The Alleviation of Poverty: How Far Have We Come?

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Prepared for:
Oxford Handbook of the Economics of Poverty
Philip N. Jefferson, Editor

January 2011

JEL classifications: D31, I3, J1, J3

Keywords: poverty, measuring poverty, market income, antipoverty policy, demographic change

I thank participants in the Cornell Population Program seminar and Robert Hutchens for helpful comments on earlier drafts.

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Abstract

This chapter discusses trends in U.S. poverty since 1964 and the factors behind those trends. Between 1965 and 1970 the official poverty rate fell significantly because market poverty declined and the antipoverty impact of transfers improved. After 1970 market poverty stopped declining but since the antipoverty impact of transfers improved for several more years, official poverty kept falling until the mid 1970s. The adjusted poverty measure, which takes account of non-cash benefits, taxes, and tax credits, declined until 1979. Since 1980 there has been little overall progress against poverty.

Changes in market poverty, in the antipoverty impact of public programs, and in demographic structure contributed to the lack of progress. Market poverty failed to decline because powerful economic forces depressed low skill workers’ earnings. Workforce development programs, welfare reform and other public policies intended to increase earnings were inadequate to counteract these forces. High immigration and increases in single parent families resulted in Americans increasingly living in families that were relatively more likely to be poor. The antipoverty impact of public programs eroded during the late 1970s and early 1980s, and has yet to recover.

Continuing obstacles to reducing market poverty and the clouded prospects for better income support and poverty-reducing demographic change suggest that poverty will remain a pressing issue in the second decade of the 21st century. The chapter’s final section sketches policy options for raising low-skill workers’ earnings, improving the antipoverty impact of transfers, and reducing the share of families at high risk of being poor.
1. Introduction

In 1964 President Johnson proclaimed: “This administration today, here and now, declares unconditional war on poverty in America.” This chapter provides a critical discussion of how far the nation has come in the nearly 50 years since Johnson’s famous commitment to end poverty.

The next section presents benchmark trends in income poverty using the official poverty measure. In view of the widespread criticisms of the official measure by scholars and by advocates and policy makers from both the left and right, the section then examines how the trends differ under alternative measures of poverty. These measures include “market” poverty (sometimes called “pretransfer” poverty) and “adjusted income” poverty (cash income plus some non-cash benefits and Earned Income Tax Credits, less direct taxes), both based on the official poverty lines. They also include rates based on the National Academy of Sciences (Citro and Michael 1995) recommendations for revising the official measure and on a measure of relative poverty. Section two also compares the level and trend in income poverty among the U.S. and other wealthy countries. The section appraises where there has been significant progress in alleviating poverty and where little or none has occurred.

Section three examines the economic, social and policy factors that have driven trends in poverty since 1964. It first presents a simple analytic framework for understanding the mechanisms through which changes in those factors can affect poverty. The framework directs our attention to understanding how the factors have affected market poverty, the demographic structure, and the antipoverty impacts of taxes and income support programs.
The broad assessment of the historical record finds that some factors changed in ways that helped alleviate poverty, while others changed in ways that tended to increase it. Yet others changed in both directions during the nearly 50 years since the War on Poverty began. The major social and economic factors considered in the analysis include economic growth, earnings inequality, labor force participation, education, unionization, and demographic change including immigration. The policy factors include workforce development programs, employment tax credits, the minimum wage, cash and in-kind income support policies (including welfare reform), income and payroll taxes, and the behavioral incentives of income support policies. Other chapters in the Handbook provide more detailed analyses of many of these factors, as well as of important factors not considered here because of space limitations.

Section four briefly discusses the prospects for alleviating poverty during the next decade. The final section discusses policy options for raising earnings among low-skill workers, improving the antipoverty impact of the safety net, and reducing the share of families at high risk of being poor.

2. How Far Have We Come?

Any assessment of how poverty has changed since 1964 must start with the official poverty statistics. Mollie Orshansky, an economist at the Social Security Administration, developed a definition of poverty in 1963. With a few changes, the federal government adopted it as the official definition of poverty in 1969, and has modified it in small ways since. It provides a set of poverty lines that vary by household size, the age of the household head, and the number of children under eighteen. The lines do not vary geographically and are updated by the change in the Consumer Price Index.
(CPI-U), so they represent the same purchasing power each year. For 2009 the poverty line ranged from $10,289 for a single person over age 65 to $47,514 for a family of 9 or more (U.S. Census Bureau 2010a). For the iconic family of 4 with 2 children it was $21,756, or $418 per week. If a family’s annual income falls below its poverty line, its members are counted as poor.

The official definition measures income as pre-tax money received from wages, self-employment income, dividends, interest, rental income, child support, and government cash benefits such as Social Security, Supplemental Security Income, unemployment insurance and public assistance. The measure does not include capital gains, cash benefits from the Earned Income Tax Credit (EITC), and noncash forms of income such as fringe benefits, Medicaid and food stamps, nor does it subtract income and payroll taxes. Despite extensive criticism of the official measure (Blank, 2008; Citro and Michael 1995), attempts to revise it have been unsuccessful to date. It remains the basis for allocating billions of federal social program expenditures among states and for determining families’ eligibility for a number of federal benefits. It has been an important social indicator since its first use in the 1960s.

How far have we come? If we examine the official rate of poverty for all persons (middle line of Figure 1), the short answer is: not far at all. After a rapid decline in the mid 1960s, there has essentially been no progress. The official rate reached its all-time low of 11.1 percent in 1974. From 1980 through 1997 it fluctuated in a narrow band of 13 to 15 percent. The prosperity of the late 1990s brought the rate to 11.3 percent in 2000, slightly above the historic low. The weaker labor market since 2000 raised the rate
to 12-13 percent during 2002-008. The Great Recession pushed it to 14.3 percent in 2009 – virtually the same level as in 1967.

The share of the official poverty population with income below half of the poverty line jumped from 30 percent in 1975 to 39 percent in 1983. Since 1983 it has tended to gradually increase and reached 44 percent in 2009. This trend suggests that the severity of poverty has been rising for more than 35 years even as the overall rate has fluctuated without trend during the same period.

Hidden under the stasis of the overall poverty rate during the past three decades are large differences in trends for important demographic subgroups. When we disaggregate by age, we find that elders have come a long way. Their official poverty rate of about 30 percent in the mid 1960s was cut in half by 1976. It has gradually trended down since then and stood at 8.9 percent in 2009. Poverty among persons age 18-64 has always been lower than the overall rate, but the pattern over time is the same – decline until the early 1970s, then an increase followed by fluctuation within a band of about two percentage points. Children under age 18 have retrogressed substantially since their official poverty rate hit its historic low of 14.0 percent in 1969. Between 1981 and 1993 the child poverty rate was fully 40 to 60 percent higher than in 1969. It steadily declined between 1994 and 2001, then trended up. In 2009 the official child poverty rate was 20.7 percent, or nearly 50 percent higher than in 1969. Because of these divergent trends, elders now comprise a much smaller share of the poor than 40 years ago: 7.9 percent in 2009 compared to 19.8 percent in 1969.

Like age groups, race and ethnic groups differ in how far they have come. Because non-Hispanic whites account for most of the population, their pattern of official
poverty over time mirrors the overall rate. Their level has always been about one third lower than the overall rate. Compared to non-Hispanic whites, poverty among Hispanics increased more sharply between the early 1970s and early 1990s, then fell much faster. Yet in recent years the Hispanic poverty rate was about the same as in the early 1970s. These patterns contrast strongly with the more encouraging ones for blacks and Asian Pacific Islanders. Since 2002 poverty among blacks has been several percentage points lower than it was in the mid 1980s. A similar pattern is evident for Asian/Pacific Islanders. Despite this decline, in recent years black (and Hispanic) poverty rates have been 12 to 16 percentage points higher than those of the other two race/ethnic groups. Because of the marked fall in black poverty, blacks accounted for 23 percent of all the poor persons in 2009, compared to 32 percent in 1972.

