University of Wisconsin-Madison

Institute for Research on Poverty

Discussion Papers

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THE WAR ON INCOME POVERTY: ACHIEVEMENTS AND FAILURES

DP #660-81

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March 1980
Revised, April 1981

To appear in: Welfare Reform in America. Perspectives and Prospects, edited by Paul Sommers (Martinus Nijhoff, 1981).

This research was supported in part by funds granted to the Institute for Research on Poverty at the University of Wisconsin-Madison by the Department of Health, Education and Welfare pursuant to the Economic Opportunity Act of 1964. The authors wish to thank G. William Hoagland and Timothy Smeeding for provision of the data on adjusted incomes and Peter Gottschalk, George Jakubson, Robert Lampman, and Eugene Smolensky for helpful comments on a previous draft.

ABSTRACT

This paper presents an evaluation of the war on poverty that lends some support to two opposing views. The view that the war on poverty was a "dramatic failure" gives rise to the policy prescription that nothing can be done, that government antipoverty policy cannot alter the structure of economic opportunity or economic rewards. The view that the war on poverty "has been won," which seems to have been adopted by the Reagan Administration, implies that no more need be done, that the problem has been solved, and that no new initiatives are in order.

The contradictory evaluations arise because of differences in opinion concerning the goals of the war on poverty and the definition of poverty itself. We suggest that the answer to "Has the War on Poverty Been Won?" is neither a simple "yes" nor a simple "no."

The War on Income Poverty: Achievements and Failures

1. INTRODUCTION

The history of antipoverty policy since the war on poverty began is one of significant policy changes. New programs were introduced and old programs were expanded; the emphasis of the federal budget shifted from military spending toward social welfare spending; the Office of Economic Opportunity was created and then dismantled; all domestic policies came to be asked the question "What does it do for the poor?"[1] The prevailing view at the outset of the war on poverty, expressed not only in President Johnson's speeches, but in academic journals as well, was optimistic--government actions could solve the poverty problem if enough resources were focused on the task and if the economy experienced stable economic growth.

This optimism soured by the late 1960's as the war in Vietnam replaced the war on poverty in the headlines and helped destroy faith in the government's ability to solve any problem. The argument that problems could not be solved by "throwing money" at them, and that the antipoverty attempts had failed was increasingly heard. This pessimistic view of the early 1970's held that the programs of the war on poverty were "poorly planned, passed in haste, inadequately funded" and, hence, programs that accomplished little.[2] A radical expression of this view is exemplified by a book which appeared in 1973--<u>How We Lost the War on Poverty</u>. Gronbjerg, Street and Suttles hold a similar position, arguing that:

> The dramatic failure of the antipoverty program of the 1960's must be understood not simply as a whistling of reform against the wind of

> laissez-faire, but also as a prime example of the weakness of the American conception of reform. (p. 160)[3]

In the late 1970s a revisionist view gained credence. Its boldest expression asserts that rather than having been lost, the war on poverty has been won. Martin Anderson, now domestic policy advisor to the Reagan Administration, concludes that:

> The "war on poverty" that began in 1964 has been won. The growth of jobs and income in the private economy, combined with an explosive increase in government spending for welfare and income transfer programs, has virtually eliminated poverty in the United States. (p. 37)[4]

Of course, not everyone subscribes to one of these two polar positions. Many analysts would place themselves at various points along the line between them.

These conflicting views of the results of the war on poverty not only influence the evaluation of the past fifteen years of antipoverty policy, but also guide policy prescriptions for the future. The view that the war on poverty was a "dramatic failure" gives rise to the policy prescription that nothing can be done, that government antipoverty policy cannot alter the structure of economic opportunity or economic rewards. The view that the war on poverty "has been won", which seems to have been adopted by the Reagan Administration, implies that no more need be done, that the problem has been solved, and that no new initiatives are in order.

This paper presents an evaluation of the war on poverty that lends some support to each of these opposing views. The contradictory evaluations arise because of differences in opinion concerning the goals of the war on poverty and the definition of poverty itself. We suggest that the answer to "Has the War on Poverty Been Won?" is neither a simple "yes" nor a simple "no."

We derive our answer in the sections that follow. First we review the background and goals of the war on poverty. Then we analyze the trend in poverty using a range of poverty measures. We conclude that progress against poverty has been made. However, if poverty is to be further reduced--if the war on poverty is to be won--antipoverty policy must shift away from the current reliance on income transfers. We advocate a redirection of policies towards one of the original goals of the war on poverty--the elimination of poverty for those who can work through the enhancement of earned incomes.

2. THE WAR ON POVERTY[5]

In the early 1960s there were no official estimates of the nature or extent of poverty in the United States. The term "poverty" did not appear in government studies or programs. A comprehensive bibliography of available research on poverty ran only a few pages. Since the Great Depression of the 1930s, little attention had been paid to poverty as a societal problem. Few legislative initiatives explicitly designed to aid the poor had been proposed. Economic policymakers in the post-World War II period had focused on full employment and economic growth. The conventional wisdom held that as the economy prospered, living standards would increase for all and poverty would wither away.

Two influential books--The Affluent Society by John Kenneth Galbraith (1958) and The Other America by Michael Harrington (1962)--challenged this conventional view. Galbraith and Harrington spoke of the "forgotten" and "invisible" poor and advocated direct government action against poverty.

More important than the details of the arguments is their success in calling public attention to the plight of the poor.

President Kennedy is said to have been influenced by the poverty he had observed while campaigning in West Virginia during the 1960 presidential primary, and by Harrington's book. In 1963, he asked Walter Heller, Chairman of the Council of Economic Advisers, for background information on the poverty problem. An analysis by Robert Lampman, a member of the Council's staff, concluded that although poverty had been declining since 1947, the rate of decline had slowed since 1956. Lampman's analysis supported the view that high levels of employment and economic growth, while necessary, would not prove sufficient for a high rate of poverty reduction.

