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POVERTY IN AMERICA:  
IS WELFARE THE ANSWER OR THE PROBLEM?

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ABSTRACT

This paper reviews the current policies for fighting poverty and explores the impact they have had. We begin by reviewing trends in poverty, poverty spending and economic performance. It is immediately apparent that economic performance is the dominant determinant of the measured poverty rate over the past two decades. Government assistance programs expanded greatly over this period, but the growth in cash assistance was too modest to have major effects, and the large growth in in-kind benefits could not reduce measured poverty since such benefits are not counted as income. Next we focus on three groups: the disabled, female family heads, and unemployed black youth. We find little evidence that government deserves the blame for the problems of each group, and suggest that the broad outlines of current policies are defensible on economic grounds.

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The poverty issue is gridlocked. No one is satisfied with current policy, but no alternative to the contours of existing policy can generate much support. The sources of dissatisfaction are well illustrated in two recent tracts on the poverty problem: Charles Murray's Losing Ground (1984) and Michael Harrington's The New American Poverty (1984). Murray notes that poverty has increased in the last fifteen years in concert with increases in federal social spending ballooned. He argues for a poverty Laffer curve: attempts to improve poverty actually made things worse. Harrington sees the problem of rising poverty as caused by government inaction rather than action. He asserts that the War on Poverty was never really declared and argues that without a far more massive effort, there is no real chance of combating poverty.

We have reviewed the existing policies and our record in reducing poverty. Despite the haphazard evolution of these policies and their seeming lack of coherence, we find that they function reasonably well. Given the resources devoted to fighting poverty, we have done about as well as we could have hoped. There is logic to the broad outlines of the current "safety net." Using categorical programs, we have provided financial support to the needy and probably have not caused an appreciable share of the current problems. It is true that current transfer policies do relatively little to help the poor achieve self-

sufficiency or to ameliorate some of the serious social problems attending poverty, but a review of the record does not support the view they have caused them.

### **I. The Record**

Any discussion of trends in poverty must rely on some measure of the incidence of poverty. And any single poverty measure is bound to be misleading. We concentrate here on trends in the officially defined poverty rate--the fraction of population living in families with incomes below the poverty line. It is important to understand that the poverty line is a fixed level of real income (which varies by family size), thought to be sufficient to provide a minimally adequate standard of living. It is adjusted each year only for changes in the cost of living. Changes in the poverty rate thus provide an indicator of society's success in alleviating hardship among those with relatively low incomes, and do not necessarily indicate changes in income inequality. It is also important to recognize that only cash payments are treated as part of family income in the official poverty measure. In-kind benefits such as medical care, food stamps or housing assistance are not counted at all.

Figure 1 depicts the trends since 1959 in the poverty rate, defined as the percentage of all persons living in families with cash income below the poverty line. We have broken out the figures for the elderly and nonelderly separately. For those over 65, there was dramatic and

relatively continual progress up to 1974, some modest progress through 1978, and a relatively flat poverty level since that time. For the non-elderly there was a dramatic decline in the poverty rate between 1959 and 1969. Then progress largely halted. The rate moved up and down throughout the 1970's, finally turning up rather sharply in the 1980s. It is the dramatic halt to progress in reducing poverty rate for the nonelderly which seemed to coincide with the onset of the Great Society programs that has sparked the current discouragement with our antipoverty efforts. Throughout this paper we shall focus primarily on the nonelderly, since there appears to be less concern that our efforts at helping senior citizens were ineffectual or counter-productive.

#### **Poverty In Relation to Economic Change**

How much of the poverty rate can be explained by general economic developments? Figure 2 plots the nonelderly poverty rate along with the poverty threshold expressed as a fraction of median income. It is apparent that the curves dovetail almost perfectly. **Almost all of the variation in the poverty rate is tracked by movements in median family income. The poverty rate, and the poverty line as a fraction of total family income, move almost completely together.**

One does see a slight divergence of the trends in the eighties.<sup>1</sup> But here it should be noted, the poverty rate is basically tracking the performance of the economy. In real terms, median family income in 1980 was no higher than it was in 1969. In the recession of 1982, it actually fell 5% below the 1969 level. Average families have no more

income than they did almost 15 years ago. It should not come as a great surprise, then, that poor families weren't much better off either. And it seems reasonable to blame the same factors for the stagnation in both the fortunes of the poor and the nonpoor.

The reasons for the lack of growth in median family income are not entirely clear. Real per capita disposable income did rise by 27.5%. Some of the explanations must therefore lie in demographic changes, which were affecting both the poor and the nonpoor. There was a large increase in the number of female-headed families, and average family size declined from 3.6 to 3.3. The share of income going to unrelated individuals also increased substantially. But demographics alone cannot be the entire story. Median income of full-year, full-time male workers also declined between 1970 and 1980. Much of the blame must be placed on the productivity slowdown, which reduced the annual rate of growth of productivity to 0.8% in the 1970s after nearly two and one-half decades of growth at almost 3% per year.