We also find divergent trends among family types in official poverty during the past 35 years. Poverty among married couple families hardly changed during this period. For single male-headed families it gradually rose from 10 percent in the late 1970s to 17.0 percent in 1994, dropped to 12-14 percent during 1995-2008, then spiked to 16.9 percent in 2009. In contrast, poverty among single female headed families has shown a gradual, long run decline. It fluctuated between 33-36 percent from the late 1970s until 1994, fell rapidly to 25.4 percent in 2000, then stayed between 28-29 percent before jumping to 29.9 percent in 2009 (U.S. Census Bureau 2010b).

Different trajectories of poverty among age, race and ethnic groups, and across family structures strongly suggest that some economic, social and policy changes since 1964 helped alleviate poverty, while other changes acted in the opposite direction. Section 3 discusses both types of changes.
Alternative measures of poverty.

There is wide agreement that the official poverty measure has significant flaws, though critics do not all agree on their relative importance. Some critics think the lines are too low. Some argue for different methods of adjusting the lines over time, for family size and structure, or for the local cost of living. Some want to revise the measure of income by including non-cash benefits, subtracting taxes, and making other adjustments. Because of these flaws, the official poverty measure has become less reliable for assessing how far we have come in alleviating poverty.

In view of the official measure’s flaws, this section re-examines how far we have come using four alternatives. “Adjusted poverty” retains the official lines for all years, expands the income measure to include capital gains and losses, employer provided health benefits, imputed income from home equity, EITC benefits, and government in-kind transfers of food, housing, and medical care. It subtracts Social Security taxes and both federal and state income taxes. Because it counts income more comprehensively, the adjusted measure shows a lower rate of poverty than the official measure. Statistics for adjusted poverty approximate a lower bound on the level of income poverty in the U.S., conditional on accepting the official lines.²

In 1965, when in-kind transfers were much smaller than during the past three decades, adjusted poverty would have roughly equaled the official poverty rate of 17.3 percent.³ When in-kind transfers expanded in the 1970s, adjusted poverty fell below the official rate. In contrast to the official measure, this more comprehensive adjusted measure shows that poverty continued to decline after 1973 until 1980, when it reached 8.2 percent.⁴ Based on the adjusted measure, poverty had been halved 15 years after the
War on Poverty. In recent years the rate of adjusted poverty has been about 30 percent lower than the official rate (Figure 1). It reached its lowest value, 8.0 percent, in 2000.

A core goal of the War on Poverty was to offer the poor “a hand up, not a hand-out” so that they could earn their way out of poverty and, especially, not rely on welfare. Assessing progress towards this goal requires a measure of “market poverty.” The measure of market poverty used here, like adjusted poverty, retains the official lines for all years. It differs from the official measure by using a narrower income definition. Market income only counts before-tax private cash income, including capital gains, and employer provided health benefits. Market poor persons (sometimes called the “pretransfer” poor) live in families that cannot generate enough income from work and other private sources to rise above the official poverty line. In this sense they have not reached self-sufficiency, which is so highly regarded in the U.S.

Market poverty declined sharply in the late 1960s to 17.7 percent in 1970. It rose rapidly from 1970 to 1975, and then rose and fell with the business cycle without showing any trend (top line of Figure 1). Since 1970, when market poverty reached the lowest rate ever recorded, it has never been below 18.0 percent, reached in 2000. During 1980-2008 market poverty has generally been 45-55 percent higher than official poverty.

Though both alternative measures differ from the official measure and each other in important aspects, the three series show remarkably similar patterns since 1980: rising and falling with the business cycle without discernible trend. To the question, How far have we come?, each measure suggests the same answer: Since 1980 the nation has made no progress against poverty.5
A measure of **relative poverty** is the third alternative. A relative poverty line roughly represents, in Adam Smith’s words (Smith 1937), the cost of “those things which the established rules of decency have rendered necessary to the lowest rank of people.” A relative poverty line will rise in step with a society’s real standard of living, in contrast to absolute poverty lines like the official ones, which remain fixed in real terms. The premise of a relative measure is that, whatever the level of absolute poverty, relative poverty better indicates the socially relevant level of economic need in an affluent society. Surveys suggest that the socially perceived relative poverty line in the U.S. has been 45 to 50 percent of median income (Rainwater and Smeeding 2003, Blank 2008).

Meyer and Sullivan (2009, figure 7) provide consistent series for relative income poverty based on a poverty threshold set at half the median of either pre-tax money income or adjusted income. Each series shows substantially more poverty than the corresponding series based on the official, absolute measure. For example, relative poverty in 2005 was either 21.9 (pre-tax income) or 16.7 (adjusted income) percent. The corresponding absolute rates were 9.7 and 6.7 percent. They also show that relative poverty has been gradually increasing since the mid 1970s.

The fourth alternative estimates are based on the widely discussed **National Academy of Sciences** (NAS) **recommendations** for updating the poverty measure (Citro and Michael 1995). The NAS poverty lines use different adjustments for family size and composition than the official ones and, in some variants, adjust for geographic price differences. They rise in line with changes in real growth in basic consumer expenditures and, so, adopt a relative perspective when comparing poverty in different years. They are based on the costs of food, clothing, shelter, utilities, a small amount for miscellaneous
expenses, and for some measures, average medical expenses paid out-of-pocket. NAS income is similar to adjusted income, but with deductions for some work expenses.

The NAS measures generally show a level of overall poverty close to or one to two percentage points higher than the official measure during 1990-2008 (Short, et al. 1999, U.S. Census Bureau 2009c). The proposed Supplemental Poverty Measure (SPM), currently still under development, is closely related to NAS measures. Recent analysis using one version of the SPM yields a poverty rate of 15.4 percent for 2008, or 2.0 percentage points greater than the official level. Like other NAS-based measures, the SPM show a higher level of poverty among the elderly and in metropolitan areas, and a lower level among children and in non-metropolitan areas (Short and Renwick 2010, U.S. Census Bureau 2009b). Since a time series of SPM estimates is not yet available, we do not know whether it will show trends similar to those in Figure 1.

International comparisons.

Column 3 of Table 1 shows the rate of adjusted poverty for eleven rich countries in either 1999 or 2000. The upper panel uses the U.S. official poverty lines and converts them into local currencies using purchasing power price exchange rates. The lower panel defines poverty in relative terms: persons are poor if their family’s disposable income is less than half of the median.

If we base comparisons on the official U.S. poverty line, an absolute standard, the U.S. poverty rate of 9.1 percent slightly exceeds the mean. Four countries had poverty rates more than five percentage points lower than the U.S. Rates in three others were 2.6-7.5 percentage points higher. If we base comparisons on the relative measure, the U.S.
fares much worse. At 17.3 percent, it had the highest poverty rate. No other country’s relative rate exceeded 14 percent and seven were 8.4 percent or lower.

How far have we come? Summary.

Absolute poverty in the U.S. declined substantially in the 1960s and early 1970s. If we use the adjusted measure it continued to decline until 1979. The War on Poverty had not been won after 15 years, but in the late 1970s one could reasonably argue that absolute poverty would soon no longer be a pressing public issue.

Regrettably, that argument proved false. Since 1980 the U.S. has seen little overall progress against poverty. This conclusion holds whether we examine official, adjusted, or market poverty. Beneath the stasis of the overall rate, absolute poverty did decline for some important subgroups: elders, blacks, and female headed families, but it rose for children under age 18. When gauged against a relative standard, poverty in the U.S. has increased over the past three decades. Compared to other affluent countries, absolute poverty is slighter higher and relative poverty is markedly higher.

3. Understanding the Changes in Poverty Since 1964

Changes in the level of poverty come about in response to changes in a wide range of economic, social and public policy factors. This section first presents a simple analytic framework for understanding the mechanisms through which changes in those factors can affect poverty. It then turns to the historical record to assess how those factors have driven changes in poverty since 1964. Over this period some factors changed in ways that helped alleviate poverty. Others changed in ways that tended to increase poverty. Yet others have varied in both directions. Later chapters in the Handbook provide more detailed analyses of many of these factors.8
A simple analytic framework

We can express the overall level of official or adjusted poverty, \( P \), as the weighted sum of the level of poverty of mutually exclusive demographic subgroups (e.g. married couple families, single male headed families, single female headed families, male unrelated individuals, and female unrelated individuals):

\[
P = \sum_i w_i \cdot M_i \cdot \left( \frac{P_i}{M_i} \right),
\]

where \( M_i \) is the level of market poverty of subgroup \( i \), \( P_i \) is its level of official or adjusted poverty, and \( w_i \) is the share of the total population in subgroup \( i \). The ratio \( \frac{P_i}{M_i} \), the fraction of market poverty not eliminated by income support programs, is an indicator of those programs’ antipoverty impact on the subgroup.\(^9\)

Any change in \( P \) can thereby be decomposed into three components: changes in subgroups’ levels of market poverty, changes in income support programs’ antipoverty impacts, and changes in the weights – i.e. changes in demographic structure.