After Kennedy's assassination, President Johnson pushed forward with the planning and analysis of various proposals to aid those with low incomes. In his first State of the Union speech in January 1964, he declared the war on poverty, and shortly thereafter, transmitted to Congress the 1964 Economic Report of the President which contained the first official analysis of poverty. This important document presented the conceptual foundation on which the war on poverty was based, provided an official definition of poverty (although this definition was later revised), analyzed the extent of poverty, and outlined a set of antipoverty initiatives.

The chapter listed a broad range of policy instruments: maintaining high employment, accelerating economic growth, fighting discrimination, improving regional economies, rehabilitating urban and rural communities, improving labor markets, expanding educational opportunities, enlarging job opportunities for youth, improving health, promoting adult education and training, and assisting the aged and disabled. It was expected that the achievement of some of these goals would directly reduce poverty, while the achievement of others would do so indirectly. The report recognized the complexity of the poverty problem and cautioned that no single program could meet the needs of all of the poor.

The comprehensiveness of the strategies listed by the Council of Economic Advisers signaled a reorientation of all domestic policies toward a concern with poverty. Robert Lampman has argued that the very declaration of the war on poverty had an almost immediate and lasting effect--it required all existing programs and proposals for policy changes to address the question, "What does it do for the poor?"

In the months following the declaration, a wide variety of initiatives was proposed by the Johnson Administration and enacted by Congress. One of these, the cornerstone of the war on poverty, was the Economic Opportunity Act. The act created the Office of Economic Opportunity (OEO), the agency responsible for directing and coordinating the antipoverty effort, several programs designed to train young people (Job Corps, Neighborhood Youth Corps), the Community Action Program, several rural assistance programs, the Work-Experience Program for welfare recipients, and VISTA, the domestic counterpart to the Peace Corps.

The primary focus of the direct OEO attack on poverty was to help the young achieve better employment opportunities and higher wages. The first year appropriations for all the titles of the Economic Opportunity act, about $1 billion, were substantially smaller than the $20 billion of income transfers from existing government programs received by the poor in 1965. However, the indirect effects generated by OEO and the war on poverty were to become large and reach most of the poor, particularly the aged.

Neither the report of the Council nor the Economic Opportunity Act proposed either a public jobs program or an increase in cash assistance (except for the aged and disabled), although these were advocated by several policymakers at the time. Such approaches were not proposed because they were inconsistent with the prevailing view of the causes of poverty.

This view was apparently based on the assumptions that (1) sufficient jobs existed in the private economy or could be generated through Keynesian policies to bolster aggregate demand (such as the 1964 tax cut), (2) at the core of the poverty problem were the inadequate levels of education and training of poor individuals and (3) the antipoverty strategy had to be consistent with the American work ethic. Given these assumptions, an antipoverty strategy that stressed the delivery of services to the poor, rather than one which proposed major changes in the labor market or a guaranteed income, was in order. The view that poverty could be eliminated by "adapting and enriching" the poor was consistent with both the "culture of poverty" perspective and the human capital model, and, thus, was widely held. Moreover, the American work ethic--"if you work hard, you will get ahead"--called for programs which provided an opportunity to escape poverty by one's own efforts, rather than programs which provided cash assistance. It was recognized, of course, that this approach would only work for those who could participate in the labor force, especially those who were able-bodied and nonaged.

There were recognized flaws that impeded the smooth functioning of labor markets--discrimination, inadequate labor market information--but these could be remedied by government actions (e.g., antidiscrimination legislation, the Employment Service) that did not require public provision of jobs. Policies to foster high employment and economic growth could increase demand for the labor of the poor while education and training programs could increase the quantity and quality of the labor the poor supplied. The poor could then escape poverty in the same manner as the nonpoor--through the private labor market.

This emphasis on the provision of opportunity rather than on the direct provision of jobs or income maintenance was reflected in Johnson's remarks of August 20, 1964 when he signed the Economic Opportunity Act.

> We are not content to accept the endless growth of relief rolls or welfare rolls. We want to offer the forgotten fifth of our people opportunity and not doles.
>
> That is what this measure does for our times.
>
> Our American answer to poverty is not to make the poor more secure in their poverty, but to reach down and to help them lift themselves out of the ruts of poverty and move with the large majority along the high road of hope and prosperity.
>
> The days of the dole in this country are numbered.

Perhaps as important as the "anti-dole" philosophy was the expectation that either a jobs program or an income maintenance program (or both) would be very expensive, and could not be financed without a tax increase.

Closely connected to the war on poverty were the larger goals of the Great Society. While the war on poverty attempted to increase the resources available to the poorest citizens, the goals of the Great Society were broader and included, according to the 1965 <u>Economic Report of the President</u>, meeting the challenge of urbanization, educating citizens, raising health standards, reducing poverty, and assuring equality of opportunity. The central focus was the reduction of discrimination against and the enhancement of opportunity for the disadvantaged, but improvements in the physical and social environment were expected to benefit all citizens.

The banner of the Great Society stretched beyond the goals of eliminating poverty and providing equal opportunity to the transformation of a wide range of societal institutions. Changes in the political and legal context had to be concomitant with those in the economic arena. Thus, the Community Action Program was to foster citizen participation and power, the Legal Services Program to give the poor an equal chance in the courtrooms, and the Model Cities program to revitalize urban centers.

Legislation during this period was influenced not only by the concepts of the Great Society and war on poverty, but also by the goals of the civil rights movement. Unprecedented social legislation expanded the scope of the American social welfare system and brought the federal government into areas previously reserved for state and local governments or the private sector.