Whatever the reasons for the decline, it would be absurd to blame changes in median family income on social welfare program mistakes. Making the poor better or worse off shouldn't affect median income because the middle family in the income distribution would not be directly affected. Nor can attitudinal changes sometimes traced to welfare be blamed for our economic problems. The market valuation of corporate physical capital, which is presumably free from attitudinal problems, has declined by more than 50% since the late 1960s.

A brief consideration of the relevant magnitudes makes it clear why

movements in average family incomes should be a dominant determinant of the fortunes of the poor. The bottom fifth of all families get about 6% of total personal income. This figure has been remarkably stable for most of the past 20 years. In 1982 disposable personal income was \$2,172 billion. A 10% increase in disposable personal income would raise the amount of income flowing to the poor by \$13 billion. A 25% increase, which was achieved between 1961 and 1966, would increase the income to the bottom fifth by more than the total cost of all means-tested cash assistance programs plus food stamps. These calculations probably understate the power of a strong economy in reducing poverty because they neglect the cyclicity of the share of income going to the bottom fifth of the population.

There is an alternative way of seeing that the performance of the economy will be a dominant determinant of the economic condition of the poor. A majority of the poor are in male-headed families. For this group, at least 75% of income results from earnings. Even among poor female headed families with children, fully 40% of all income comes from working. The fraction is much greater for families near the poverty line--the ones who will be drawn into or out of poverty as the economy swings.

#### **The Role of Antipoverty Programs**

Still, it is troubling to find that poverty rates have tracked median family income so closely. Expenditures on social welfare programs increased many times during the late 1960s and early 1970s.

Shouldn't we have expected some improvement in poverty? If for no other reason, transfers from the government should have pushed more people across the poverty line. This lack of progress seems to have fueled the current perception that the antipoverty programs were a failure. Murray even argues that the growth in government programs induced the poor to stop relying on private sources of income and start relying on public sources, reducing their hopes for self-sufficiency. Let us examine these charges.

It is customary to break social welfare expenditures into three categories: social insurance, cash assistance and in-kind benefits. The social insurance system is clearly geared to the middle class, designed to protect those who retire or who suffer some calamity such as total disability or unemployment or work injury and therefore are unable to earn money. Medicare, which covers much of the medical care needs of the aged and totally disabled who receive Social Security, is usually classified as a social insurance program even though it provides in-kind benefits. Most workers are covered by these programs so long as they have worked a reasonable period. Far from being income tested, these programs tend to give higher benefits to those who had higher earnings before retirement, disability, or unemployment. Thus the programs do protect some families from poverty, but they really are designed to protect middle class incomes.

Cash assistance is offered to certain low-income groups. In most areas, only three groups really qualify for significant cash assistance: the aged, the totally disabled, and persons in single-parent families.



Supplemental Security Income (SSI) covers the first two groups while AFDC covers the third. There is some assistance available for others. Most states offer a very modest General Assistance (GA) program, often for people who are partially disabled. Further, some states also offer an AFDC-Unemployed Parent (AFDC-UP) program for two-parent families with an unemployed parent. In fact, there are stringent restrictions on eligibility for AFDC-UP, and the program is extremely small, less than 5% of the total AFDC program. The cash transfer programs are explicitly income-tested and benefits decline as income rises.

Finally, there are a variety of in-kind benefits available. Food Stamps provides modest benefits per person in the form of vouchers, but the benefits are available, on a scale which varies by income, to all poor persons-- (except students and strikers). Medicaid provides medical benefits to the poor, but only to those who are aged, permanently disabled, or are in single-parent families.<sup>2</sup> There are housing assistance programs and a number of other modest in-kind benefits, like Low Income Home Energy Assistance.

Table 1 shows the magnitude and the growth of these various programs. Expenditures are divided by major beneficiary group: the elderly, the totally disabled, and all others. Certainly the most prominent fact on the table is that the bulk of all expenditures and the bulk of the dollar growth has been in programs for the elderly. We would certainly expect to see, as we have seen, a very dramatic reduction in poverty among this group even in the seventies, when growth was rather flat.

By almost any standard, expenditures on cash assistance programs specifically targeted at the poor are small. Taken together, all the cash assistance programs for the nonelderly totaled less than \$20 billion in 1982. That is a considerable increase over 1960, when benefits were under \$5 billion (in 1980 dollars). But it still represents much less than 1% of GNP. Federal expenditures for these programs are less than 2% of the federal budget.

These expenditures are too small to have very much effect on measured poverty. Cash assistance pushes just 5% of poor persons out of poverty. Spreading the \$20 billion spent on cash assistance across all 30.6 million non-elderly poor persons yields an average cash benefit of slightly over \$50 per poor person per month. Benefits are actually concentrated on those persons who are single parents or disabled. But for single parents, benefits average only \$100 monthly per person; for the disabled, they average roughly \$220. These amounts just aren't sufficient to push very many persons out of poverty.

