The U.S. Social Safety Net and Poverty: Lessons Learned and Promising Approaches

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Abstract

President Lyndon Johnson declared War on Poverty in 1964 with the goal of eliminating income poverty. Although his key economic advisors expected this goal to be achieved by 1980, progress against poverty slowed dramatically after the early 1970s. The official poverty rate in the U.S. was about the same in 2003, 12.5 percent of all persons, as it had been 30 years earlier. In this chapter, we reflect on the rise and fall of antipoverty policy as a national priority, highlighting key changes in welfare policies for families with children over the past four decades.

Antipoverty programs reduce market-generated poverty to a greater extent today than they did when the War on Poverty was launched. However, most of the increase in the antipoverty effect of the social safety net is due to programs and policies that were enacted and/or expanded in one decade, 1965 to 1975. The main exception is the Earned Income Tax Credit that grew into the most effective antipoverty policy for families with children by the mid-1990s.

Today, only the elderly have an extensive social safety net that protects them from the fluctuations of the business cycle and the secular economic changes that have led to declining real wages for many workers and high poverty rates for families with children. For the nonelderly, U.S. antipoverty programs are no more effective now than they were 25 years ago, and they are much less-effective than those in other advanced industrialized economies.

Since 1980, there has been relatively little political or public interest in launching a major antipoverty initiative in the U.S. However, the lessons learned from the U.S. experience were influential in Prime Minister Blair's 1999 declaration of "war on child poverty" in the United Kingdom. We conclude by offering some thoughts on the implications of the U.S. experience for the choices of antipoverty policies in Mexico.

Introduction

Following World War II, the American economy experienced a long period of sustained economic growth, rising real wages, and low unemployment rates. The benefits of prosperity were widely shared among most of the poor, the middle class and the wealthy. Even though poverty had fallen rapidly from the late 1940s to the early 1960s, concerns were raised by both popular authors and economic policy analysts that many families, especially those headed by less-educated workers, minorities, and women, were not benefitting much from the prosperous economy (Galbraith, 1959; Harrington, 1962; Lampman, 1959). These authors and analysts called for government to target policies and programs at those being left behind.

Some writers emphasized the "paradox of poverty amidst plenty," arguing for antipoverty policies on moral grounds. For example, Michael Harrington, in his influential The Other America, wrote:

> It is an ethical proposition, and it can be simply stated: In a nation with a technology that could provide every citizen with a decent life, it is an outrage and a scandal that there should be such social misery....We must perceive passionately, if this blindness is to be lifted from us. A fact can be rationalized and explained away; an indignity cannot.
> ...I want to tell every well-fed and optimistic American that it is intolerable that so many millions should be maimed in body and in spirit when it is not necessary that they should be (1962, p.19).

Others, particularly economists, viewed an antipoverty initiative as the next logical step in the evolution of economic policy. Just as monetary and fiscal policies were being used to dampen the effects of the business cycle, economic policies could be adopted to raise the incomes of the poor. Robert Lampman completed a study that showed that the antipoverty impact of economic growth was lower in the late-1950s than it had been a decade earlier. He argued that economic growth, on its own, would not be sufficient to eliminate poverty within a generation and that government should intervene to raise the employment and earnings prospects of the poorest workers. To Lampman, the antipoverty goal was similar to the full employment goal: "Ending income poverty does not require and will not achieve a transformation of society. It is a modest goal (1971, p.167)."

Responding to both the moral and economic arguments, President Johnson declared War on Poverty in January 1964. In his transmittal letter to Congress for the 1964 Economic Report of the President, he declared,

> We cannot and need not wait for the gradual growth of the economy to lift this forgotten fifth of our nation above the Poverty line. *We know what must be done, and this Nation of abundance can surely afford to do it.* Today, as in the past, higher employment and speedier economic growth are the cornerstones of a concerted attack on poverty...But general prosperity and growth leave untouched many of the roots of human poverty (p.15.)

This Economic Report discussed many strategies for reducing poverty. Some were re-statements of long-standing policy goals, others were new. They included maintaining high employment, accelerating economic growth, fighting discrimination, improving labor markets, expanding educational opportunities, improving health, and assisting the aged and disabled.