This brief history of the war on poverty foreshadows the sources of the divergent views regarding the outcome of the war that came to be held by various analysts in the late 1970's. Poverty emerged during the 1960s as a "paradox in the midst of plenty" at a time when there was little experience on which to draw, few experts who could be called upon for advice, and no detailed plan of action awaiting implementation. What emerges from the report of the Council of Economic Advisers and from Johnson's speeches was a commitment to an attack on poverty based on the view that the poor could be changed and/or given an opportunity to work their way out of poverty.

Nonetheless, there was no agreement on the nature or definition of poverty or on the specific means for attack. Enthusiasm for the effort encouraged rhetorical excesses, such as Johnson's promise of "total victory." These raised expectations so high that progress, if short of the total elimination of poverty, has been judged a failure by some critics. Other observers have pointed out the achievement of the national goal, citing, as evidence, a large decline in measured poverty. But they have not addressed the means by which the reduction in poverty was achieved.

We now turn to an examination of the central goal of the war on poverty—the elimination of income poverty. We discuss not only the progress that has been made, but also the process by which change has occurred.[6]

3. THE TREND IN POVERTY: THE EVIDENCE

An analysis of income poverty requires the specification of both a poverty threshold and an income concept. A household is considered "poor" if its income falls below the poverty threshold. Different poverty thresholds and income concepts convey different information about the nature and magnitude of the poverty problem. Rather than select a single measure of poverty, our analysis is based on a set of measures derived from two types of thresholds—absolute and relative—and four income concepts—pretransfer, prewelfare, posttransfer, and adjusted income. We begin by describing the official definition of poverty. Then we introduce the other measures, and evaluate the trend in poverty since 1965.

The federal government's official measure of poverty provides a set of income cutoffs adjusted for inflation, family size, age and sex of family head, number of children under age 18, and farm-nonfarm residence. The cutoffs provide an absolute poverty threshold which specifies in dollar terms minimally decent levels of consumption possibilities for families of different types. For 1978, the official poverty thresholds range from $2,650 for a single aged female living on a farm to $11,038 for a two-parent family of seven or more persons not living on a farm. The archetypical nonfarm family of four had a cutoff of $6665.

The official income concept is current money income received during the calendar year.[7] Current money income does not include government or private benefits in-kind (e.g., Food Stamps, Medicare benefits, employer-provided health insurance) nor does it subtract taxes, although these factors affect a household's command over resources. We refer to the official income concept as posttransfer income.

Some writers have argued that absolute poverty thresholds, such as the official ones, fail to measure adequately changes in poverty in a society with an increasing standard of living. They conclude that persons whose incomes fall well below the prevailing average in their society are regarded as poor by that society, no matter what their absolute incomes may be. Thus, they advocate relative poverty thresholds which vary directly with average income.

To reflect this concern about income inequality, we use relative poverty thresholds in addition to the official ones. In 1965, the first year for which we present detailed data, we set the relative poverty lines equal to the official absolute ones. (In 1965, the official lines were equal to about 45 percent of the median income.) In succeeding years the relative lines are changed at the same rate as the median income.[8] With this approach, trends in absolute and relative poverty are easily compared because they begin with the same base year value. In applying the relative thresholds, we use the posttransfer income concept employed by the official measure.

We can apply the absolute and relative lines to three income concepts in addition to posttransfer income. Posttransfer income does not distinguish between income derived from market sources (e.g., wages, property income) and income derived from government sources (e.g., Social Security, Public Assistance). As such, it fails to separate the market's antipoverty performance from the performance of government cash transfer programs. Our second income concept, <u>pretransfer income</u>, makes this distinction. Families and unrelated individuals who do not receive enough money income from market sources to raise themselves over the poverty lines constitute the pretransfer poor (a more exact title would be pre-government-transfer poor). Because pretransfer income is always less than or equal to posttransfer income, this concept suggests a larger poverty population.

A related measure of income is <u>prewelfare income</u>. While pretransfer income does not count any money income from government programs, prewelfare income excludes only income from public assistance (i.e., welfare) programs. Social insurance benefits (e.g., Social Security, Unemployment Insurance) are included in prewelfare income because they do not depend on the current income of the recipient. They are based on the individual's (or, sometimes, spouse's) past earnings and contributions and are received because of retirement, disability, unemployment, work injury, or death. Thus, social insurance benefits are generally perceived by the public as earned. For many, the "real" poverty population, the one to whom antipoverty policy should be addressed, is the prewelfare poor.

Our fourth concept, adjusted income, corrects three flaws in the data used to measure poverty which bias estimates of the poverty population. First, posttransfer income does not include in-kind income provided by government sources. Since these benefits increase a family's command over resources, their exclusion leads to an overestimate of the poverty population. Second, many persons misreport (underreport) their incomes. The official statistics make only a partial correction for underreporting, so this defect also overestimates the number of low-income persons. Third, direct taxes are ignored, so the amount of income available for household consumption spending is overstated. Because the official lines represent the cost of minimally decent levels of consumption, not adjusting for taxes underestimates the size of the poverty population.

The adjusted income concept confronts these three problems. We use data that have been corrected for income underreporting, and to which the amount of in-kind income each living unit receives from the largest government in-kind programs has been added and federal income and Social Security tax liabilities have been subtracted. These corrections yield a better measure of the income actually available to each household for consumption spending than does the official approach.

We now present our analysis of the trends in poverty using these four income concepts, and two types of poverty threshold.[9] Explanations for these trends are offered in the next section. The different measures of poverty lead to divergent conclusions on how much progress against poverty has been made since 1965. While absolute pretransfer poverty has remained constant throughout this period, adjusted income poverty has been dramatically reduced. The trends in relative poverty, for each of the income concepts, are less favorable.