Perhaps even more important, over the period when poverty rates were stable, there were only modest changes in expenditures for these programs. Between 1970 and 1980, cash assistance expenditures rose from \$13.7 billion to \$18.9 billion. Over the entire decade, annual expenditures per nonelderly poor person rose just \$93! Such an increase would hardly be noticed in the poverty statistics. And even that figure overstates the significance of the increase. Nearly all of the growth in these programs came in the disability program, which reaches only 2 million persons.

Programs which provide in-kind benefits, such as Food Stamps, housing assistance or medical care, did grow considerably over the 1970s. But none of these get counted as income for purposes of defining poverty. Thus expenditures for these programs wouldn't reduce measured poverty, though they clearly reduce hardship.

The Food Stamp program comes closest to offering cash assistance, and benefits from the program should surely be counted as income in calculating poverty. Unlike almost every other major social program, food stamps are available to all poor families regardless of their characteristics. But average benefits are relatively low--less than \$40 per month per person. Thus the program would not push very many people out of poverty even if its benefits were included as measured income. If food stamps were treated as income in 1982, the number of nonelderly poor would have fallen fall from 30.6 million to 29.1 million. Housing Assistance is also available--in 1980, \$4 billion was spent on the nonelderly. There are also a variety of child welfare, child nutrition, social services, and other programs. We do not have an exact total for these for the nonelderly, but it is probably between \$5 and \$10 billion.

Medical care falls into a special category. Persons who are in single-parent families or who are totally disabled and a few others can qualify for Medicaid. In 1980 the cost for single parents was \$7.5 billion; for the disabled, \$7.0 billion. It is less appropriate to think of medical care in the same way that cash assistance or food stamps are viewed. The poor never bought much health insurance prior to the start of the program in 1967 so provision for medical care was not

really counted in determining the poverty level. Care was provided on a charity basis, in government-financed county hospitals, or it was simply not provided.

Because none of these in-kind benefits is counted in income, they cannot reduce statistically measured poverty. But there are indications that these programs have been at least partially successful in achieving their specific goals. Life expectancy in the U.S. rose more during the 1970s than during the 1950s and 1960s. Perhaps more significantly, life expectancy rose more for nonwhites than whites: 4.2 years versus 2.7 years. Similarly, the nonwhite infant mortality rate declined almost twice as much in absolute terms as the white rate. And both caloric intake and protein consumption of the poor increased relative to the middle class. "Nutritional inequality" declined noticeably.

#### Social Insurance Programs

**The really large growth in social benefits for the nonelderly came in the social insurance programs—the programs for the middle class. Unemployment Insurance (UI), Worker's Compensation (WC), Social Security Disability (DI), and Medicare for the disabled together cost \$52 billion in 1980, up from \$22 billion just a decade before.**

These programs are not generally perceived by the public as being antipoverty programs, and rightly so. Their benefits go largely to the middle class. Only one-quarter of UI and WC funds go to persons who would otherwise be poor. Nonetheless, their significance in aiding the poor should not be understated. For those formerly poor persons lucky

enough to receive UI or WC benefits, three-fourths are pushed out of poverty by them. Indeed in some respects these programs probably do more to reduce poverty among the non-elderly than the cash assistance programs do. If UI and WC did not exist, at least 3 million more non-elderly people would be poor. (We have no comparable figures for the DI program.)

So it is not really very surprising that measured poverty hardly improved during the 1970s. The single most important correlate with poverty--median family income--didn't change. On government's side of the ledger, expenditures for cash assistance directed to the poor started small and hardly increased at all. In-kind benefits increased much more dramatically, but they are not counted in income, so they couldn't improve measured poverty.

But whether or not government transfers were large enough to have a really significant effect on poverty, concerns remain that government may actually be contributing to the poverty problem by discouraging work and encouraging single-parent family formation. We look at three groups that enter prominently in any discussion of the disadvantaged in America. The first two are afforded the bulk of cash assistance--the disabled and those in single-parent families. For both of these groups, existing policies have been indicted as having important counter-productive influences. The third group, black youth, have at times been cited as associated victims of the current welfare system. In all three cases, we consider whether or not transfer policies must bear significant responsibility for the problems faced by the groups.

## II. THE DISABLED

The disability insurance (DI) portion of Social Security and Supplemental Security Income provides benefits for those who are disabled and poor, grew enormously during the 1970s--both more than doubled during the decade. The combined cost of social insurance and cash assistance and in-kind benefits for the disabled totaled nearly \$33 billion in 1980. Recently it has been charged that the program has reduced labor force participation of middle aged men. The charge is serious, since the program is intended solely for those who cannot work.