The conventional wisdom among the President's advisers was that stable economic growth would continue for the subsequent two decades much as it had for the prior two decades. As a result, the income poverty goal could be achieved by macroeconomic policies that could keep the economy growing and by devoting modest additional resources to new antipoverty initiatives. Poverty was thought to be high in the "affluent society" because the poor could not find enough work or because their skills left them with low earnings even if they worked full-time, full-year. Lagging economic growth in some regions, such as Appalachia, insufficient labor market skills of the working poor and labor market discrimination were also considered problems that could be resolved by public policies. Government actions could improve economic performance, raise the productivity of the poor and remove discriminatory barriers to economic participation.

Poverty in America was not eliminated in the next generation. Indeed, two generations later, the vision of President Johnson and the War on Poverty planners remains unfulfilled, primarily because the optimistic economic forecasts of the 1960s were wrong. The era of rising real wage rates for most workers and the steady economic growth that raised living standards for most families came to an abrupt end in the mid-1970s.

Economic forces in the subsequent three decades have caused rising economic hardships for many workers and their families and overwhelmed the ability of antipoverty policies to further reduce market-generated poverty. These forces include labor-saving technological changes, the globalization of markets and resulting adjustments in labor market institutions (for example, declines in the inflation-adjusted minimum wage and declines in the percentage of workers covered by union contracts). From the early 1970s to the early 1990s, unemployment rates were high, growth in real median earnings was slow and wages and access to employer-provided health insurance and pensions fell for workers on average. Even though the economy boomed in both the late 1980s and the mid- to-late 1990s, the average inflation-adjusted weekly earnings of production workers was lower in 2003 than it was in 1973.

In the 40 years since declaration of war on poverty, progress against poverty, except for the elderly, has been slow. Poverty among the elderly declined dramatically because of the safety net that was developed for them in aftermath of the War on Poverty. The living standards of the elderly became more secure than those of the nonelderly in the mid-1970s just as the economy entered a long period of high inflation, high unemployment rates, and declining real wages.

Fighting poverty is no longer a national priority in the United States. Nonetheless, there are lessons that can be learned from a its four decades of antipoverty policy experience. We begin with a brief review of the scope of antipoverty programs. We then emphasize the evolution of welfare policies for families with children, as this demonstrates how the top policy priority shifted away from raising the incomes of the poor toward raising their work effort.

Although it is unlikely that the U.S. will launch a renewed antipoverty effort in the near term, its experiences with antipoverty policies suggests some promising approaches that could be adopted by nations that choose to make fighting poverty a top priority. In fact, the United Kingdom launched a major antipoverty initiative in the late 1990s that borrows heavily from U.S. programs and policies. We conclude with a few suggestions for choices in antipoverty policies that might be relevant for Mexico.

The Scope of Antipoverty Policy: Spending on Income-Tested Programs

Government spending for social welfare purposes is large in the U.S., though not as large a percentage of GDP as it is in other countries. The Social Security Administration (2002) defines "public social welfare expenditures" as "cash benefits, services, and administrative costs for all programs operating under public law that are of direct benefit to individuals and families. Included are programs providing for income maintenance through social insurance and public aid, and those providing public support of health, education, housing and other welfare services."

Social welfare expenditures increased rapidly following declaration of war on poverty, rising from 11.0 to 18.2 percent of GDP between 1965 and 1975. In 1995, they comprised 20.9 percent of GDP. However, if spending on health and medical care are excluded, then spending on the remaining programs increased from 9.8 to 15 percent of GDP between 1965 and 1975 and was 14.8 percent in 1995 (Social Security Bulletin, 2002). As we show below, the antipoverty effects of government transfers follows this same pattern – an increase between the mid-1960s and the mid-1970s, then a leveling off over the next two decades.

Income maintenance programs are the primary levers of antipoverty policy for dealing with market-generated poverty. These programs can be divided into two categories – social insurance and income-tested (public assistance) programs. Spending on social insurance programs far exceeds spending on income-tested programs. For example, in fiscal year 2002, cash social security benefits for retirees, survivors and disabled workers was more than five times income-tested cash assistance ($453 vs. $82.5 billion).

Eligibility and benefit levels for social insurance programs depend on past contributions (usually paid via payroll taxes on the employer and/or worker) and some identifiable problem, such as old age, death of a spouse or parent of a child, work-related disability or unemployment. Social insurance programs include social security, unemployment insurance, workers' compensation, veterans' benefits. One generally does not have to prove financial need to claim benefits. However, these programs substantially reduce poverty. Although retirees qualify for social security benefits based on their employment history and not their current incomes, many would be poor in the absence of their social security benefits.