The three components are interdependent and jointly determined. For example, men’s and women’s earnings affect decisions about marriage and children, and whether families qualify for income support programs. Eligibility and benefit rules of income support programs may affect individuals’ decisions about work effort or whether to marry or cohabit. Becoming a parent affects the benefits the family may receive from the EITC and other income support programs, and often leads to changes in paid work effort. For expository convenience the discussion will examine each component separately.

The factors that determine market poverty are those that affect the level and distribution of earnings and other market income. The discussion will mainly focus on factors that affect labor earnings, which comprise most market income, especially for
lower income persons. Examples include changes in labor force participation, the extent of unionization, and public policies that affect work effort and wages.

If the demographic structure changes so that subgroups with relatively high levels of poverty (e.g. single parent families) become a larger portion of the population, the overall poverty rate would rise, even if the poverty rates within demographic subgroups did not. Conversely, overall poverty would fall if a relatively prosperous subgroup becomes a larger portion. Changes in the demographic structure stem from changes in immigration, marriage, divorce, cohabitation, fertility, and other behaviors.

The third set of factors concerns the antipoverty impact of public tax and income support policies. Federal and state income and payroll taxes reduce the funds available to meet a family’s basic needs. The social safety net of cash and in-kind social insurance and income tested programs may augment or cushion declines in private market income. The stronger the safety net and the lower the tax burden on market poor persons, the lower the level of poverty measured on a post-tax, post-transfer basis. Changes in public policy most directly determine how taxes and income support benefits affect poverty. The antipoverty impact may also depend on the extent to which changes in policy affect earnings or demographic choices that, in turn, reduce or increase income.

**Understanding changes in market poverty**

For several decades after World War II, policy makers expected that economic growth would be shared broadly across all income levels. As growth “trickled down,” it would be the main engine of poverty reduction.

Figure 2, adapted from Danziger and Gottschalk (1995), illustrates the relationship among growth in real mean earnings, earnings inequality, and market
poverty. Assume, for simplicity, that labor earnings are the only source of market income. In Panel 1 the dashed line shows the initial distribution of earnings, with mean \( m_1 \). The market poor are persons living in families with ratios of earnings to the poverty line less than 1.0, shown as the sum of areas A and B. If all earnings grow at the same rate, the distribution retains the same shape, but shifts to the right with a mean of \( m_2 \). Economic growth has raised all families’ incomes by the same percentage and reduced market poverty to area B.

Panel 2 shows a situation in which earnings inequality increases while mean earnings are constant. As the distribution spreads to the left, more families become unable to earn enough to stay out of poverty. Market poverty rises from area B to areas B and C. If both mean earnings and earning inequality grow, the net effect on poverty is the difference between areas A and C.

Panel 1 represents, in simplified form, what happened in the 1960s. The robust economic growth of that decade raised mean earnings across the board and produced a sharp decline in market poverty.

The poverty-reducing impact of economic growth came to a halt in the 1970s (Blank 1997, 2009a). Between 1970 and 2005, mean real earnings grew 43 percent but earnings inequality grew by more than 50 percent as most of the benefits of economic growth flowed to the highest earners. The reduction in market poverty caused by rising mean earnings (area A in panel 1) was counteracted by the increase in market poverty attributable to greater earnings inequality (area C in panel 2). In the real economy since 1975, areas A and C have been roughly equal. Market poverty has risen and fallen with the business cycle but shown no trend (Figure 1).
Real earnings among men with less than 12 years of schooling fell 29 percent between 1979 and 1994. Their earnings have risen slightly since then, but in 2007 were still 22 percent less than in 1979. The corresponding earnings losses for men with only a high school degree were 17 and 11 percent. In comparison, men who graduated high school experienced average earnings increases of 16 percent. Low-skill women did better than low-skill men during 1979-2007. Their real wages increased four percent for high school dropouts and 17 percent for those with 12 years of schooling. But, like low-skill men, they did worse than their better-schooled counterparts, whose average earnings increased 39 percent. Many workers with some post-secondary schooling have also had problems earning more than the poverty line in the past three decades.

Though a full understanding of the why earnings lagged among low-skill workers remain elusive, major factors likely include technological change and increasing international competition, both of which reduced demand for less skilled workers. The decline since 1975 in unionization has also contributed (Acemoglu 2002). Less-skilled men have increasingly been likely to stop working or settle for part-time work. The growing incarceration of black and poorly educated men has meant that rising numbers of men have earned nothing while in prison and then, as ex-prisoners, have suffered long term declines in their employability. These reductions in employment reinforced men’s declining real wages to produce substantial declines in their real earnings. By contrast, women at all skill levels have increased their work effort since 1979.

The rise in earnings inequality since 1970 coincided with a period of heavy immigration – both documented and undocumented – which greatly increased the ranks of poorly educated workers in the U.S. Labor market theory implies that the increasing
supply of immigrants would have tended to push down the wages of natives with similar skills. Though much public commentary has assumed natives have experienced significant earnings losses for this reason, the theory is silent on the strength of this relationship. One instead must turn to empirical analysis to determine whether recent immigration has played an important role in reducing low-skill natives’ earnings and increasing their poverty.

Raphael and Smolensky (2009) report that immigration has played a trivial role. Their upper bound estimates show that if immigration had remained at 1970 levels, official poverty among native black households in 2005 would have been 25.5 percent instead of 26.0 percent – merely 0.5 percentage points lower. Corresponding upper bound differences for native non-Hispanic whites, Asian/Pacific Islanders and Hispanics are 0.1, 0.2 and 0.5 percentage points. The largest potential difference, 1.2 percentage points, is for households whose heads lack a high school degree.

The diverging labor market fortunes of less-skilled men and women have had offsetting impacts on married couples’ incomes, which offer some insight into why poverty among these families has shown neither an upward or downward trend. Falling earnings of low-skill men likely account for most of the increase in poverty among single male-headed families. The opposite trend in earnings for low-skill women helps explain the 26 percent decline in market poverty among single female headed families since 1989.11

The rapid decline in black poverty between 1966 and 1975 is partly attributable to the economic prosperity of those years. Also important was the reduction in the earnings gap between black and white workers of both sexes, which meant that blacks’ earnings
were rising faster than average. Factors that helped close the gap included the narrowing of racial differences in the quantity and quality of education, and the passage and enforcement of the Civil Rights Act of 1964 (Lang 2007). The drop in black poverty since 1983 may be partly the result of the concomitant increase in women’s earnings because black families disproportionately have single female heads.

While broad economic forces have exerted the strongest influences on market poverty, it is important to consider the impacts of major public policies as well. These policies include human capital public programs intended to improve earnings of low-skill workers, employment tax credits intended to expand demand for such workers, the minimum wage (which affects both sides of the market), and the 1996 welfare reform. The discussion also considers whether behavioral responses to the incentives of income support programs, including the EITC, have been large enough to have appreciably affected the level and trend of market poverty.

**Public programs to increase human capital**

Beginning in the early 1960s and especially following declaration of the War on Poverty, improving the job readiness and occupational skills of low skill workers has been a mainstay of government efforts to prevent market poverty. The primacy that Americans accord to work and their support of efforts to help persons become self-sufficient ensure continued attention to offering a “hand up” through workforce development programs that deliver employment and training services (Heclo 1994). Federal spending for such programs, though, has always been limited, never exceeding 0.3 percent of GDP and currently less than 0.1 percent. Annual Department of Labor outlays peaked at about $17 billion (2007 dollars) in 1979, rapidly fell to about $8 billion
in 1983 and have been nearly flat since then. Including other federal workforce
development programs raised the recent total to about $14 billion (Holzer 2009).