Table 1 presents the trend in the incidence of poverty among persons for each poverty measure. We first discuss the trends in absolute poverty, shown in the top panel, then briefly consider the relative data, shown in the lower panel.

Pretransfer poverty. The size of the pretransfer poverty population has received little attention primarily because such data are not published by the Census Bureau. This information is essential for policy analysis. For example, a goal of the war on poverty was to provide an opportunity for poor persons to earn their way out of poverty. The pretransfer poverty statistics suggest how many and what kinds of persons need skill training, job placement assistance and, perhaps, public employment.

A striking observation emerges from column 1. The level of absolute pretransfer poverty was nearly stagnant during the period. In 1965, 21 percent of all persons were pretransfer poor. The incidence declined from 1965 to 1968, but returned to over 20 percent by 1974 and has remained at that level.

Prewelfare poverty. Prewelfare poverty data have also not received much attention and are also not published, even though this concept is relevant for welfare reform debates. In 1965, 16.3 percent of all persons were prewelfare poor (column 2). Owing partly to a strong labor market and partly to increased social insurance transfers, prewelfare poverty declined to 13.6 percent in 1968. Since 1968, despite a substantial increase in real social insurance benefits, prewelfare poverty has barely declined; it was 12.6 percent in 1978.

Table 1

The Trend in the Incidence of Poverty Among Persons

Type of Measure, Year	Income Concept: Pretransfer Income	Prewelfare Income	Posttransfer Income	Adjusted Income[a]
Absolute Measure				
1965	21.3%	16.3%	15.6%	12.1%
1968	18.2	13.6	12.8	10.1
1970	18.8	n.a.	12.6	9.4
1972	19.2	13.1	11.9	6.2
1974	20.3	13.1	11.6	7.8
1976	21.0	13.1	11.8	5.9
1978	20.2	12.6	11.4	n.a.
1980	n.a.	n.a.	n.a.	4.1
% change, 1965–1978b	- 5.2	-22.7	-26.9	-66.1
Relative Measure				
1965	21.3%	16.3%	15.6%	n.a.
1968	19.7	15.3	14.6	n.a.
1970	20.8	n.a.	15.1	n.a.
1972	22.2	n.a.	15.7	n.a.
1974	22.9	16.1	14.9	n.a.
1976	24.1	16.3	15.4	n.a.
1978	23.9	16.5	15.5	n.a.
% change, 1965–1978	+12.2	+ 1.2	- 0.6	n.a.

Source: Unless noted otherwise, the data are computations by the authors from the Survey of Economic Opportunity (for 1965) and various March Current Population Surveys (for other years)

[a]Adjusted income for 1968-1972 is taken from Timothy Smeeding, "Measuring the Economic Welfare of Low Income Households and the Anti-Poverty Effectiveness of Cash and Non-Cash Transfer Programs," Ph.D. Dissertation (Madison: University of Wisconsin, Department of Economics, 1975). For 1965, it is extrapolated from Smeeding's 1968 result. For 1974, it is computed according to methods developed by Smeeding. For 1976 and 1980, see the paper by G. William Hoagland in this volume. Hoagland's data are for fiscal years and are only roughly comparable with earlier years due to methodological differences. All adjusted estimates for 1965-1980 include benefits from Food Stamps, Medicare, and Medicaid. The 1972, 1976 and 1980 estimates also include Public Housing; the latter two also include School Lunch benefits.

[b]Percentage change for adjusted income poverty is for 1965-1980, not 1965-1978.

n.a. = not available.

Posttransfer poverty. The incidence of posttransfer poverty (the official measure) declined by about 27 percent between 1965 and 1978. Again, most of the decline occurred before the 1970's. Poverty in 1978, 11.4 percent, was only 1.4 percentage points below the 1968 value.

Adjusted poverty. When Census data are adjusted for underreporting of incomes, payment of federal income and payroll taxes, and receipt of in-kind transfers, a major decline in the incidence of poverty is revealed (column 4). While 12.1 percent were poor in 1965, adjusted poverty was cut by two thirds. Only 4.1 percent were poor in 1980.[10]

The adjusted poverty data have led some analysts to conclude that the war on poverty has been won. Yet, an incidence of 4.1 percent for the entire population means that about 9 million persons remain poor. And among some subgroups, even adjusted levels of poverty remain quite high. For example, in 1976 about one-fifth of persons living in households headed by nonaged black females, one in nine living with white females, and one in ten living with black males remain poor. While the adjusted data do suggest that substantial progress against poverty has been made, they should not deflect concern away from the problem that remains.

Relative Poverty. For the three income concepts shown, the relative measure provides a less optimistic view--a higher level of poverty in each year and no downward trend. Relative pretransfer poverty, 23.9 percent in 1978, was 12.2 percent higher than its 1965 level. Relative prewelfare and posttransfer poverty have fluctuated only slightly during the period, and remain at about 16 and 15 percent, respectively.