Income-tested programs provide benefits only to those whose incomes (and for some programs, whose assets) from other sources fall below a specified eligibility threshold. The

Congressional Research Service (Burke, 2003) reports more than 80 such programs that provide cash or noncash benefits to persons with limited income. These programs include cash assistance, Food Stamps, school nutrition aid, Medicaid, and programs that fund education, employment and training, housing and social services.

In this chapter, we describe the evolution of income-tested cash assistance programs, as they have been a source of great political controversy in the U.S. The largest cash assistance programs today are Temporary Assistance to Needy Families (TANF) which targets families with children, the Supplemental Security Income program (SSI) for the aged, blind and disabled, and the Earned Income Tax Credit (EITC) for working poor and near poor families with children.

Cash assistance grew dramatically in the aftermath of the war on poverty, but has grown slowly after the mid-1970s. For example, in fiscal year 1978, cash benefits were 29 percent of all income-tested benefits, equal in size to the share spent on medical benefits. Food programs comprised 11 percent, work/training programs, 11 percent, with the remainder spent on housing, education and other services. By fiscal year 2002, in-kind medical benefits (primarily payments to hospitals, nursing homes, and physicians) comprised 54 percent of all expenditures for income-tested programs; the share for cash benefits had dropped to 20 percent and that for work/training programs to 1.5 percent (Burke, 2003).

We use information on income-tested cash expenditures and estimates of the number of persons who would be counted as officially poor based only on their market incomes to provide a rough estimate of the scope of cash programs targeted on the poor (all figures are in constant 2002 dollars). This is only a rough estimate, because income-tested programs, such as the EITC, provide benefits to families that have incomes up to about twice the poverty line. This indicator demonstrates rapid growth in cash assistance in the decade after the war on poverty -- spending increased by 57 percent, from $681 to $1067 per pretransfer poor person between 1968 and 1976. Spending per poor person did not change much over the next decade, averaging $987 in 1989. With the rapid rise in the EITC in the 1990s (discussed below), spending per poor person then increased by 47 percent to $1454 per pretransfer poor person in 2002. To put these amounts in context, the poverty line for a family of four persons was $18,392 in 2002.

The antipoverty effects of all cash transfers (social insurance and public assistance) on the official poverty rate follow a similar pattern. (The official poverty rate does not value noncash transfers, such as Food Stamps or housing assistance or the EITC.) Danziger and Plotnick (1986) find that cash transfers removed 37 percent of all pretransfer poor persons from poverty in 1965, rising to 68 percent in 1976. This antipoverty effect fell to 46 percent in 1983. Using related measures, the House Ways and Means Committee (1998) reports the antipoverty impact of cash transfers for all persons as 40 percent in 1983 and 44 percent in 1996.

These data foreshadow one of our key conclusions. Most of the increase in the antipoverty effectiveness of the social safety net occurred in the decade following the War on Poverty when spending on all social programs increased dramatically. Income-tested spending on the poor has increased since the mid-1970s mainly because of the emergence of the EITC and its expansion (without political controversy) in the mid-1990s as an antipoverty policy for working poor families with children.

Four Decades of Antipoverty Policy: Welfare Reform for Families with Children[1]

It is beyond the scope of this chapter to review the evolution of the entire range of U.S. antipoverty programs and policies. Instead, we focus on cash welfare policies for families with children. Welfare reform generated intense public and policy debates on the nature and goals of antipoverty policy from the mid-1960s to the mid-1990s, even though, as noted above, most spending growth on income-tested programs since the mid-1970s was for health and medical care programs. Cash welfare spending declined as a percentage of all income-tested spending, but controversy about it increased exponentially.

The key goal of welfare reform proposals in the late 1960s was to reduce poverty by providing cash assistance to both nonworking and working poor families with children. They would have extended welfare eligibility limits and raised cash benefit levels. Later, as public dissatisfaction with rising welfare rolls and rising government welfare spending increased, greater attention was paid to constraining budgetary costs and to promoting work incentives, and, in recent years, work requirements for the nonworking poor. These policies came to be applied to mothers with children at increasingly younger ages. By the early 1980s, reforming welfare had little to do with reducing poverty; the goal was to reduce reliance on welfare and increase work among the poor, independent of the policy's effect on poverty.

By the mid-1990s, the U.S. had rejected the idea of fighting poverty by raising the incomes of the nonworking poor, but it has not adopted an alternative policy to provide employment to those who seek work but cannot find jobs. It did implement an effective policy for supplementing the earnings of low-income working parents. Our review of major welfare reform proposals from the late 1960s to the mid-1990s emphasizes the rise and fall of poverty reduction as a welfare reform goal and the rise of work among the poor as a goal in and of itself.