Welfare-to-work grants to states and communities, enacted as part of welfare
reform, have required welfare recipients to work or participate in work-related activities.
Most states adopted “work first” programs that help recipients prepare for jobs (arranging
child care, interviewing skills, getting along at work) and offer job search assistance.
These inexpensive services seek to move welfare recipients into regular jobs quickly.
Other workforce development programs are available on a voluntary basis to dislocated
and economically disadvantaged workers, veterans, and other persons facing labor market
challenges. About 30 percent of these programs require participants to be economically
have priority for some of the programs, but are not entitled to them. Limited funding has
restricted the programs’ reach to a small portion of economically disadvantaged workers.

Rigorous evaluations have demonstrated that both types of programs can increase
work and earnings. Mandatory welfare-to-work programs implemented before 1996
usually also led to less welfare use and produced savings to public agencies that exceeded
program costs. The disappointing news is that programs typically increased annual
Even the most successful of these programs raised women’s annual earnings only by
$1,300-1,500. For adult men, some programs produced similar increases; others had no
effect (LaLonde 2003). Since most workforce development programs invest much less
per enrollee than the cost of a year of formal schooling, it is not surprising that they have
delivered, at best, modest increases in earnings.
The average market poor family has earned about $8,000 less than its poverty line. In practical terms, then, a $900 gain in earnings for adults who received workforce developments programs has been far too small to have had much impact on market poverty.

Demand side policies

Increasing the demand for low wage workers can, in principle, be achieved by offering tax credits to firms that hire them. U.S. antipoverty policy has given little emphasis to this strategy. Evidence suggests that these kinds of subsidies have had but a trivial effect on market poverty. The Targeted Jobs Tax Credit of 1979-1994 had a limited impact that mainly helped disadvantaged youth rather than adults with children (Katz, 1998). Many firms eligible for the credit did not claim it. Most credits went to firms that would have hired the targeted workers anyway. The earlier New Jobs Tax Credit also had limited impact and, in any case, only existed in 1977 and 1978.

Currently the Work Opportunity Tax Credit provides tax savings to firms that hire low wage workers from families receiving Temporary Assistance for Needy Families (TANF) and food stamps, as well as other specified disadvantaged groups. The Welfare-to-Work Tax Credit offers tax savings for hiring long-term recipients of TANF. Findings about the earlier subsidies suggest that the two current tax credits also have had limited effects on earnings. Since the current credits differ in some important ways from the earlier ones, we should regard this inference as tentative (Bartik, 2001).

Federal “empowerment zones,” “enterprise communities,” and “renewal communities” have offered tax breaks to firms that locate in and hire workers from economically distressed neighborhoods. Federal support for such efforts began in 1993.
If these programs have generated new jobs, they would have helped reduce market poverty. Most evaluations find no evidence to this effect, however. State and local enterprise zone programs, which are not usually targeted at poor neighborhoods, also have had little effect on earnings of low-wage workers (Bartik, 2001).16

The minimum wage

The federal minimum wage peaked in real terms in 1968 (Wolff 2009). Its real value had eroded 15 percent by 1975. A series of small nominal increases maintained its real value at this lower level until 1979. After 1979, it further eroded until Congress approved a major increase in 2006.

Though the minimum wage sets a floor for most low-skill workers’ wages, we may plausibly conclude that it has had little effect on market poverty in the past 40 years. Two sets of research findings underlie this conclusion. First, there is a growing consensus that the effects of the minimum wage on adult employment are negligible. Even if jobs or work hours declined in periods when the real value has increased, the higher hourly wage largely offset such declines. Conversely, in years when the real value has declined, any expansion of jobs or work hours mostly offset that decline.

Second, the minimum wage has had limited impact on poverty because wage rates of most workers in poor families have generally exceeded it. These families’ market poverty has resulted from having worked too few hours because of illness, family responsibilities, or difficulty in finding jobs. Real increases or declines in the minimum have had minor financial consequences for such families. And, of course, neither increases nor declines have affected families in which no one was working or the parents
were self-employed. Poor families have borne less than 20 percent of the earnings changes generated by changes in the minimum wage (Burkhauser and Sabia, 2007).

**Welfare reform**

From 1935 to 1996, Aid to Families with Dependent Children (AFDC) provided cash assistance to low-income families with children. AFDC mainly concentrated on providing income without expecting parents to make much effort to become self-sufficient, and did little to help those who wanted to work. Support for this approach eroded as consensus gradually shifted to viewing welfare as a reciprocal obligation: receiving income support and help with child care and other work-related support services carries with it the expectation that a recipient look for and accept a job, or participate in publicly funded education, training or work experience activities to prepare for work. The landmark welfare reform of 1996, which replaced AFDC with Temporary Assistance for Needy Families (TANF), embodied this “welfare-to-work” approach.

TANF dramatically changed the character of welfare assistance. The most important departures from AFDC were:

- Ending the entitlement to welfare,
- Setting a lifetime limit of 60 months for receiving benefits,
- Imposing much stronger work requirements,
- Imposing stronger sanctions for failing to comply with work requirements or to fulfill other conditions of receiving assistance, and
- Giving states much greater control over eligibility and administrative rules.

Research suggests that TANF led to a 4-8 percent increase in employment and work effort. Impacts on earnings have not been precisely estimated, but would at best be in the 5-6 percent range. Like the earnings impacts of workforce development programs, increases in earnings of 5-6 percent have been far too small to have had much
impact on market poverty. Because increases in TANF recipients’ earnings often lead to reductions in benefits, welfare reform’s net effect on total income has been much smaller than its effect on earnings.

Impact on work effort of income support programs

The standard model of labor supply predicts that most income tested programs reduce low-income families’ work effort and earnings. Empirical evidence confirms this prediction. The size of the reduction varies across programs and has been hard to pin down. The exception to this conclusion is the EITC, which has induced a substantial increase in labor force activity by single mothers and a small decrease among two-parent families (Hotz and Scholz 2003). Stronger child support enforcement, which reduces the returns to work for non-custodial parents, explains part of the decline in labor force participation of young black men (Holzer, Offner and Sorenson 2005). Lower earnings caused by work disincentive would increase market poverty above what it would have been in the absence of such programs. There is no evidence on the extent to which these labor supply impacts have affected the level and trend of market poverty.

Market poverty among elders

Market poverty among persons age 65+ declined from 54 percent in 1979 to 47 percent in 2006 (U.S. House of Representatives, 2008). This is a surprising contrast with the lack of trend for overall market poverty. The decline may reflect the gradual increase in labor force participation among elders since 1988, which reversed the fall in their work dating back to at least 1950 (Toossi 2002, U.S. Bureau of Labor Statistics 2010). It may also have occurred because a higher proportion of elders have received private pension benefits in recent years than in the 1970s and early 1980s (U.S. Social Security
And among elders who receive pensions, the average benefit would have increased because retirees’ career earnings, on which benefits are based, have gradually increased since the 1970s.

**Changes in market poverty: Summary**

Market forces such as economic growth, strong downward pressure on low-skill men’s earnings, diverging wage and earnings trends for low-skill men and women, and the changing extent of unionization have had major adverse impacts on market poverty over the past four decades. In contrast, over the same period workforce development programs, employment subsidies, minimum wage legislation, and welfare reform have had minor impacts on market poverty. Except for the EITC, public policies that had important impacts on market poverty did so as unintended by-products of activities with goals other than helping low-skill workers. Examples include macroeconomic and foreign trade policies, criminal justice policies that expanded incarceration, and decisions about how stringently to enforce laws prohibiting unfair labor practices and discrimination in employment, housing and other arenas.

**Demographic structure**

Changes in the demographic structure of the American population can have important effects on how poverty changes over time. For example, because single parent families are poorer than two parent families, then, as the analytic framework indicates, an increase in single parent families’ share of the population would push up the overall poverty rate. A growing share of elders, in contrast, would tend to reduce it.