Poverty Gap. The incidence of poverty, as shown in Table 1, reveals the percentage of persons whose incomes fall below the poverty threshold, but does not distinguish the degree of poverty. The "poverty gap," which measures the total amount of income required to bring every poor person up to the poverty threshold, does distinguish between poor persons who are very close to being nonpoor and those who are farther away from the thresholds. The data on the magnitude of the poverty gap (table not shown) computed for each of our poverty thresholds and income concepts conform to our conclusions on the incidence. Greater progress against poverty is shown for the absolute rather than the relative thresholds and the adjusted rather than pretransfer income concepts. In 1981, the absolute poverty gaps range between $20.4 billion for posttransfer poverty and $62.7 billion for pretransfer. The official gap, $20.4 billion, represents about one percent of the gross national product. The adjusted income gap was $9.6 billion in 1980. All relative poverty gaps increased since 1965; in 1978, the relative posttransfer gap was $31.9 billion.[11]

Summary. Our review of the data gives a contradictory impression about the trend in poverty and the current dimension of the problem. The facts do not "speak for themselves." Absolute poverty has diminished and the needs of the poor are being better met, but the level of pretransfer poverty has not declined. Relative poverty has not declined, so the incomes received by those at the bottom have not increased relative to the average. These facts do not lead us to conclude either that the war on poverty has been won or that government policy has been ineffectual. The income poverty problem is multidimensional, and our diverse set of measures emphasizes its complexity. We are concerned not only with the absolute well-being of the poor, but with the process by which that well-being is achieved, and with how their level of well-being compares to that of the rest of society. In the next section, we discuss some explanations for these trends.

4. THE TREND IN POVERTY: EXPLANATIONS

At an elementary level, the trends in posttransfer and adjusted poverty can be readily explained. Because absolute pretransfer poverty did not fall, but posttransfer and adjusted poverty did, government transfers must have grown and/or become increasingly effective. Also, increased transfers helped maintain a constant level of relative posttransfer poverty despite an increase in relative pretransfer poverty. In this section we consider several reasons for the failure of pretransfer poverty to decline. Then we assess the antipoverty impact of cash and in-kind income support.

Pretransfer poverty. We explore three main hypotheses for the failure of pretransfer poverty to decline--(1) demographic change, (2) decreased earnings in response to improved transfer benefits, and (3) a stagnant national economy. We focus on absolute poverty statistics for convenience; analysis of relative data yields similar conclusions.

The proportion of persons in households headed by females steadily rose over the period. Over half of this group remains pretransfer poor because of low rates of labor force participation and low wage rates, caused by sex discrimination and/or relatively low job skills. Hence, increases in the percentage of households headed by females raise the overall incidence of pretransfer poverty. An increase in the fraction of persons in households headed by aged males has had a similar, but quantitatively smaller effect. In the absence of such demographic changes, pretransfer poverty would have been 17.0 percent in 1978 (instead of the observed 20.2 percent) or 4.3 percentage points below the 1965 level.[12] Thus, declines in the incidence of pretransfer poverty among certain demographic groups were offset by population shifts towards groups with higher than average rates of pretransfer poverty.

The incidence of pretransfer poverty is also affected by income transfer programs. Recipients of transfers are induced to work less than they otherwise would, and these declines in earnings cause some persons to become pretransfer poor who would otherwise not have been poor. As more people receive transfers and as benefit levels rise, pretransfer poverty could increase, *ceteris paribus*. Some analysts have suggested that the lack of progress against pretransfer poverty may have been caused by a reduction in work effort induced by the recent expansion of transfers.

To assess this hypothesis, we simulated the labor supply and earnings effects of major cash transfer programs for 1967 and 1974, and used the results to determine what the level of pretransfer poverty would have been in the absence of transfers.[13] The major results are in Table 2. The population in the simulation includes persons in families with a head between the ages of 20 and 59. Thus, the numbers in this Table cannot be directly compared to those in Table 1.

Column 1 shows an observed rise in pretransfer poverty from 12.5 to 13.9 percent. As expected, column 2 reveals that, without transfers, the extent of pretransfer poverty would have been lower in both years. Nonetheless, even if transfers had not increased, pretransfer poverty would still have risen over time. This simulated increase from 11.9 to 12.4 percent would have been smaller than what was actually observed.

Table 2

Actual and Simulated Trends in Pretransfer Poverty Among Persons and the Antipoverty Impact of Transfers, 1967 and 1974[a]

	Observed	Simulated
Incidence of Pretransfer Poverty		
1967	12.5%	11.9%
1974	13.9	12.4
% Change	+11.2	+ 4.2
Incidence of Posttransfer Poverty[b]		
1967	11.2	11.2
1974	11.4	11.4
Percent Reduction in Poverty by Transfers[c]		
1967	10	6
1974	18	8

[a]Sample includes all persons living in families headed by persons between the age of 20 and 59 and not in the armed services.

[b]The incidences of posttransfer poverty in both columns are the observed rates.

[c]Defined as [Pretransfer Incidence-Postransfer Incidence)/Pretransfer Incidence] x 100. For example, for 1974 observed data, (13.9-11.5/13.9) x 100 = 18%.

Hence, one may conclude that transfers are responsible for a "poverty inducement effect," but it does not seem very large.

The stagnant economy of the 1970's is the third and probably the major reason for the persistence of pretransfer poverty. Between 1965 and 1968, real pretransfer income per household grew 7.1 percent. The "trickle down" effect of this growth is evident in the decline in pretransfer poverty over this period (see Table 1). Between 1968 and 1972 real pretransfer income per household only rose 1.4 percent,[14] and pretransfer poverty began to increase. During 1972-1978, real pretransfer income per household actually dropped 1.3 percent. This decline is probably the major cause of the increase in pretransfer poverty after 1972.

The antipoverty effectiveness of transfers. Between 1965 and 1978 the growth in real expenditures on cash and in-kind transfer per recipient household far exceeded the real increase in per household income. This growth, a major development in American social welfare policy, accounts for much of the observed declines in absolute poverty.

Table 3 measures the antipoverty effectiveness of transfers by the percentage of the pretransfer poor removed from poverty by transfers.[15] The table divides all government transfers into social insurance transfers, public assistance transfers, and in-kind transfers (whether social insurance or public assistance).

