The authors drew three main conclusions: growth in economic productivity is a powerful tool for raising the incomes of the poor; government transfer policies do not seem responsible for most of the problems of the disadvantaged; and those problems vary to such a degree among the three groups that our present categorical approach to public assistance should remain in force. Current welfare policy emphasizes aid to those least able to help themselves—the disabled and single-parent families. Ellwood and Summers, like Danziger, Haveman, and Plotnick, urged that AFDC benefit levels be raised to keep pace with inflation and that wide regional variation in those levels be smoothed out. For unemployed youth, they emphasized the lack of clear solutions. The negative income tax experiments demonstrated that increased welfare benefits for this age group lowered work effort. Targeted employment programs, the subject of a subsequent paper (in Session 4), may be of benefit, but are currently very limited.

Critique and commentary

Among the discussants, Morton Paglin criticized Ellwood and Summers for using the official measure of poverty, which overstates poverty because it excludes in-kind benefits and does not adjust for household underreporting of income. (In recognition of this problem, the Census Bureau has begun to release poverty estimates that value government transfers in kind.) Paglin thought that Ellwood and Summers's demonstration of a close correspondence between median family income and poverty rates would break down if one used a more comprehensive measure of poverty. He was critical of Danziger and his coauthors for having erred in the other direction; namely, overstating the antipoverty effectiveness of government transfers. Their estimates were based on the concept of pretransfer poverty, which assumes that transfers do not reduce work effort or savings or influence living arrangements.

FOCUS is a Newletter put out three times a year by the
Institute for Research on Poverty
1180 Observatory Drive
3412 Social Science Building
University of Wisconsin
Madison, Wisconsin 53706

The purpose of *Focus* is to acquaint a large audience with the work of the Institute for Research on Poverty, by means of short essays on selected pieces of research. A subscription form with rates for our Discussion Papers and Reprints is on the back inside cover. Nonsubscribers may purchase individual papers from the Institute at $3.50 for a Discussion Paper and $2.00 for a Reprint. *Focus* is free of charge, although contributions to the University of Wisconsin Foundation-Institute for Research on Poverty Fund in support of *Focus* are encouraged.

Edited by Elizabeth Evanson and E. Uhr. Written by Elizabeth Evanson.

The views expressed in the papers described in this issue are not necessarily those of the U.S. Department of Health and Human Services, which provided funds for the conference.

Kenneth Clarkson commented on the problems of charting trends over time in view of changing concepts and definitions in the official and unofficial statistics, the varying dates for sources of information that impede construction of consistent time series, and the use of potentially misleading aggregations over time, such as failing to take into account the declining size of households when analyzing trends in their poverty incidence and distribution.

Timothy Smeeding pointed out that since 1981 the incidence of nonelderly poverty has increased despite continued growth in the median income, a pattern that contrasts with the one described (accurately) by Ellwood and Summers for the pre-1981 period. The reason for the change is increased inequality in the income distribution. In both papers, Smeeding found a common theme: that the current system of income support for the poor is not as defective or pernicious as has sometimes been charged. Both sets of authors concluded that transfers reduce poverty, with a modest cost in efficiency loss. In examining subgroups among the poor, however, neither paper made the indirect, but in Smeeding's view highly important, link between the poverty that afflicts families headed by single mothers and the deficient labor market performance of the fathers of their children. Those families, and that link, formed the subject of the next set of papers.■

[1]Percentages from Table A.2, p. 350, in *The Reagan Record: An Assessment of America's Domestic Priorities*, ed. John L. Palmer and Isabel V. Sawhill (Cambridge, Mass.: Ballinger, 1984).

[2]The authors noted that their measures of pretransfer and prewelfare poverty overstate the extent to which private incomes fail to keep people out of poverty insofar as transfers induce labor-supply reductions; income in the absence of transfers may therefore exceed measured pretransfer income. Nevertheless, both series can be considered reasonable indicators of pretransfer trends.

[3]See Irwin Garfinkel and Elizabeth Uhr, "A New Approach to Child Support," *The Public Interest*, *75* (1984), 111–22. Available as IRP Reprint no. 488.

[4]These charges are articulated by Charles Murray in *Losing Ground: American Social Policy, 1950–1980* (New York: Basic Books, 1984).

[5]In another study, Ellwood and Mary Jo Bane performed other comparisons, examining changes in benefits across states over time and comparing patterns of divorce and childbearing among groups likely to collect AFDC with groups who were not. They found few effects of AFDC on family structure. See Ellwood and Bane, "The Impact of AFDC on Family Structure and Living Arrangements," report prepared for the U.S. Department of Health and Human Services under Grant 92A-82, Harvard University, 1984.

[6]See "Measuring the Effects of the Reagan Welfare Changes on the Work Effort and Well-Being of Single Parents," *Focus* 8:1, pp. 1–8.

[7]"The Dynamics of Dependence: The Routes to Self-Sufficiency," report prepared for the U.S. Department of Health and Human Services, Harvard University, 1983.