The War on Poverty

The antipoverty policies proposed when the War on Poverty was launched did not include either a public jobs program or an increase in cash welfare benefits for the nonworking poor (except for the aged and disabled). Employment programs were advocated at the outset of the War on Poverty by some policy makers, notably the Secretary of Labor. However, most of President Johnson's economic advisors were so confident that stable economic growth could be maintained indefinitely, as it had been since the end of World War II, that they expected that jobs would be available. They emphasized strategies to raise the wages of the working poor. In a Special Message to Congress in March 1964 introducing the Economic Opportunity Act, the President emphasized that if the earnings of the working poor could be raised welfare spending could be reduced:

> If we can raise the annual earnings of 10 million among the poor by only $1000 we will have added 14 billion dollars a year to our national output. In addition we can make important reductions in public assistance payments...

The centerpiece of the original antipoverty strategy was a series of labor supply policies designed to raise the low labor market productivity of the poor. Employment and training programs were established or expanded to enhance individual skills, especially for young people, through classroom education and on-the-job training. Graduates of these programs were given job search assistance and launched into the labor market with little concern about the public provision of post-program jobs, as unemployment rates were then at historically low levels, even for less-skilled workers.

Little attention was focused on welfare dependency at this time because the total caseload of the Aid to Families with Dependent Children (AFDC) program was quite small, about 4 million recipients. In the aftermath of welfare program liberalizations brought on by the war on poverty, caseloads increased to about 6 million by 1969, leading to the first of a long series of

Presidential proposals to reform welfare.

The Family Assistance Plan and the Expansion of Welfare

In 1969, President Nixon proposed the Family Assistance Plan (FAP) as a replacement for AFDC. Its centerpiece was a national minimum welfare benefit, a guaranteed annual income that would be coupled with a work requirement for nonworking families with no young children. The president stated ". . . a welfare mother with pre-school children should not face benefit reductions if she decides to stay home. It is not our intent that mothers of pre-school children must accept work". This view about maternal employment was consistent with both the original goal of AFDC and the conventional wisdom of the 1960s that mothers should stay home and care for their young children.

FAP and other negative income tax (NIT) plans proposed the extension of cash assistance to two-parent families (AFDC provided benefits primarily to single-parent families), the establishment of a national minimum welfare benefit (welfare benefit levels were set by the states and varied widely) , the reduction of work disincentives arising from AFDC's high marginal tax rate on earnings, and the de-coupling of cash assistance and social services. These reform proposals sought to reduce poverty and provide work incentives by providing higher benefits to nonworking welfare recipients and extending some cash assistance to the working poor who had previously been ineligible for welfare.

Neither the Family Assistance Plan nor any other cash negative income tax for all of the poor was ever approved by both houses of Congress. However, the Food Stamp program evolved into an NIT. By the mid-1970s, it provided a national benefit in food coupons that varied by family size, regardless of state of residence or living arrangements or marital status.

Income maintenance programs continued to expand between the late 1960s and mid-1970s as new programs (e.g. the Earned Income Tax Credit, discussed below; Supplemental Security Income) were introduced, benefit levels were increased, and eligibility requirements were liberalized. The number of AFDC recipients increased from about 6 million to 11 million and the number of food stamp recipients, from about 1 million to 19 million over this period.

As higher cash and in-kind benefits were claimed by a larger percentage of the poor, the work disincentives and high budgetary costs of welfare programs were increasingly challenged by the public and policy makers. A frequent complaint was that antipoverty programs subsidized dependency and encouraged idleness. The response was to place more emphasis on raising employment and earnings via labor market policies. Higher unemployment rates brought on by a recession in the early 1970s extended concerns about augmenting the labor market skills of the disadvantaged to increasing their employment opportunities as well.

The first public service employment (PSE) program since the 1930s Great Depression was enacted as part of the Emergency Employment Act in 1971, primarily as a counter cyclical device to fund jobs with state and local governments. PSE slots were increased by the Comprehensive Employment and Training Act of 1973 (CETA) and became the largest component of the employment and training budget at that time. The 1976 CETA Amendments targeted PSE jobs on the disadvantaged, particularly the long-term unemployed and welfare recipients and represented the most recent public response to inadequate labor demand for the disadvantaged. In 1978, there were about 750,000 PSE participants.