For each type of transfer and for each measure of poverty, public transfers became increasingly effective since 1965. The fraction of absolute pretransfer poor households receiving a cash transfer payment rose from less than 70 percent in 1965 to over 80 percent in 1978, and the real value of the typical household's transfer also increased. As a result, transfers removed about 43 percent of the pretransfer poor from absolute poverty in 1965, and over 70 percent in 1976. The larger effect is due both to the increase in average benefit level and to the increasing recipiency rate among the pretransfer poor.

Cash social insurance transfers remove more persons from poverty in both years and for both measures than do cash public assistance transfers, because a greater portion of the pretransfer poor receive them, and because the average social insurance benefit is higher. In-kind transfers--which include benefits from both social insurance and public assistance programs--have a smaller antipoverty impact than cash social insurance and a larger impact than cash public assistance transfers.

The figures of Table 3 overstate the net antipoverty impact of transfers because of the induced work reductions mentioned above, and because transfers may induce changes in living arrangements. For example, rising levels of Social Security have been accompanied by an increase in the percentage of elderly couples who maintain separate households. Some of those now choosing to live alone are pretransfer poor but receive enough Social Security to avoid posttransfer poverty. Without Social Security, or with smaller benefits, some of them might have lived with children earning nonpoverty incomes. If this were the case, pretransfer poverty as it is conventionally measured would have been lower. Hence, some of the pretransfer poverty which is observed to be eliminated by transfers might, in fact, have been created by the labor supply and living arrangement choices induced by these programs.

How serious is the overstatement stemming from these two behavioral responses to transfers? Current estimates suggest that the impact of public assistance transfers on living arrangements and the resulting

Table 3

The Antipoverty Effectiveness of Transfers

Poverty Measure	Percentage of the Pretransfer Poor Removed from Poverty by: Cash Social Insurance Transfers[a]	Cash Public Assistance Transfers[b]	In-Kind Transfers[c]	All Transfers
Absolute Measure				
1965	23.5	3.3	16.4	43.2
1976	37.6	6.2	28.1	71.9
1978	37.6	5.9	n.a.	n.a.
Relative Measure				
1965	23.5	3.3	n.a.	n.a.
1976	32.4	3.7	n.a.	n.a.

[a]Cash social insurance transfers include social security, railroad retirement, unemployment compensation, workmen's compensation, government employee pensions, and veterans' pensions and compensation.

[b]Cash public assistance transfers include AFDC, SSI (OAA, APTD and AB in 1965), and general assistance.

[c]In-kind transfers include Medicare, Medicaid, Food Stamps, and, for 1976, School Lunch and Public Housing; this figure also adjusts for direct taxes and the underreporting of cash transfers.

effect on poverty are rather small.[16] The simulation results in the bottom panel of Table 2 show that after adjusting for the negative labor supply responses, the net decline in pretransfer poverty due to transfers would have been 8 percent, rather than the observed 18 percent in 1974. However, both the simulated and observed data suggest that the antipoverty effectiveness of transfers increased between 1967 and 1974.

A summing up. We have shown that the observed trend in posttransfer poverty is influenced by three distinct components: the trend in pretransfer poverty, changes in the transfer system's antipoverty effectiveness, and demographic change in the composition of households. A simple statistical decomposition confirms the importance of each of these factors.[17] We compute what the level of posttransfer poverty would have been in 1978 if one of the three components had remained at its 1965 level, but the other two components had been at their 1978 levels. Then we compare this hypothetical incidence with the actual 1978 incidence. If the hypothetical incidence exceeds the actual level, the change in the component between 1965 and 1978 contributed to a reduction in posttransfer poverty.

Between 1965 and 1978, observed posttransfer poverty as officially measured declined from 15.6 to 11.4 percent. If the incidence of pretransfer poverty for each demographic group had been constant at the 1965 levels, but if the antipoverty effectiveness of transfers and the distribution of the population among demographic groups had been at their 1976 levels, then posttransfer poverty would have been 14.2 instead of 11.4 percent. Thus, as noted earlier, there was a decline in pretransfer poverty for some demographic groups. Similarly, posttransfer poverty would have been 14.4 percent if the antipoverty effectiveness of the transfer system had not improved. Because this simulated value is higher, we can conclude that the increased antipoverty impacts of transfers were more important than declines in pretransfer poverty. Demographic changes, however, contributed to an increase in posttransfer poverty. If the composition of households across demographic groups had remained at 1965 proportions, poverty would have been only 9.3 percent.

5. TOWARD A NEW WAR ON POVERTY

The data discussed above lend some support to the divergent views on the future of antipoverty policy. Some, looking at the adjusted data, have claimed that income poverty is now all but erased, and that the undesirable side effects of antipoverty policies have grown large. They claim that work and savings incentives have been eroded--for both the poor and the rich--and as a result, economic growth has been impeded and productivity retarded. Some taking this position argue that the growth of these programs should be curtailed; others want the programs scaled back or eliminated.

We offer a quite different evaluation. In our view, the evidence does not sustain the claim that retrenchment is in order, even though all is not as it should be.[18] Critics have overstated both the gains against poverty and the negative efficiency effects of the existing income support system. Although progress has been made by the standard of adjusted poverty, pretransfer poverty and relative poverty have not declined. And while the growth of income transfers has increased work disincentives, their magnitude poses no serious threat to the efficiency of the economy. From our reading of the evidence, neither "the drastic fiscal retrenchment" proposed by

President Reagan or continued expansion of current programs is the appropriate policy response. Retrenchment might promote efficiency, but it will also increase poverty. While current transfer programs have been effective in reducing poverty, their expansion is not likely to produce a noticeable reduction in the number of poor people because most of the additional transfers would go to recipients who already are above the poverty line.[19] However, such an expansion would cause further erosion of work effort.