The program's growth has indeed coincided with a significant decrease in labor force participation among men. In 1960, only about 4% of men aged 45 to 54 were out of the labor force. By 1980, the figure had reached almost 9%. For black men the increases were even more dramatic: from 7% up to 16%. Motivated by these statistics, a need to cut budgets, and a host of anecdotes, the Reagan administration undertook a major tightening of eligibility rules under DI in the early 1980s, cutting several hundred thousand people, and making eligibility more difficult to obtain. These policy developments coincided with increasing criticism of the program within some academic circles for contributing to declining male labor force participation. The argument was that men who could work have been shifting to Disability Insurance. Thus Donald Parsons (1980) concluded that the recent increase in nonparticipation in the labor force of prime-aged men can be largely explained by the increased generosity of social welfare transfers but these findings have been disputed by other economists.

One approach to exploring the employability of those who received disability insurance is to look at the earnings patterns of those who applied but were denied. Certainly those who were denied assistance are on average considerably more employable than those granted benefits. Unfortunately, there are few data from recent years on the subsequent earnings of those denied disability benefits. However the Social Security Administration (SSA) has examined the subsequent earnings experience of those denied benefits in 1967 and 1970. In assessing this evidence, it is important to recall that the fraction of disability applicants denied eligibility has risen steadily through time, from 49% in 1965 to 52% in 1975 to 66% in 1980. Thus rejections are even more common now than during that study periods.

**Yet in the late 1960s, virtually all of those who were rejected by the Disability Insurance program did little work in subsequent years.** A SSA staff paper summarized the 1967 survey results by noting: "A large proportion of the denied applicants never returned to competitive employment despite many years of work prior to their disability and an administrative decision in 1967 that they were still able to do so." Further, "four-fifths of these claimants who were initially denied in 1967 did not return to sustained competitive employment in the following five years." (Tretel, 1976, pp.22, 25). Similar results were obtained in the 1970 survey.

Preliminary work in Bound (1985) suggests that these basic conclusions hold even in recent years and even if one looks across the entire age distribution of persons under 60 applying for disability

benefits. More than half do not return to sustained work. And those who do return to work suffer earnings losses of nearly 50%.

Since 1970 the DI program has doubled in size. Some of the increase is undoubtedly due to increased knowledge of the program and some may be due to increased benefit levels and some relaxation in standards. But even if the program now were taking people equivalent to the least employable four-fifths of those rejected in 1970, it still would be taking a group which would have done no sustained work whether or not they were accepted. And recall that in 1980, prior to the recently increased restrictions, 66% of applicants were denied entry to a program that is designed for the totally disabled. Those who apply are unlikely to be very healthy. The medical costs for the disabled are very large and they have continued to grow out of proportion to the number of new beneficiaries or the growth in medical costs. The disastrous experience with the recent policy experiment of removing those thought least disabled from the disability rolls would seem to confirm these inferences.

**Disability programs appear to be one example where a carefully targeted program can give generous benefits without generating large adverse incentive effects. But the program succeeds largely because benefits are based on a relatively objective and difficult to alter set of physical conditions.**

#### **POVERTY AMONG SINGLE MOTHERS**

The mounting number of children being raised in single-parent



households is commanding increased national attention. The apparent "crisis of the family" is noted most acutely with respect to black households, but the trends seem to extend to all racial and economic groups. The numbers are stark. By the time today's children turn 18, some 45% of whites and a remarkable 85% of blacks are expected to have lived for some part of their life in a single-parent household. At a minimum those who live in single-parent households face financial hardship; some worry that there are other consequences as well.

Certainly the most troubling and potentially the most damning accusation leveled against the current welfare system is the charge that it encourages the formation and perpetuation of single-parent families. The specifics of the charges have changed over time, but not the basic message. Originally, it was suggested that we had developed a welfare system that rewarded single-parent families by denying benefits to families with two parents. More recently, in the wake of the negative income tax experiments, it is alleged that by relieving a family of the necessity of relying on two parents for income, welfare facilitates marital disruption.

Figure 3 plots the fraction of all children living in a female-headed household, the fraction of all children who received AFDC since 1960. The fraction of all children living in a female-headed household started rising much faster in the late 1960s, at precisely the time when the number of children on AFDC rose sharply. But then the trends diverged--dramatically so.

**Since 1972, the fraction of all children who were living in a**

female-headed household jumped quite dramatically, from 14% to almost 20%. During that same period, the fraction of all children who were in homes collecting AFDC held almost constant, at 12%. The figures are even more dramatic for blacks. Between 1972 and 1980 the number of black children in female-headed families rose nearly 20%. The number of black children on AFDC actually fell by 5%!

If AFDC were pulling families apart and encouraging the formation of single-parent families, it is very hard to understand why the number of children on the program would remain constant throughout the period in our history when family structures changed the most.