America’s demographic structure has changed enormously in recent decades. Changes since 1970 that helped alleviate poverty include an increase in the relative size
of the elderly population and decreases in widowhood, average family size, and the proportion of persons living in rural areas. Changes that exerted pressure in the opposite direction include the influx of immigrants and the rising proportion of children living with single parents. The latter resulted from falling marriage rates, rising divorce rates, and a steady increase in the share of children born to unmarried women.

The relationship of family structure to poverty has received most attention. Cancian and Reed (2009) project that between 1969 and 2006, shifts among the non-elderly population toward single adult families, a disproportionately poor group, increased official poverty by 2.6 percentage points. Their findings are similar within race and ethnic groups. Danziger and Gottschalk (1995) examine 1973-1991 using a similar approach but include elders. They report that demographic shifts accounted for a 1.6 percentage point increase in poverty. Among children, the shift away from two parent families accounted for a 4.6 percentage point increase – two thirds of the increase in child poverty during this period. According to Lerman (1995), this shift accounted for the full increase in child poverty between 1971 and 1989.18

Immigration also appears implicated as a contributor to the lack of progress (Raphael and Smolensky 2009). Since 1970 immigrants have increasingly come from Latin America and Asia. Because immigrants from these continents initially experience higher poverty rates than those from Europe, the poverty rate among recent immigrants rose from 18 percent in 1970 to 28 percent in 2000. This change, holding constant the share of immigrants in the U.S. population, would have raised the overall poverty rate. But the share did not hold constant. It rose from 4.8 percent in 1970 to 12.4 percent in 2005, which put further upward pressure on the overall rate. Increased immigration
accounted for a 1.2 percentage point increase in poverty between 1970 and 2005. This purely compositional effect is separate from any impact of immigration on native poverty via labor market competition. As noted earlier, the labor market impact appears to be inconsequential.

As Cancian and Reed note, their shift-share projections do not capture the causal effects of changes in family structure since the projections implicitly assume that changes in demographic behavior are independent of changes in poverty within demographic subgroups. The same caveat applies to Raphael and Smolensky’s projections. Nonetheless, taken together, the evidence strongly suggests that changing family structure and rising immigration are important reasons why the U.S. has made so little progress against poverty since the early 1970s.

**Have income support programs affected family structure?**

Some income support programs have provided significantly different benefits to parents who marry, cohabit, or live apart. The differences may have provided incentives that induced some adults to divorce, delay remarriage, become an unmarried mother, or make other choices that result in more poor, single parent families. The EITC provides incentives for some couples to marry, but disincentives for others (Ellwood 2000).

Higher AFDC benefits for single parents have been associated with greater rates of female headship and divorce, lower rates of remarriage, and a greater likelihood that a single mother lives independently rather than with her parents. While these behavioral responses tended to increase the number of low-income, mother-only families, the general consensus is that the effects were small (Moffitt 1998, 2003). Higher AFDC benefits have also been associated with small increases in the likelihood of becoming an
unwed mother, but only among whites. AFDC’s demographic incentives, whatever their impact was, ended in 1996. TANF and other elements of the 1996 welfare reform appears to have had little effect on marriage, living arrangements and overall fertility, but may have helped to reduce teenage childbearing (Blank 2009b, Lopoo and DeLeire 2005). Research suggests that increasingly tougher enforcement of child support obligations has helped lower non-marital childbearing below what it otherwise would have been (Plotnick et al. 2007). Research has failed to find a relationship between the EITC and marriage (Ellwood 2000).

The weight of current evidence implies that demographic responses to income support programs accounted for only a small portion of the increases in female headship and non-marital childbearing between the 1960s and 1996, and that post-1996 welfare programs have also had minor effects. The main reasons for the large changes in family structure since the 1960s almost certainly have resided outside the income support system. They probably have included the growing acceptability of single parenthood, cohabitation, and unwed motherhood, less willingness to marry, and improvements in women’s earnings power, and declines in men’s (Ellwood and Jencks 2004).

Antipoverty impact of taxes and income support programs

The analytic framework identifies the antipoverty impact of public tax and income support policies as the third potential driver of changes in poverty. Providing more cash and in-kind income support to market poor persons and reducing their tax burden will lower the level of poverty measured on a post-tax, post-transfer basis.19

The antipoverty impact of cash transfers (the “official antipoverty impact”) is calculated as the difference between market and official poverty, expressed as a
percentage of the level of market poverty. Correspondingly, the antipoverty impact of cash and in-kind transfers, including the EITC and net of taxes paid (the “adjusted antipoverty impact”), is the percentage difference between market and adjusted poverty.20

These calculations do not take into account the likelihood that transfers and taxes affect the level of market poverty. While the EITC has important positive effects on labor supply and earnings, spending on it has always been much smaller than combined spending on AFDC (before 1996), food stamps, Medicaid, and other income tested programs, all of which have adverse work incentives.21 As a result, in every year the observed level of market poverty has almost surely exceeded the level that would have existed in the absence of transfers. This implies that conventional calculations of antipoverty impact overstate the net reduction in poverty attributable to income support policy.22 There are, though, no estimates of the degree of overstatement. Because real per capita spending on income tested programs has roughly tripled since 1970 (Moffitt 2008), the degree of overstatement has probably grown.23

The impact of transfers on official poverty rose rapidly between 1965 and 1974 (Figure 3). In 1965 cash transfers lifted 18.8 percent of the market poor above the poverty line. In 1974, they lifted 44.2 percent above the line. Much of this extraordinary improvement occurred because Congress approved a 13 percent increase in Social Security benefits in 1968, followed increases of by a 15 percent in 1970, 20 percent in 1972, and 11 percent in 1974, a cumulative total of 73 percent (U.S. House of Representatives 1996). The result was a dramatic decline in elders’ poverty from 28.5 percent in 1966 to half that – 14.6 percent – in 1974.
After 1979 the official antipoverty impact dropped rapidly to 30.8 percent in 1984. In only five years, 53 percent of the improvement had vanished! This decline in antipoverty impact is the main reason why official poverty sharply increased from 11.7 percent in 1979 to 15.2 percent in 1983.24 During the next 17 years the antipoverty impact fluctuated around a slowly increasing trend that peaked at 37.2 percent in 2000. After 2000 it has stayed between 35 and 37 percent.

The upper line in figure 3 shows the adjusted antipoverty impact. During 1965-1975 in-kind transfers grew from less than $5 billion to about $130 billion (Scholz, Moffitt and Cowan 2009) and Congress eliminated federal income taxes on most poor families (U.S. House of Representatives 1996). Thus, if adjusted data were available, compared to the official antipoverty impact they would show a faster increase during 1965-1975, probably to a peak of roughly 60-65 percent, and a smaller decline by the mid 1980s. Still, between 1980 and 1986, the adjusted antipoverty impact retreated by 10 percentage points – 25 percent of the improvement between 1965 and 1980. Part of the decline is attributable to income tax “bracket creep” during the high inflation of the early 1980s, which resulted in some poor families again having to pay federal income taxes. Tax reform, which permanently exempted poor families from federal income tax liabilities starting in 1987, helped increase the adjusted antipoverty impact after 1986. After 1986 the adjusted antipoverty impact has never fallen below 50 percent or risen above 56 percent. It has ranged between 18 and 22 percentage points greater than the official impact and, as figure 3 shows, moved in roughly parallel fashion.

In the 1980s and early 1990s, working age families with zero market income received the largest average transfer benefit. The average benefit declined steadily as
market income rose. In 2004, after the major expansion of EITC benefits and continued erosion of AFDC and TANF benefits, the average benefit at zero market income was much lower than a decade earlier and it increased until market income reached about 40 percent of the poverty line. Beyond the 40 percent level, the average benefit steadily declined, as before (Scholz, Moffitt, and Cowan, 2009, figures 6 and 7). This change has meant that, after 45 years of growth and change since the War on Poverty, the transfer system no longer provides most assistance to working age families in greatest need. The tilting of benefits away from the most needy has been a consequence of the emergence since the mid 1990s of a work-based income support system for working age families, spearheaded by the EITC and a large expansion of subsidized child care.