We envision a reorientation of income support policy that emphasizes work opportunities rather than cash support and focuses on the distinction between those who are not expected to work--those who are aged or disabled or in school or who have to care for young children--and those who are expected to work.[20] Real levels of income transfers should be maintained for those not expected to work. Most, but not all, of these households currently receive transfers, and their declines in poverty since 1965 are mainly due to increasing transfers. Because the official poverty lines are adjusted for cost of living increases, transfers to these groups must increase or poverty will increase. The prospects for such increases are not favorable, however. Benefit levels are not likely to be increased in programs where they are not already indexed because of taxpayer complaints about high tax burdens. Indeed, there have been proposals for de-indexing some benefits and for restructuring others.

Antipoverty policy must especially confront the financial needs of female-headed families. A large proportion of these households remain poor even though about 40 percent receive transfers, and about three-quarters already work at least part-time. Members of this group cannot now be easily classified as expected to or not expected to work. The past consensus that a woman without a husband should remain at home to care for her children has been eroded by the growth of labor force participation by mothers in two-parent families. If single parents do not increase their work effort, and if, as we have argued, benefits in existing programs are not likely to be greatly increased, then the standard of living of single-parent families will remain low.

About a third of all pretransfer poor household heads are in our expected-to-work target group. Members of this group--especially males heading households and single males and females--are less likely to receive income support from current programs than are the rest of the poor. Policies to enhance employment and earnings for these persons warrant attention for two major reasons. First, reductions in work induced by the current system are its most significant negative efficiency effect. These reductions entail real economic losses and generate vociferous public dissatisfaction. Second, the major lesson which we draw from the reform debates of the past decade is that a welfare reform of the negative income tax variety that does not promote independence from support payments cannot solve the "welfare mess."[21] To do so requires that we reduce poverty not by providing more income support payments to those who are expected to work, but by providing more job opportunities and higher earnings.

The Reagan administration seems to have adopted the view which prevailed before the war on poverty--that a growing economy is a sufficient antipoverty policy. However, the experience of the recent past suggests that a jobs-oriented approach for aiding the poor is necessary even when the economy is operating at high levels of employment.[22]

As we enter the 1980's a reorientation of antipoverty policy toward increasing the demand for low productivity workers offers the potential for reducing both poverty and dependence on government payments. More important, such an emphasis returns us to one of the major goals of the war on poverty. The war on poverty marks an important turning point in the evolution of American social welfare policy. Significant gains have been made, yet further initiatives are needed. The war on poverty of the 1960's has run its course. Now is the time to declare a new war on pretransfer poverty for those who can work, and to continue transfer programs that reduce poverty among the rest of the poor.

NOTES

[1]Robert, Lampman. "What Does It Do For the Poor? A New Test for National Policy." Public Interest, Winter 1974.

[2]Henry J. Aaron. Politics and the Professors (Brookings, 1978).

[3]Marc Pilisuk and Phyllis Pilisuk, editors. How We Lost the War on Poverty (Transactions Books, 1973). Kirsten Gronbjerg, David Street and Gerald Suttles. Poverty and Social Change (University of Chicago Press, 1978).

[4]Martin Anderson. Welfare (Hoover Institution Press, 1978).

[5]This section draws from several histories of the War on Poverty. In particular, see Henry J. Aaron, Politics and the Professors (Brookings, 1978); Joseph A. Kershaw, Government Against Poverty (Brookings, 1970); Sar A. Levitan, The Great Society's Poor Law (Johns Hopkins, 1969); James Sundquist, editor, On Fighting Poverty (Basic, 1969); James Tobin, "Raising the Incomes of the Poor" in Kermit Gorden, editor, Agenda for the Nation (Brookings, 1968); Robert Lampman, Ends and Means of Reducing Income Poverty (Markham, 1971); Robert Haveman, "Poverty and Social Policy in the 1960's and 1970's," and Lawrence Friedman, "The Social and Political Context of the War on Poverty," both in Robert Haveman, editor, A Decade of Federal Antipoverty Programs (Academic, 1977); Sar A. Levitan and Robert Taggart, The Promise of Greatness (Harvard, 1976).

[6]As mentioned above, there were other goals of the period and other (nonincome) dimensions of poverty which were to be attacked. An examination of these other goals and dimensions is beyond the scope of this paper.

[7]This is measured by the Census Bureau as the sum of money wages and salaries, net income from self-employment, Social Security income and cash transfers from other government programs, property income (e.g., interest, dividends, net rental income), and other forms of cash income (e.g., private pensions, alimony).

[8]This threshold differs from the half-the-median standard offered by Victor Fuchs. The specifics of this measure are as follows. We divide each family's current money income by its official poverty line. This yields a "welfare ratio" that indicates the fraction by which the family's income exceeds or falls below the official poverty line. Families with the same welfare ratio are assumed to be equally well-off. We define the relative poor as those families with welfare ratios below .44 of the median ratio.

The fraction .44 was not an arbitrary choice. In 1965, the base year for our analysis of changes in poverty, the median welfare ratio was 2.25. All living units with incomes below the official poverty lines had, of course, welfare ratios less than one. Thus, any household that in 1965 was poor under the official definition necessarily had a welfare ratio less than 1.00/2.25 of the median. Defining the relative poor as those with welfare ratios below 1.00/2.25 = .44 of the median yielded, in 1965, the same group of households as were poor from the absolute perspective.

[9]We do not combine the adjusted income data with a relative poverty line. Estimating in-kind income from private sources (e.g., fringe benefits) and taxes paid by the nonpoor poses such severe problems that we could not accurately determine their level of adjusted income. Thus, we could not compute a relative measure based upon the median adjusted income.