These figures are easy to understand in light of the fact that real AFDC levels fell by almost 30% between 1970 and 1980 in the median state. Even in some comparatively liberal states, benefits plummeted. In New York City, benefits dropped 33% in real terms over this period. Food Stamps mitigated the declines somewhat. But between 1971 and 1983, combined Food Stamp and AFDC benefits fell by 22% in real terms in the median state. A smaller and smaller fraction of children in single-parent families were receiving AFDC for a very simple reason--benefit levels, and therefore eligibility were being sharply cut back.

Perhaps the impact of AFDC benefits was delayed, or perhaps once a threshold is reached, people don't react to changes in benefit levels. These explanations could explain why family structures continued to change even as benefits fell. But we can think of no story crediting AFDC with a very large part in inducing changed family structures which is consistent with a falling absolute number of children on the program.

And what about the sharp rise in the fraction of all black births to unmarried mothers? The birth rate to unmarried black women FELL 13% between 1970 and 1980. But the birth rate to married black women fell even more—by 38%, so the fraction of births to unmarried women rose. During the same period, the unmarried birth rate to whites rose by 27%. It seems difficult to argue that AFDC was a major influence in unmarried births when there was simultaneously a rise in the birth rate to unmarried whites and a fall in the rate for blacks.<sup>3</sup>

Probably the most important lesson of the time-series analysis is that family structure change just do not seem to mirror benefit level changes. We have already made rather draconian cuts in benefit levels and family structure changes haven't slowed appreciably. It seems hard to believe that further cuts would do much to hold families together.

Yet a second approach fails to find a strong connection between AFDC and family structure. Benefit levels vary widely from state to state. In Mississippi in 1980, a single-parent family of four could get a maximum of \$120 per month in AFDC benefits, and that amount had been raised from \$60 per month only a few years earlier. In California or New York, the same family could get \$563 in benefits.

The gaps between states are not quite as large as they might seem, because Food Stamps is a Federal program with uniform benefit levels nationally. As such it narrows the gaps in benefits between states. But even including Food Stamps, benefits vary by a factor of two to three. Food Stamps are available whether or not one is in a single-parent family, so their impact on family formation choices is unclear.

The obvious test is to compare the fraction of children living in female-headed households, or the divorce rate or the birth rate to unmarried women, with benefit levels across states. Figure 4 provides such a comparison for 1980. **There is no obvious relationship between the fraction of children not living in two parent families and AFDC benefit levels across states. The same holds for almost every other measure of family structure as well, including divorce rates and, out-of-wedlock birth rates. More sophisticated regression techniques which control for differing socio-economic characteristics across states typically also show little or no relationship.**

Our conclusion is that AFDC has far less to do with changes in family structures than has been alleged. We suspect that the changes are probably better traced to changing attitudes toward welfare and heightened independence brought about by a host of forces that seemed to have come to a crescendo in the late sixties. In the black community, family structure changes may have had more to do with the changing fortunes of black men than the availability of AFDC.

#### AFDC, Reduced Work, and Dependency

Unlike the disability program, there are undoubtedly some reductions in labor supply by female family heads induced by the current program. But, studies suggest that AFDC has had a modest effect in reducing work. Welfare mothers do not seem to be very sensitive to work incentives. Most recently, changes have been made in the AFDC program which essentially eliminate all work incentives. After four months,

benefits are reduced at least one dollar for each dollar the woman earns over \$30. Yet there apparently has been little change in the work of single mothers (see, e.g., Research Triangle Institute, 1983).

But concerns about AFDC run deeper than just a fear that short-term work incentives are distorted. There is a sense that long-term dependency has developed, that people have come to rely on it to meet needs that they could and would meet on their own if they had no alternative. Except for the case studies of sociologists, we know of no definitive work on the extent to which pathological dependency exists, or the role that AFDC has had in creating such dependency.

But there is information on the duration of AFDC receipt which does shed some light on this issue. The evidence, as analyzed by Bane and Ellwood (1983) for example, suggests two sides of the AFDC population. Most people who ever use AFDC stay on the program a relatively short time. At least 50% leave within two years, 85% leave within eight. Most women who ever use AFDC don't seem to get trapped by it. At the same time, the minority who do stay on a long time accumulate and thus ultimately receive most of the benefits that are paid out. They also are a large fraction of people who are on the program at any one point in time. The 15% of new recipients who stay eight years or more on the program collect more than 50% of the benefits paid out. Further, certain women are at particular risk of long-term dependency. Unmarried mothers, high school dropouts and nonwhites all tend to have much longer stays than others.

Thus the program does provide short-term relief to the majority of

the people it touches, but the bulk of its expenditures go to a group that is in fact dependent on welfare for an extended period. This dependent group is a legitimate source of concern. There isn't any good evidence that they are trapped by welfare per se; we only know that they rely on it for at least part of their support. Such dependence is easily explained. There are just two routes to self-sufficiency for single mothers--work and marriage. And both of these can be hampered by the presence of young children. Still, the fact that many are found in this state of dependence seems undesirable.