<u>The Program for Better Jobs and Income: Extending Cash Assistance and Providing Jobs</u>

President Carter's 1977 proposal, the Program for Better Jobs and Income (PBJI), integrated the expansion of cash assistance for both the nonworking poor and the working poor via a negative income tax with the PSE jobs emphasis in employment and training policy. PBJI would have created up to 1.4 million minimum-wage public service jobs at an estimated cost of $8.8 billion in 1980 (about $20 billion in today's dollars). PBJI represents the first (and only) Presidential welfare reform proposal to offer jobs to nonworking welfare recipients who were expected to work as a condition of cash assistance.

PBJI was ahead of its time. Some elements were adopted two decades later by the 1996 welfare reform; other aspects foreshadowed the drive to "make work pay," that influenced the growth of the Earned Income Tax credit. Its concept of increasing cash assistance while promoting employment is also evident in the Blair Government's policies in the United Kingdom in the late 1990s.

As was the case with FAP, a single mother with a child of age six or younger would have been exempted from the work requirement of PBJI. Those whose youngest child was between the ages of seven and fourteen would have been expected to work part-time; those whose youngest child was over age fourteen would have been expected to work full-time.

By providing jobs of last resort to parents who could not find regular employment and by supplementing low earnings, PBJI would have raised the family income of welfare recipients working at low wages, regardless of family composition or state of residence, and, in many cases, would have taken them out of poverty. Of course, the plan would have increased total federal welfare spending substantially, which was a key reason for its rejection by Congress.

PBJI also called attention to insufficient employer demand for less-skilled workers. It recognized that some recipients would seek work but would not find a job in the private or public sectors, and that a minimum wage job of last resort was one way to deal with their involuntary unemployment and provide an alternative to welfare receipt. As we note below, one criticism of the 1996 welfare reform is that it neglected the demand side of the labor market when it ended the entitlement to cash assistance and implemented work requirements without implementing any work opportunity, such as an entitlement to work in exchange for welfare benefits.

PBJI marked the first time that welfare sanctions were proposed for recipients who were expected to work but refused to accept available jobs. For example, if a recipient who was expected to work did not find a part-time job on her own or refused the part-time job of last resort offered by PBJI, she would have lost her share of the family's welfare benefit — the family would have received benefits only for the children. Partial sanctions such as this one, and full-family sanctions, which terminate all benefits when a family head does not comply with work requirements, became federal mandates after passage of the 1996 welfare reform.

The Reagan Years and the Attack on Welfare Dependency and Welfare Spending

The Reagan Presidency signaled a profound change in welfare policy because the administration was at the time "rare if not unique in American politics—truly an ideological one" (Glazer 1984). The Reagan administration sought to roll back the welfare programs that had expanded so much in the previous decade. Reducing welfare caseloads and cutting back welfare spending replaced poverty reduction as the primary antipoverty goal. The emphasis on work intensified.

The Reagan administration opposed what had been a key goal of both FAP and PBJI—simultaneous receipt of wages and welfare benefits by working poor parents. It argued that work effort was best promoted by strict work requirements (proposed, but not enacted by

Congress). Public employment was considered an unnecessary intrusion into the private labor market and CETA was abolished. Since the end of CETA more than two decades ago, no President has proposed a public jobs program, either for counter cyclical purposes to help the unemployed during recessions or for structural purposes to help the long-term jobless or as an alternative to cash assistance.

The Omnibus Budget Reconciliation Act of 1981 reduced the welfare rolls by about 14 percent and eliminated work incentive provisions that had been in place since the1ate 1960s. This policy change contributed to increased public dissatisfaction with welfare because it made it very difficult for the working poor to receive cash welfare; most of those eliminated from welfare had been poor working parents. From this point on, the very high rate of nonwork among welfare recipients would become the key criticism of opponents of AFDC. Consider this conclusion from a task force convened at the American Enterprise Institute:

> Money alone will not cure poverty; internalized values are also needed...(T)he most disturbing element among a fraction of the contemporary poor is an inability to seize opportunity even when it is available and while others around them are seizing it...Their need is less for job training than for meaning and order in their lives....An indispensable resource in the war against poverty is a sense of personal responsibility (Novak et al. 1987)

The war on poverty had set a "modest goal" of eliminating income poverty. By the mid-1980s, personal responsibility had replaced income poverty as the primary concern of many welfare reforms.