During 1979-2006, the adjusted antipoverty impact for elders gradually increased from 75 to 82 percent, as shown in table 2. This improvement came about because new retirees had, on average, higher real earnings than their older counterparts and, so qualified for larger Social Security benefits. As younger cohorts of retirees replaced older ones, the average elder’s Social Security benefit rose.25

Table 3 demonstrates this process. The average Social Security benefit in 1975 equaled 91 percent of the poverty line for a single elder. A decade later, the benefit had risen to 100 percent of the line. A quarter century later, in 2000, it stood at 122 percent.26 The increase compared to the poverty line for an elderly couple was similar but started at a lower level. By 2008 the average benefit had exceeded that poverty line as well.

Table 2 also shows the vastly different antipoverty impacts of transfers on elders and children. For children the impact in 1979 was 33 percent. It plunged to under 20 percent in 1983 and 1989 before recovering to between 32 and 36 percent since 1996.
International comparisons.

Gornick and Jäntti (2009) compare the antipoverty impact of transfers of 11 affluent OECD countries. The study uses the official U.S. poverty lines and converts them into local currencies using purchasing power price exchange rates. It also examines a relative poverty line set at half of each country’s median household disposable income. Column 2 of table 1 displays the antipoverty impact of transfers. The countries are ordered by their rate of market poverty, except the U.S. appears first.

The antipoverty impact of the American income support system contrasts to the experience in much of Europe. The upper panel, based on the U.S. lines, shows that income transfers pull 52 percent of market poor Americans out of poverty. Countries that spend heavily on income transfers, such as Denmark, the Netherlands, and Norway, cut market poverty rates by more than 80 percent. Germany and Switzerland eliminate almost 80 percent of their market poverty with transfers, while Canada, Finland and Sweden eliminate 60-70 percent. As a result, though market poverty in the U.S. is lower than in six of these eight countries and nearly the same as in the other two, its rate of adjusted poverty, 9.1 percent, is higher than in six of them, in several cases much higher. Adjusted poverty in the U.S. is nearly identical to Sweden’s even though Sweden’s market poverty rate was nearly 12 percentage points higher. Finland’s rate of market poverty is fully 14 percentage points higher than the U.S’s. The greater antipoverty impact of its income support programs narrowed the gap to 2.6 percentage points.

Australia and the United Kingdom have much higher rates of market poverty than the U.S. Because the antipoverty effectiveness of their income support systems is nearly identical to the U.S.’s, their rates of adjusted poverty are higher than in the U.S. as well.
The lower panel of table 1, based on a relative measure of poverty, shows the U.S. in harsher light. Relative market poverty in the U.S., 24.8 percent, is about the same as the average of the other countries. The American income support system pulled 30 percent of market poor persons out of poverty. The next lowest impact is for Norway. In seven of the ten other countries the antipoverty impact was at least double that of the U.S. As a result, relative adjusted poverty in the U.S. is the highest, and more than twice the level of seven countries.27

How far have we come: Reprise

How far has the United States come in alleviating absolute poverty? Since 1980, not far at all. This conclusion holds whether we gauge progress using the official or adjusted measure of poverty. Looking back further than 1980 requires us to use the official measure, which shows the lack of progress extends back nearly 40 years to 1973.

Between 1964 and 1970 market poverty declined while the antipoverty impact of transfers improved. These reinforcing trends produced significant progress against poverty. After 1970, while market poverty stopped declining, the antipoverty impact of transfers continued to improve for several more years. The improvement more than offset the stagnation in market poverty and caused official poverty to keep falling until the mid 1970s.

Beginning in the mid 1970s, all three components that jointly determine poverty – changes in market poverty, in the antipoverty impact of taxes and transfers, and in demographic structure – contributed to the lack of progress. Market poverty failed to decline because powerful economic forces exerted downward pressure on the wages and
earnings of low skill workers. Because of those forces, the economic growth that occurred after 1980 failed to “trickle down.”

The nation’s investments in workforce development programs and subsidies for employing low-skill workers have been far too small to counteract those market forces. Any expectations that a decent minimum wage would drive down poverty have foundered on the reality that the minimum wage has proved to be a blunt, largely ineffective means to increase earnings of the poorest families.

High levels of immigration and vast changes in fertility and partnership decisions have transformed America’s demographic structure. Over time, Americans have increasingly lived in the types of families that are relatively more likely to be poor. These trends have impeded the alleviation of poverty.

Despite the failure of market poverty to decline, poverty could have fallen if the U.S. had aggressively expanded transfer benefits to needy persons and families. Experience in Europe as well as the success of America’s aggressive expansion of income support for elders show that greater spending on income transfers pays off in terms of less poverty. The enactment and expansion of the EITC moved in that direction. But overall, the antipoverty impact of transfers and taxes eroded during the late 1970s and early 1980s, and has yet to return to its peak level.

4. Prospects for Alleviating Poverty during the Next Decade

Over the next decade, what are the prospects that official poverty will finally fall below 11.1 percent, last achieved in 1973, and continue declining, or at least stay below 11 percent on a continuing basis? And that adjusted poverty will fall below 8.0 percent, last achieved in 2000? Prospects for progress depend on the likelihood that market
poverty will decline, that demographic groups with relatively high poverty levels do not expand, and that the antipoverty impact of the income support system improves.

For market poverty to fall, either real average earnings have to increase and the poverty-reducing effect of the increase must not be offset by further widening of earnings inequality, or, if real average earnings hold steady, then earnings inequality must decrease. The labor market’s weak recovery since the end of short and the Great Recession in 2009 has suppressed less-skilled workers’ earnings in the medium term. Yet even when the labor market tightens in the future, “…the long term wage outlook for less-skilled workers is not rosy. … it is hard to tell a story in which demand for less-skilled workers will increase very much within the United States (Blank 2009a, p. 80).” Barring development of labor market institutions along European lines that shield less-skilled workers from broad market forces – unlikely in America’s political culture – a reduction in their market poverty would seem unlikely. Needed instead will be greatly upgraded skills at the lower end of the American labor market. Even if this occurs, the impact on market poverty will be gradual.

Two demographic trends are likely to stop impeding the alleviation of poverty. The current share of foreign-born persons in the population, 12.6 percent (U.S. Census Bureau 2010c), is at its highest level since 1920. For the past 160 years the population share of the foreign-born has never exceeded 15 percent, which strongly suggests the current share is close to, if not already at, its peak. The period when immigration has impeded the reduction of poverty would appear to be at an end. Second, the increase in single parent families has markedly abated since the 1970s. If abatement continues, another important source of upward pressure on the poverty rate will diminish in the next
decade. If current public efforts to support marriage and prevent divorce prove successful, the prospects for poverty alleviation will further improve.²⁹

Two other looming demographic developments leave one less sanguine. Further increases in the share of births to unmarried parents – now about 40 percent (Hamilton, Martin and Ventura 2009) – are likely and will tend to offset any poverty-reducing shifts in family structure and immigrant flows. So, too, will the growing population share of relatively disadvantaged minorities (Johnson and Lichter 2010).

Prospects for significant expansion of income support for the market poor are difficult to fathom. Like most other affluent countries, the U.S. faces long term, growing budget deficits because of its aging population which, absent intervention, will sharply drive up spending on Medicare and Social Security. Any serious effort to reduce these deficits will require a combination of higher taxes and cuts in these popular programs. If and when such difficult steps are taken, there may well be little political support for expanding income support to low income families except, perhaps, through work-related benefits such as the EITC and subsidized child care.

The continuing obstacles to preventing market poverty and the clouded prospects for expanded income support and poverty-reducing demographic change lead to a downbeat forecast: *Income poverty will remain a pressing public issue in the second decade of the 21st century.*

5. **Policies to Help Alleviate Poverty in the Future**

No single policy strategy or government program can address the multiple social, economic and policy factors that contribute to the U.S.’s failure to substantially alleviate poverty. Progress will require a multi-pronged approach. Following the analytic
framework of section 2, this section sketches policy options for reducing market poverty, improving the antipoverty impact of income transfers and, more contentiously, reducing the share of families at higher risk of being poor.\textsuperscript{30}

Preventing market poverty

An important lesson of the disappointing record since 1980 is that the success of policies intended to increase low-skill workers’ earnings depends critically on having a healthy economy. Both supply and demand side policies have been and will continue to be largely ineffective in a recession, when employers are reluctant to expand hiring even with tax incentives, and low-wage workers who upgrade their skills will find it hard to improve their earnings as job openings and promotion opportunities shrink.