Knowingly or unknowingly we have been engaged in an experiment over the past 10 years. This experiment has been carried out at the expense of single mothers and its results can be judged a failure. We have cut back AFDC benefits considerably. There has been no noticeable effect on family structure or work. We can be sure the impact on the well-being of single mothers was noticed by the families. We have also conducted an experiment in allowing benefits to vary across states for years. Here, too, there is little evidence that these differences have had any noticeable effect on work or family structure.

Yet there are sources of concern. There is little evidence that the current system as configured causes large changes in family structure. But there is reason to worry that massive widening of welfare benefits to other groups could have more serious disruptive effects. The negative income tax experiments suggested that a system which allowed husband and wife to split up and each collect benefits independently seemed to increase marital splits among low-income

families by as much as 40% more than was true under the existing system (Groeneveld et al., 1983). The results of the study, while not definitive, (splits didn't increase in one site, racial patterns differed across sites) do serve as a warning that major changes in incentives could have important consequences, at least for marital stability.

And dependency is a problem for some AFDC recipients, at least if dependency is defined as long-term welfare receipt. We find such dependency troubling, particularly since it seems to be greatest among groups that have considerable disadvantages to begin with. Our current welfare policies may have some influence on this dependence. There is a widespread hope that government could do something to help these women become self-sufficient.

Yet government has not shown much capacity to improve the situation very much. We know of no serious policy that encourages family formation. We have tried various programs that have had some success (particularly Supported Work) in helping long term recipients and poor women generally, but gains have been quite modest. While the desire to pursue ways to improve the ability of single women to support themselves is widespread; few who have designed these programs have grandiose expectations.

The peculiar nature of the welfare problem for single mothers is the fact that society generally recognizes and encourages mothers to stay home and care for children, but it also sees self-sufficiency as a virtue and it is increasingly unwilling to accept welfare dependence

among single mothers in the way it accepts it among the disabled. Thus one cannot have a program of high benefits and no work incentives, as is offered the disabled. More complex regulations about work and child care are inevitable given social preferences. Diverse services must be offered.

### **BLACK YOUTH UNEMPLOYMENT**

By every conceivable measure the labor market situation for young blacks is bad and getting worse. Figure 5 shows the unemployment rate among black and white youth aged 16-19 from 1955 to 1980. While the rate for white youth has been relatively steady throughout the period, the rate for blacks has risen almost continually, though it was during the 1970s that the gap really widened. If we look at the sexes separately, we see similar patterns for young men and women. Things get somewhat better as the youth age, but the gap between the races has been widening for those aged 20-24 as well. The magnitude of the problem cannot be overstated. In 1980, before the recession really hit, among out-of-school black youth, only one in three had any job.

What's all the more perplexing about this widening gap is the fact that the changes have come at a time when developments are occurring that might have been expected to narrow the racial gap. Civil rights legislation was passed in the 1960s which reduced overt discrimination in the workplace. The educational patterns of the races have been converging-- similar proportions of blacks and whites now complete high school. College is almost as common for nonwhites as nonwhites. Blacks are also narrowing the racial gap in the more highly paid professions.



The fear of many conservatives is that the very social forces which culminated in the late 1960s, particularly the rise of social welfare programs, lead to a destruction of traditional values and expectations that hard work pays off in the long run. We are not competent to judge the entire sociological impact of public policy generally or to evaluate changing values in America's ghettos. But we can explore the logic of an assertion that the expansion of social welfare programs played a major role in the decline of work among black youth.

We will concentrate on employment of black male youth to avoid problems associated with the childbearing among young women. Is it plausible that social welfare policies have caused a severe decline in the work ethic among young black men?

Certainly such policies have not removed incentives to work. Single men are eligible for very little in the way of federally-sponsored welfare benefits. A youth living alone is eligible only for food stamps. In 1982, his benefits would have been \$70 per month, hardly enough to live on. For the first \$85 the youth earns, benefits are not reduced at all, then for every dollar he earned these benefits would be reduced by only 25 cents. If he found a full-time minimum wage job he would have earned \$560 per month in gross earnings and at least \$450 net of taxes and expenses. It certainly seems hard to believe that the Food Stamp program would reduce the financial rewards to work much..

If the youth instead lived at home (as most do), the picture hardly changes. If he lives in a poor two-parent household, his family is likely to be collecting food stamps. His presence in the home increases

the monthly stamp allotment by roughly \$60 month. This allotment is diminished by the same formula as above if he works. Contrary to popular belief, the situation is no different if the youth is in a single-parent family which collects AFDC. A child 18 years old or over who is not in school cannot now and never could be counted as a part of an AFDC unit. That means the family's benefits do not depend on whether the youth lives with the family or not, and benefits will not be reduced if he earns more.