<u>The Earned Income Tax Credit: Expanding Cash Assistance for Working Poor Parents</u>

Although increased cash assistance for nonworking welfare recipients had been rejected by the mid-1980s, the last two decades have been marked by a dramatic increase in cash assistance to working poor and near-poor parents who receive the Earned Income Tax Credit (EITC). The EITC, enacted in 1975, was a legacy of the failure of Nixon's Family Assistance Plan. When Congress rejected the idea of raising cash welfare for nonworkers, it adopted a program that included some elements of the NIT, but rejected others.

Under a negative income tax, the welfare payment is at a maximum for a family without work; then the welfare benefit falls at some fixed rate (the marginal tax rate, or benefit reduction rate) as earnings rise. In contrast, EITC payments are zero for a nonworker. They increase instead at a fixed rate as earnings increase (the marginal tax rate is negative) and reach a maximum value at an earnings level that is similar to annual earnings for a full-time, full year (about 2000 hours per year) minimum wage worker. EITC payments stay at the maximum benefit over a small range of incomes and then fall at a fixed rate (here the marginal tax rate is positive, as it is for an NIT) as incomes rise beyond this range before phasing out at income levels at about twice the poverty line.

The EITC avoids the social stigma associated with welfare receipt because it is administered by the Internal Revenue Service. After the family files its income tax for the calendar year, it will receive a check if its EITC exceeds the income tax owed. The EITC is available to both one- and two-parent families and provides a benefit level that is constant across the nation. (A number of states have chosen to implement their own EITC's on top of the federal one.) The maximum federal EITC for a family with two or more children (in current dollars) was $400 in 1975, $550 in 1986, $953 in 1991 and $4204 in 2003.

The EITC was increased as part of tax reform legislation during the Reagan, G. H. W.

Bush and Clinton Administrations. For the most part, it has had broad, bipartisan Congressional support, and has been mostly invisible to the public, even though the number of recipients and the total costs have increased substantially. The number of families benefitting from the EITC increased from between 5 and 7.5 million families a year between 1975 and 1986 to about 11 million by 1988 and to 17 million by 2001.

In 1975, a family with one parent working full-time full-year at the minimum wage received an EITC payment that was about 10 percent of her annual earnings; by 1990, the EITC reached 15 percent of her earnings. By 2003, because of a large expansion implemented by the Clinton Administration, the EITC was 40 percent of the annual earnings of a minimum wage parent of two children. The EITC increases each year with inflation, whereas the minimum wage has not increased since 1997. In 2002, federal expenditures for the refundable portion of the EITC were about $28 billion for about 17 million families, more than twice the $13 billion combined spending of the federal and state governments on about 2 million families who received benefits from the cash welfare program, Temporary Assistance to Needy Families.

The Family Support Act: Maintaining Welfare and Supporting Work

The Family Support Act (FSA) of 1988 reflected a bipartisan consensus crafted by Senator Daniel Patrick Moynihan in which liberals achieved a broader safety net and conservatives achieved stronger work requirements. The Act expanded the AFDC program for two-parent families, instituted transitional funding for child care expenses and Medicaid for recipients leaving welfare for work, and required states to establish the Job Opportunities and Basic Skills Training Program (JOBS) to move greater numbers of welfare recipients into jobs.

Liberals and conservatives still disagreed on other goals of welfare-to-work programs and the bipartisan spirit of the FSA lasted for only a few years. Liberals thought welfare reform should provide greater opportunities for recipients to receive training and work experiences to help the get "good jobs" at higher wages when they moved from welfare to work. Conservatives emphasized work requirements, obligations welfare mothers owed in return for government support whether or not their family incomes increased. They argued that any job was a good job that could provide labor force experience and set the stage for higher-paying jobs in the future.

During the welfare reform debate of the early 1990s, work requirements took center stage. One of the most successful JOBS programs, in terms of getting recipients into employment (Riverside, California), had developed a "work first" strategy. Work First programs adopt the philosophy "that any job is a good job and that the best way to succeed in the labor market is to join it, developing work habits and skills on the job rather than in a classroom" (Brown 1997, p. 2). A Work First approach reduces the need for government funds for education, training, or expanded support services and allows more recipients to be served with a fixed budget. Also, the increased EITC subsidy for low-earners made it easier to justify placing recipients into any job, rather than training them for "good jobs."

JOBS also raised work expectations and provided partial sanctions for recipients who did not co-operate. It lowered the age of the child at which a recipient was expected to participate. Once her youngest child reached age three, she had to participate for up to 20 hours per week; once that child reached age six, she could be required to participate for up to 40 hours per week. Participating meant agreeing to a reasonable "employability plan" the state devised, as long as the state provided child care, transportation, and other work-related expenses.