[10]Hoagland's 4.1 percent figure is based on a 1978 data base which is statistically aged to 1980. The macroeconomic assumptions used for this aging were more favorable than the 1980 reality. Adjusting for this would yield an estimate of poverty after the receipt of cash and in-kind transfers of about 6 percent.

Paglin's paper in this volume shows an even lower incidence of adjusted income poverty. However, his estimates rest on questionable assumptions for distributing some in-kind transfers, are not derived from microeconomic data (and thus, fail to distinguish households with a given income that are eligible from those that are not eligible for benefits), and do not account for taxes paid. Each of these points leads to an underestimate of the number of poor persons.

Nevertheless, estimates of poverty from all of the studies which account for in-kind transfers are closer to each other than they are to the estimates of studies using Census data excluding in-kind transfers.

[11]All poverty gap data are expressed in 1978 dollars. One cannot conclude that an increase of only $20.4 billion in transfers could have eliminated poverty. This figure is clearly a lower bound. Any current transfer program that would bring everyone up to the poverty line would aid many with incomes already above the line. Also, increases in transfers would lead some recipients to work less, increasing their poverty gaps and the transfers needed to bring them out of poverty.

The posttransfer relative gap was 1.9 percent of personal income in both 1965 and 1978. To the extent that relative poverty is concerned with the share of income going to the least affluent, one might argue that the relative poverty gap remained constant during this period. However, data on the average posttransfer poverty gap per person for both the absolute and relative measure increased, indicating that the poor in 1976 were somewhat farther from the poverty thresholds than the poor in 1965.

[12]To control for demographic change, we assumed the proportion of persons in each of sixteen major demographic groups remained constant between 1965 and 1978, but that the incidence of pretransfer poverty within each group changed as observed. By multiplying the 1965 proportions by the 1978 incidence values and summing, we obtain the hypothetical level of pretransfer poverty that would have existed in 1978 if no demographic shifts occurred. The sixteen groups are listed in footnote 17.

[13]For details, see Robert Plotnick, "The Redistributive Impact of Income Support Programs: A Better Measure," mimeo, 1980.

[14]During 1968-1972, real pretransfer income per <u>person</u> rose 7.1 percent. The demographic shift toward smaller living units during these years caused the number of households to grow faster than the number of people. Because poverty is measured by household income, it is appropriate to focus on household data. For a critique of the "trickle-down" view, see Peter Gottschalk, "Transfer Scenarios and Projections of Poverty into the 1980's," <u>Journal of Human Resources</u>, 1981.

[15]The antipoverty impacts of seven cash and three in-kind transfer programs are assessed here. They are 1) Social Security and Railroad Retirement, 2) Medicare, 3) federal, state and local government employee pensions, 4) unemployment insurance, 5) worker's compensation, 6) veterans compensation and pensions, 7) Supplemental

Security Income, 8) public assistance (AFDC, AFDC-U, General Assistance and, prior to 1974, OAA, APTD and AB), 9) Food Stamps, and 10) Medicaid. While several in-kind transfer programs and all expenditures on public education have been omitted, Food Stamps, Medicare, and Medicaid alone account for over 80 percent of all federal in-kind transfers. For 1976, School Lunch and Public Housing benefits are also included.

16 See Sheldon Danziger, George Jakubson, Saul Schwartz and Eugene Smolensky, "The Welfare System as a Determinant of Female Household Headship," Institute for Resarch on Poverty, Discussion Paper, March 1980.

17 Simple algebra shows how these three factors are related. For demographic group i, the incidence of posttransfer poverty, $p_i = pr_i t_i$, where pr_i = the incidence of pretransfer poverty and t_i = fraction of the pretransfer poor not taken out of poverty by transfer ($1 - t_i$, therefore, is a measure of the amount of poverty relieved by public transfers). The overall incidence of posttransfer poverty,

$P = \sum_{i=1}^{N} c_i \rho_i$, where c_i is the fraction of the total population found in group i, and $\sum_{i=1}^{N} c_i = 1$. Substituting for p_i, we find $P = \sum_{i=1}^{N} c_i pr_i t_i$. To assess the effect of change in any one of these variables on P, we can, for example, hold pr_i and t_i constant at their values in the first year, and let c_i vary as observed. The resulting value for P indicates the impact of demographic change on the level of poverty. This statistical decomposition is based on the assumption that the three factors—pretransfer poverty, transfers, and demographic composition—are indepndent of each other. As we stated earlier, demographic change also affects pretransfer poverty, and transfers affect both demographic composition and pretransfer poverty. As a result, this decomposition should be viewed as an approximation.

The population was divided into sixteen groups based on the age of head (over 65, under 65), race (white, nonwhite), sex of head, and household type (family, unrelated individual).

[18]A complete review of the equity and efficiency effects of the income support system can be found in Sheldon Danziger, Robert Haveman, and Robert Plotnick, "How Income Transfer Programs Affect Work, Savings, and the Income Distribution: A Critical Review." Journal of Economic Literature, September 1981.

[19]Robert Plotnick and Timothy Smeeding, "Poverty and Income Transfers: Past Trends and Future Prospects." Public Policy, Summer 1979.

[20]For a more complete proposal for reform, see Sheldon Danziger, Irwin Garfinkel and Robert Haveman, "Poverty, Welfare and Earnings: A New Approach." Challenge, September/October 1979.

[21]Sheldon Danziger and Robert Plotnick. "Can Welfare Reform Eliminate Poverty?" Social Service Review, June 1979.

[22]The paper in this volume by Robert Haveman, "Direct Job Creation: Potential and Realities" discusses the types of proposals we envision.