Macroeconomic and trade policies that foster tight labor markets are essential.

In view of powerful market forces that have been eroding economic opportunity for less-skilled workers, the challenges to increasing their earnings are formidable. If the nation wants to promote self-sufficiency for families whose workers have low skills or face barriers such as substance abuse, mental illness, or a history of domestic violence, it must be prepared to support a major expansion of workforce development programs and development of innovative programmatic models. ( Holzer 2009, Stoll 2010.) At current levels of investment, these programs can never have a major impact on market poverty.

Expanded subsidies for child care would complement workforce development programs and are essential for a successful work-based antipoverty strategy. A third key element would help low-wage workers better balance work and family obligations by expanding paid parental and family medical leave programs and requiring most employers to provide paid sick leave (Heymann and Earle 2010, Waldfogel 2009).
Helping disadvantaged young men and former prison inmates has been especially challenging. Career Academies, a high school reform intended to keep students engaged and prepare them for postsecondary education and employment, has produced sustained earnings gains for Academy students compared to students in a control group, especially for young men (Kemple 2008). Mead’s (2007) proposal to have the child support and criminal justice systems require men to work and support this requirement by helping them find work may deserve a rigorously evaluated demonstration.

To improve former inmates’ earnings prospects Raphael (2009) recommends investing more in labor market intermediaries that specialize in the reentry employment of recently released inmates. He suggests ending the summary disqualification of former inmates and those with felony convictions from receiving financial aid for education. Raphael also advocates for basing employment bans and occupational licensing restrictions on conviction rather than arrest records and on the content of one’s criminal history record rather than being applied in a blanket manner.

As a long-term means for raising earnings, subsidies for hiring low-skill workers are less attractive than building skills. Subsidies encourage firms to create low-wage jobs and make it more attractive for low-wage workers to take those jobs rather than to upgrade their qualifications.

Most low-wage young men and women without children will eventually become low-wage parents. To encourage them to work more, which would reduce their poverty in the short run, and to build a sustained record of work experience, which would help them earn more over the long run and support the children they eventually will have, Berlin (2007) recommends a substantial increase in their EITC benefits. Unlike current
policy, he would base the benefit on a person’s own earnings, not family earnings.

Berlin’s (and any other) work-based transfer approach would complement an expanded Career Academies initiative and other efforts to raise earnings of low-skill workers.

In addition to human capital programs and work-based transfers, labor market interventions aimed at employers could help low wage workers. Tougher enforcement of wage and hours laws would enable low wage workers to receive a larger share of the income they deserve (Osterman 2010). Labor law reforms and a National Labor Relations Board more supportive of unions could help reverse the decades-long decline in collective bargaining. Helping employers obtain accurate criminal background checks may increase young black men’s employment by lessening statistical discrimination against them (Stoll 2010).

**Improving income support**

Successful labor market policies do not deal with short-term income losses produced by temporary unemployment or illness, nor can they help families whose adults cannot be expected to work. Increasing cash and in-kind aid to market poor families is a necessary complement to labor market interventions. For severely disadvantaged parents with minimal earnings capacity or complete inability to work, an indexed federal floor on TANF benefits would modestly improve their families’ standard of living.

One option for expanding the successful and politically popular EITC is to increase the maximum benefit for families with three or more children. A second is to provide larger benefits when children are young (say age 0 to 5) in light of evidence that the adverse effects of living in poverty are greater at younger ages. Berlin’s EITC proposal would substantially reduce poverty among childless persons, a group that
currently receives little income support (Scholz, Moffitt and Cowan 2009). Last, extending the EITC to non-resident parents who are in full compliance with their child support obligations would assist many low-income absent parents. It would also offer incentives to comply with those obligations, thereby complementing child support enforcement activities and raising incomes of custodial parents and their children.

Affecting family structure: Reducing non-marital childbearing and single parenthood

While the abstinence-only sex education programs championed by George W. Bush’s Administration have proved ineffective (Trenholm et al. 2008), rigorous evaluations have identified other programs that do reduce teen pregnancies and births and are cost effective (Isaacs, 2007). Offering these programs on a voluntary basis to all teenagers might, over the longer term, reduce the number of children born to young women who are likely to be poor. Providing more family planning services to low-income women would also contribute to this goal. 31

Policies primarily intended to increase earnings or income support may also have salutary impacts on family structure. For example, policies that increase young low-skill workers’ rewards from work by improving their skills or supplementing their earnings with enhanced EITC benefits will raise the opportunity cost of parenthood for young women. Consequently, such policies may indirectly reduce non-marital childbearing.

Last, better enforcement of child support obligations may reduce poverty via three mechanisms. First, because support payments are not reduced when custodial parents earn more, child support has better work incentives than income-tested transfers and so may help reduce market poverty. Second, as a private transfer, greater child support directly increases incomes of custodial parents and their children. Third, better
enforcement, which shifts some of the cost of children from unmarried women to their partners, may help reduce non-marital childbearing.
Figure 1

Figure 2
Relationship among mean earnings, earnings inequality and market poverty

Panel 1. Mean earnings rising with constant earnings inequality

Panel 2. Mean earnings constant with rising earnings inequality
The lines show the difference between market and adjusted poverty, or between market and official poverty, as a percentage of the level of market poverty.

Source: Computed from sources used in figure 1. Results based on market incomes A and B are combined for simplicity.
Table 1: Poverty and the Antipoverty Impact of Transfers and Taxes in 11 Western Countries, Based on U.S. and Relative Poverty Lines

<table>
<thead>
<tr>
<th>U.S. Poverty Lines</th>
<th>Market Poverty</th>
<th>Percent Reduction in Poverty</th>
<th>Adjusted Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>18.8</td>
<td>52</td>
<td>9.1</td>
</tr>
<tr>
<td>Switzerland</td>
<td>18.0</td>
<td>78</td>
<td>3.9</td>
</tr>
<tr>
<td>Netherlands</td>
<td>18.5</td>
<td>82</td>
<td>3.4</td>
</tr>
<tr>
<td>Canada</td>
<td>21.1</td>
<td>61</td>
<td>8.2</td>
</tr>
<tr>
<td>Norway</td>
<td>21.2</td>
<td>84</td>
<td>3.4</td>
</tr>
<tr>
<td>Denmark</td>
<td>23.9</td>
<td>84</td>
<td>3.9</td>
</tr>
<tr>
<td>Australia</td>
<td>27.3</td>
<td>49</td>
<td>13.8</td>
</tr>
<tr>
<td>Germany</td>
<td>29.1</td>
<td>77</td>
<td>6.7</td>
</tr>
<tr>
<td>Sweden</td>
<td>30.5</td>
<td>70</td>
<td>9.0</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>32.3</td>
<td>49</td>
<td>16.6</td>
</tr>
<tr>
<td>Finland</td>
<td>32.7</td>
<td>64</td>
<td>11.7</td>
</tr>
<tr>
<td>Mean, excluding U.S.</td>
<td>25.5</td>
<td>70</td>
<td>8.1</td>
</tr>
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<table>
<thead>
<tr>
<th>Relative Poverty Line</th>
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<tbody>
<tr>
<td>U.S.</td>
<td>24.8</td>
<td>30</td>
<td>17.3</td>
</tr>
<tr>
<td>Switzerland</td>
<td>20.0</td>
<td>75</td>
<td>5.0</td>
</tr>
<tr>
<td>Netherlands</td>
<td>20.7</td>
<td>63</td>
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<tr>
<td>Canada</td>
<td>23.4</td>
<td>72</td>
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<td>Norway</td>
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<td>Denmark</td>
<td>24.8</td>
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<td>Australia</td>
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<td>Germany</td>
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<td>Sweden</td>
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<tr>
<td>United Kingdom</td>
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<tr>
<td>Finland</td>
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<td>57</td>
<td>13.7</td>
</tr>
<tr>
<td>Mean, excluding U.S.</td>
<td>26.1</td>
<td>68</td>
<td>8.3</td>
</tr>
</tbody>
</table>

Note: Data for Netherlands and the United Kingdom are for 1999. Data for Australia are for 2001. The rest are from 2000.