JOBS reflected a commitment to mutual responsibility: recipients were required to exercise personal responsibility and take advantage of education, training, and work opportunities which the government had the responsibility to provide. If a state did not provide a JOBS slot (and many states did not), the recipient was not sanctioned. Within a few years, however, personal responsibility would take center stage and such requirements on the states would be greatly reduced.

The 1996 Welfare Reform: The End of the Entitlement to Cash Assistance

Welfare rolls jumped in the late 1980s and early 1990s from about 11 to about 14 million recipients, in part because of a recession, giving rise to the perception that JOBS had failed and that the Family Support Act was flawed. During the 1992 Presidential campaign, candidate Clinton made welfare reform one of his top domestic priorities, pledging to "end welfare as we know it." A contentious welfare reform debate raged in the mid-1990s and the President vetoed several bills put forward by the Republican Congress.

However, in 1996 he signed a bill that had initially been put forward by the Republicans, the Personal Responsibility and Work Opportunity Act of 1996 (PRWORA). The Act replaced AFDC with Temporary Assistance for Needy Families (TANF) and ended the entitlement to cash assistance that had been in place since AFDC was created by the Social Security Act in the 1930s. Under PRWORA, each state now decides who receives cash assistance, subject only to a requirement that they receive "fair and equitable treatment." PRWORA reduced the total spending required from the federal and state governments. The federal contribution changed from a matching grant to a block grant that was capped for each state at its fiscal year 1994 spending level. And the states could reduce their spending by 25 percent from their 1994 spending levels.

Each state can pursue whatever kind of reform it chooses, including reforms that would provide transitional public service jobs. In practice, however, most states have worked harder to cut welfare caseloads than they have to provide work opportunities and services to current recipients or those who left the rolls without finding employment.

The centerpiece of the new reform is its time limit—states may not use federal funds to provide more than a lifetime total of 60 months of cash assistance to any welfare recipient; they have the option to set shorter time limits. States can grant exceptions to the lifetime limit and continue using federal funds for up to 20 percent of the caseload.

Work expectations were increased substantially. Single mothers with no child under age three are expected to work or participate in work-related activities at least 30 hours per week to maintain eligibility for cash assistance. States can require participation regardless of the age of the youngest child. Whereas President Nixon proposed exemptions for mothers of children under age six, some states now exempt a mother for only 13 weeks following childbirth.

Lessons Learned from the PRWORA Experience

The 1996 welfare reform achieved a number of its goals--caseloads have declined to the lowest levels in decades, more single mothers are working, child poverty has fallen modestly, and many states used funds previously spent on cash assistance for nonworkers to increasingly supplement low earnings and subsidize child care and other services for the working poor. However, a significant minority of welfare recipients have serious personal problems that have kept them from working steadily under the new administrative rules even during the economic boom of the late 1990s when unemployment rates fell to their lowest levels in 30 years. We draw several lessons from the PRWORA experience.

First, welfare no longer provides an alternative to working to support a family, as conservative critics of AFDC had been charging since the 1980s (Murray, 1984). TANF has made it very unlikely that a single mother can "choose" to remain a nonworking welfare recipient, even if the economic benefits of a minimum-wage job do not exceed the costs. Because cash assistance is conditional on the performance of work-related activities, those not searching for work or co-operating with the welfare agency can be sanctioned and can lose both cash assistance and Food Stamps. Other changes in regulations made it more difficult to qualify for welfare and harder to stay on the rolls.

Second, in response to pressures from welfare agencies and higher returns to work due to changes in other state and federal policies for the working poor (discussed next), greater numbers of single mothers entered the labor force after the mid-1990s. The percentage of single mothers with children under the age of 18 who worked at any time during the year was about 70 percent for most of the period from the late 1960s to the late 1980s. After the economic boom and welfare reform, this annual employment rate increased to 85 percent prior to the 2001 recession.

Third, the increase in poverty that critics of the 1996 law predicted did not happen even though most former recipients are working less than full-time, full-year and earn relatively low wages. This result reflects changes in state and federal policies for the working poor that were also implemented in the mid-1990s (for example, a minimum wage increase in 1997, higher earnings disregards within TANF that allow workers to receive cash assistance, the expansion of the EITC) and which helped current/former recipients achieve higher net incomes.