Thus it is extremely unlikely that welfare programs have robbed young black men of an incentive to work with their direct effects. But there is a broader concern. Perhaps the whole structure of welfare has created a culture of nonwork and dependence. Such a possibility is very hard to test, but there are several facts which are hard to explain in light of such an hypothesis: Employment rates for young men living in two-parent families are not very different from those of youngsters living with one parent. In 1975, some 23% of young black men living with two parents and 21% of those living with one parent had jobs. For whites, the figures are closer to 50% for both family types. One would generally expect to find a difference by family type simply because youth jobs are typically found through informal networks and one would anticipate that those in fatherless homes would have less access to such networks. Moreover, though unemployment does fall among blacks as family income rises, the differential between whites and blacks is largely unchanged.

**Black youth living in central cities don't seem to fare much worse**

than those living outside the ghettos. According to the 1980 Census, 32% of out-of-school black youth in central cities had jobs whereas 38% of those living in the suburbs were employed.<sup>4</sup> Similarly only 35% of out-of-school nonwhites living in nonfarm rural areas were working.

While the figures above differ slightly, they are all vastly lower than the 62% figure for whites. If black youth unemployment were concentrated in the ghettos, it would be easier to point to the culture of poverty hypothesis.

The fact that black/white youth unemployment differentials seem to persist for all geographic locations, for all family types, and for all income groups clearly suggests something more fundamental is to blame than the growth of welfare programs, which amount to less than 1% of GNP.

Among researchers who have looked at the problem, there is no consensus about what is happening. Most of the simple theories have been tried, and they don't account for all of the widening differential between blacks and whites. There is considerable evidence of a job shortage for black youth, (see e.g., Clark and Summers, 1981; Freeman, 1980), but such an explanation can be only part of the story. Macroeconomic conditions did worsen over the 1970s, but not enough to explain so much of a widening differential. And the racial gap widened somewhat even during the extraordinarily strong economy of the late 1960s. There are fewer jobs in the ghettos, but nonghetto youth seem to fare just as badly as ghetto youth (see Ellwood, 1985). Nearly all researchers agree that the minimum wage lowers black youth employment,

but the differential has continued to widen even during periods when the minimum wage did not change. Women entered the labor force in large numbers in the 1970s, but their entrance didn't seem to hurt white youth. Taken together, the various explanations might explain half or more of the widening differential, but one gets the sense that something more fundamental has changed. Moreover, even if one places all the blame on job shortages, the explanation begs the question of why jobs are not being offered to young blacks when they are being offered to young whites.

And just as black youth joblessness defies easy explanation, it defies easy solution. Most careful experiments have shown disappointing long-term results. Public service employment increases youth employment, but when the public jobs end, employment rates seem to fall back to their previous levels. There just are not any good answers at the current time.

This is not the appropriate place to discuss what might be done to help such youth. But one thing is very clear. Expand welfare benefits to this group, would have large adverse incentive effects. The negative income tax experiments showed that when income was afforded to youth aged 16-21, work fell by almost 50% below its already low rate (see Venti and Wise, 1984). It is hard to imagine a policy with more deleterious effects on the long-run well-being of black youth.

The employment problems of black youth then cannot be blamed on current welfare policies. In large part, that is because we have avoided offering welfare to young people. While there is surely some

financial suffering as a result, the fact that extending benefits to these persons would so dramatically reduce work is an overriding consideration.

#### **THE ROLE OF GOVERNMENT IN COMBATING POVERTY**

The analysis in this paper suggests three main conclusions. First, growth in the economy is a powerful tool for raising the incomes of the poor. The problem is that we do not really know how to restore rapid growth.

Second, government transfer policies do not seem to be responsible for a large part of the problems of the disadvantaged.

Finally, the fact that the problems of the three groups we considered are so different and the consequences of aid varied so greatly argues for a continued reliance on a categorical approach to offering aid to the disadvantaged. For the disabled, there is little concern with dependence or work incentives. This allows for liberal benefits and forces no compromises on work incentive. For single mothers, the need is quite real, and there is little evidence that we have been overly generous in our benefits, but there is evidence for some long-term dependency. Trying to balance the needs of children, the rights of mothers to care for their children, and the desire of society (and presumably the mothers themselves) to be self-sufficient suggests the need for a complex policy aimed at that group. For youth, the reduced work that would apparently accompany an extension of benefits is

a crucial factor mitigating against an expansion of welfare in that direction.

While current welfare programs do not have large incentive effects, they do funnel a significant amount of money to some poor people. In this limited sense of redistributing income to those in need without creating undue economic distortions, current policy is economically efficient.

More fundamentally, general economic principles suggest the desirability of a complex welfare system with different rules for different groups and partial reliance on in-kind benefits. The basic problem of welfare policy is to transfer income to those truly in need without sizeable adverse incentive effects and without diverting significant resources to those who are not truly in need. Seen in this light, prominent features of our current welfare system seem easily explainable. Efficiency in redistribution can be increased if payments are based on available indicators of true earning power.