The absolute measure uses the official U.S. poverty lines and converts them into local currencies using purchasing power price exchange rates.

The relative poverty line equals half of each country’s median household disposable income.

Source: Gornick and Jantti (2009).
Table 2: Percentage Reduction in Poverty by Public Transfers and Taxes for Elders and Children, 1979 – 2006

<table>
<thead>
<tr>
<th>Year</th>
<th>Elders</th>
<th>Children</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>75.0</td>
<td>32.5</td>
</tr>
<tr>
<td>1983</td>
<td>76.0</td>
<td>17.7</td>
</tr>
<tr>
<td>1989</td>
<td>77.0</td>
<td>18.7</td>
</tr>
<tr>
<td>1996</td>
<td>81.6</td>
<td>32.2</td>
</tr>
<tr>
<td>2000</td>
<td>82.4</td>
<td>32.3</td>
</tr>
<tr>
<td>2004</td>
<td>82.7</td>
<td>36.1</td>
</tr>
<tr>
<td>2006</td>
<td>82.3</td>
<td>35.8</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Year</th>
<th>Average Monthly Benefit to Retired Workers</th>
<th>Benefit as Percent of Poverty Line for Single Elder</th>
<th>Benefit as Percent of Poverty Line for Elderly Couple</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965</td>
<td>$564</td>
<td>66%</td>
<td>52%</td>
</tr>
<tr>
<td>1970</td>
<td>$687</td>
<td>80%</td>
<td>63%</td>
</tr>
<tr>
<td>1975</td>
<td>$787</td>
<td>91%</td>
<td>72%</td>
</tr>
<tr>
<td>1980</td>
<td>$841</td>
<td>98%</td>
<td>77%</td>
</tr>
<tr>
<td>1985</td>
<td>$864</td>
<td>100%</td>
<td>80%</td>
</tr>
<tr>
<td>1990</td>
<td>$909</td>
<td>106%</td>
<td>84%</td>
</tr>
<tr>
<td>1995</td>
<td>$950</td>
<td>110%</td>
<td>87%</td>
</tr>
<tr>
<td>2000</td>
<td>$1,054</td>
<td>122%</td>
<td>97%</td>
</tr>
<tr>
<td>2005</td>
<td>$1,060</td>
<td>123%</td>
<td>98%</td>
</tr>
<tr>
<td>2008</td>
<td>$1,114</td>
<td>129%</td>
<td>103%</td>
</tr>
</tbody>
</table>

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1 In many cases, eligibility is set at a multiple of the official line. For example, household income must be less than 130% of the official line to qualify for the Supplemental Nutrition Assistance Program (formerly known as food stamps).

2 Some analysts regard consumption as a more accurate indicator of economic well-being than income. See Meyer and Sullivan (this volume) for detailed discussion of consumption poverty.

3 The small extra income from noncash benefits would have been largely offset by taxes paid by low income families.

4 The adjusted poverty data before 1980, from Danziger, Haveman and Plotnick (1986), are not shown in the figure because they are not directly comparable to the later data.

5 Trends in adjusted and market poverty since 2000 are similar for the race and ethnic groups discussed above. Such data are unavailable for earlier years.

6 The official line for a family of four had fallen from 49 percent of median family income in 1959 to 28 percent in 2005 (Blank 2008).

7 For a relative poverty series covering 1965-1983 that shows a gradual increase between 1974 and 1983, see Danziger, Haveman and Plotnick (1986).

8 See also Blank, Danziger and Schoeni (2006) and Cancian and Danziger (2009).

9 $P_i, M_i$ and $W_i$ may be measured for persons, families or households, depending on the needs of the analysis.

10 All figures in this paragraph are computed from data in Blank (2009).

11 There is no readily available time series of market poverty among single female headed families. The 2008 Green Book (U.S. House of Representatives 2008) provides data on families with unmarried heads and children for 1979-2006. Market poverty for these families was 46.6
percent in 1996 and 39.6 percent in 2006. Since most such families have a female head, this decline is likely to be highly correlated with the trend for single female headed families.


13 To see the limited role that the current investment in workforce development can play in reducing market poverty, observe that the total market poverty gap for non-elderly families in 2004 was $281 billion (Scholz, Moffitt and Cowan 2009). If $14 billion of program spending yielded a return of 15 percent every year, an extremely optimistic assumption, aggregate earnings would rise $2.1 billion, or less than one percent of the gap.

14 Bartik (2001) discusses demand side policies and how to make them more effective.

15 The Job Training Partnership Act (JTPA), which funded workforce development programs during 1984-1999, included a small employer wage subsidy. It is difficult to separate the subsidy’s effects on earnings from the effects of JTPA’s training and education services. Since, as discussed earlier, workforce development programs have had minimal effect on market poverty, it is safe to conclude that the effect of the JTPA subsidy was also minimal.

16 Ham et al. (2010) is an exception and reports that these programs have substantial positive effects on employment, earnings and poverty. Even if these results are validated, since spending on such programs is only about $1.2 billion, even large effects would have a minor impact on overall poverty.

17 Research on welfare reform’s impacts is immense. Blank (2002), Grogger and Karoly (2005), and Moffitt (2003) provide excellent summaries, largely of the impacts of smaller scale reforms implemented by states during the pre-1996 “waiver” period. Ziliak (2009) is the most recent major analysis and examines reforms both pre and post 1996.

18 Estimates of the adverse impact of demographic change on poverty differ among studies because of differences in time periods, data sources and the unit of analysis (all persons, persons under age 65, and only children).


20 An alternative approach would compute the reduction in the poverty gap – the difference between the total private income of market poor families and the funds that would provide each family with an income equal to its poverty line. Antipoverty impacts measured this way are higher than those based on differences in the rate of poverty, but the trends are similar.

21 In 2005, when EITC benefits were larger than in all preceding years, they equaled less than ten percent of total spending on TANF, Medicaid, food stamps, WIC, and housing assistance (Scholz, Moffitt and Cowan 2009, table 8A.1). The corresponding percentages for 1975 (the year the EITC began), 1985 and 1995 are 3.5, 2.3 and 10.

22 Rothstein (2010) points out another reason why the simple difference overstates the net impact. He observes that the increase in labor supply induced by the EITC tends to push down low-skill workers’ wages, so increases in income from the EITC have been partly offset by lower earnings. Rothstein’s preferred estimate shows that a dollar of EITC reduces market income by $.27.

23 The positive work effects of the EITC, which has grown relative to other income-tested spending, and of TANF since 1996, would partly counteract any increase in work disincentives stemming from greater transfer spending overall.

24 Market poverty was only 1.3 percentage points higher in 1983 than 1979.
The share of market poor elders pulled out of poverty just by Social Security (and other social insurance benefits, which are minor for elders) rose from 68 percent in 1979 to 78 percent in 2006.

Beginning in 1974 Congress indexed Social Security benefits for inflation and stopped enacting across the board increases. Thus, the rising average benefit after 1975 only reflected the higher real earnings of younger retirees.

Gornick and Jantti (2009) find similar results when they restrict the analysis to children under age 18.

Between 1970 and 1980 married couples as a share of all families fell 4.0 percentage points. During 1980-1990 it fell 3.1 points; during 1990-2000, 1.9 points, and during 2000-2008, 1.7 points. Corresponding declines for married couples as a share of families with children under 18 were 7.5, 4.7, 2.6 and 3.0 (U.S. Census Bureau 2010b).

Prospects for success are far from certain. Interim assessment of the Building Strong Families program, aimed at strengthening the relationships of low income unmarried couples, found the interventions had little or no effect (Wood et al. 2010).

Space limitations preclude discussion of policies intended to mitigate the adverse effects on children of being raised in poverty, such as Head Start or compensatory education programs.

Programs that help increase marriage and reduce divorce and break-ups of unmarried couples would probably reduce poverty, especially among children. But as noted earlier, programs to strengthen unmarried couples’ relationships have not yet demonstrated their effectiveness. Rigorous evaluation results for Strengthening Healthy Families, a similar program aimed at low income married couples, are not yet available.