Particularly desirable are indicators which are not easily altered, such as disability, and perhaps family status. Moreover, the use of any type of assistance which will help the truly poor, but be relatively unattractive to the nonpoor, will raise the amount that can be redistributed with a minimum of distortion. This may justify substantial reliance on some types of in-kind programs. People not in need are less likely to try to look poor in order to qualify for public housing than they are to qualify for cash assistance. Some administrative burdens on welfare recipients might also be defended as

facilitating redistribution by increasing the government's ability to separate those in serious need.

Current policy may also be defended on philosophical grounds. It expresses the value society places on self-reliance. We expect those who can to help themselves. Benefits are provided only to those able to provide some evidence of their inability to support themselves. Most Americans regard the reasons for indigency as sharply influencing their willingness to offer aid. The disabled, single parents, those injured or laid off from work can offer some evidence that their financial straits are not caused by an unwillingness to work.

While we see reasons for concern about the effects of reducing eligibility restrictions, we see little cause for concern about the effects of raising benefit levels under current programs. Restoring real AFDC benefits to the levels of a decade ago and reducing or eliminating regional disparities would do a great deal for people in need without much disincentive effect on work. Certainly there are equity considerations which would be served by allowing working poor families for aid beyond food stamps. But there are strong arguments for the primary notion of categorical and differential treatment in spite of the large apparent income inequities it can create.

Regardless of the logic of the present system, the current outlines seem unlikely to change much in the near future. We do think it's worth remembering that some of the basis for a categorical approach is that groups differ both in current need and in prospect of need. Unfortunately, we have tried massive short-term jobs programs and

discovered once again that the problem is complex. Government does not appear to have been much of the problem. But it hasn't been much of the long-term solution either. Yet the occasional successes (such as Supported Work) offer the hope that programs which are carefully tested and implemented may offer movement toward self-support. It would be tragic if narrow budgetary concerns or discouragement about the "poverty problem" eliminated our experiments with promoting self-support.



Table 1  
 Costs of Major Public Assistance and Social Insurance Programs  
 for the Elderly, Totally Disabled, and All Others  
 (In Billions of Constant 1980 Dollars)

PROGRAMS FOR THE ELDERLY	1960	1970	1980
<b>Social Insurance</b>			
Social Security Old Age and Survivors	\$29.2	\$60.7	\$104.7
Public Employee and Railroad Retirement	\$9.7	\$21.9	\$44.3
Medicare <sup>a</sup>	\$0.0	\$16.8	\$29.1
<b>Cash Assistance</b>			
Supplemental Security Income (and Old Age Assistance)	\$4.5	\$4.0	\$2.7
<b>In-Kind Benefits</b>			
Medicaid <sup>a</sup>	\$0.0	\$4.1	\$8.7
Food Stamps	\$0.0	\$0.2	\$0.5
Housing <sup>b</sup>	\$0.1	\$0.5	\$2.5
<b>PROGRAMS FOR THE TOTALLY DISABLED</b>			
<b>Social Insurance</b>			
Social Security Disability <sup>c</sup>	\$1.6	\$6.5	\$15.4
Medicare <sup>d</sup>	\$0.0	\$0.0	\$4.5
<b>Cash Assistance</b>			
Supplemental Security Income (and Aid to the Disabled)	\$0.7	\$2.1	\$5.0
<b>In-Kind Benefits</b>			
Medicaid <sup>a</sup>	\$0.0	\$2.2	\$7.0

Table 1 Continued  
 Costs of Major Public Assistance and Social Insurance Programs  
 for the Elderly, Totally Disabled, and All Others  
 (In Billions of Constant 1980 Dollars)

**PROGRAMS FOR OTHERS**

**Social Insurance**

Unemployment Insurance	\$8.4	\$9.3	\$18.9
Workmen's Compensation	\$3.6	\$6.5	\$13.6

**Cash Assistance**

Aid to Families With Dependent Children (AFDC)	\$2.8	\$10.3	\$12.5
General Assistance (GA)	\$0.9	\$1.3	\$1.4

**In-Kind Benefits**

Medicaid <sup>a</sup>	\$0.0	\$3.7	\$7.5
Food Stamps	\$0.0	\$1.1	\$8.6
Housing <sup>b</sup>	\$0.4	\$1.0	\$4.7

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<sup>a</sup> Medicare and Medicaid began in 1966.

<sup>b</sup> Estimated based on fraction of persons receiving housing assistance who are elderly. (See Bureau of the Census, 1982).

<sup>c</sup> Social Security Disability Insurance program began in 1956.

<sup>d</sup> Medicare was extended to the disabled in 1974.

Sources: Social Security Bulletin. Annual Statistical Supplement 1982. Tables 2, 18, 19, 154, 155, 160, 172, 192, 200.

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