The Reagan Administration had reduced the extent of work among AFDC recipients by reducing income disregards. After four months at work, a recipient's benefit fell by about one dollar for each dollar earned (100 per cent marginal tax rate), creating a "welfare trap." In response to PRWORA's granting them more autonomy, about two-thirds of the states eliminated this "welfare trap" by increasing earnings disregards that allow recipients to keep more of their welfare benefits as their earnings increase. States have also increased spending on child care for current/former recipients–in some states, more is now being spent on child care than on cash assistance and child care subsidies are also available to many poor who had never received cash welfare.

Federal policy changes outside of welfare also increased the benefits of leaving welfare for work. The minimum wage increased from $4.25 to $5.15 in 1997. As noted above, the 1993 EITC expansion increased the maximum annual credit for a full-time full-year minimum wage worker with two or more children from less than $1000 in 1990 to $4204 in 2003.

The State Child Health Insurance Program (SCHIP) of 1997 and changes in Medicaid policies expanded public health insurance coverage so that jobs not providing subsidized health coverage are now more attractive. By the end of the 1990s, leaving welfare for work was less likely to leave a mother and her children uninsured than in the past.

Fourth, a minority of welfare recipients have worked very little in the aftermath of PRWORA. These women tend to have low levels of human capital, specific job skills and work experiences and high levels of health and mental health problems and experiences of domestic violence (Danziger and Seefeldt, 2002). The Work First programs implemented after the 1996 reform by most states emphasized rapid labor force attachment were based on the assumption that most recipients could quickly become job-ready. As a result, they did not typically screen recipients for these personal problems or offer services to address these personal problems

(Danziger and Seefeldt, 2000).

We think it is reasonable, given American preferences for work, that welfare recipients without serious personal impairments should have the personal responsibility to search diligently for work. However, if job search does not produce a job within a reasonable period, we think that government should assume more responsibility and not simply terminate cash assistance. For example, recipients who reach time limits without meeting work requirements could be offered a chance to work in community service jobs in return for cash assistance.

A more costly option, but one that would have a greater antipoverty impact, would be to provide a transitional low-wage public service job of last resort to the long-term jobless. Welfare recipients who were willing to work could then combine wages with the EITC and support their families even when there was little demand by private employers for their skills. For recipients with extensive personal problems, there remains a need to expand social service and treatment programs and to experiment with supported work or other forms of transitional job assistance.

The 1996 welfare reform terminated the cash-based safety net that provided monthly checks for nonworking poor families. However, if the modest success of welfare reform in reducing poverty (discussed below) is to be increased, additional funds will be needed to complete the task of creating a work-oriented safety net.

Trends in Poverty and the Antipoverty Effects of Cash and Noncash Transfers

What have been the effects of four decades of changes in social welfare spending and the policy changes discussed above on the trend in income poverty and the antipoverty effects of government transfers? We address these issues by focusing on differences between the trends for the elderly and the trends for families with children.

Trends in Poverty[2]

As mentioned above, the safety net became much more effective for the elderly than for anyone else in the aftermath of the War on Poverty. As a result, over the last four decades their economic status increased relative to that of children and nonelderly adults. Figure 1 shows a dramatic reduction in poverty among the elderly between 1959 and 1999. These data are based on computations form the Decennial Censuses of Population. In 1959, the official poverty rate of elderly persons was 37.1 percent, more than twice the 17.4 percent rate for adults 18 to 64. By 1999, the rate for the elderly had fallen to 7.0 percent, lower than the 9.1 percent rate for adults.[3]

Poverty declined for all age groups in the 1960s when economic growth was rapid. Yet, between 1969 and 1999, there was little additional progress against poverty for children and adults. The poverty rate for adults was 10.1 percent in 1969 and 9.1 percent in 1999; for children, the rates were 17.3 percent in 1969 and 13.9 percent in 1999. The period from the early 1970s to the early 1990s was characterized by slow economic growth, declining real wages for less-educated workers, falling inflation-adjusted cash welfare payments for families with children, declines in the percentage of the unemployed receiving unemployment insurance, and a declining real minimum wage.

In contrast, poverty fell for the elderly in each decade. Most of the decline in elderly poverty in the first two decades is attributable to increased government benefits. Between 1965 and 1973, Congress legislated seven across-the-board increases in social security benefits. For example, Congress increased benefits by 13 percent in 1968, by 15 percent in 1969, by 10 percent in 1971 and by 20 percent in 1972 (Derthick, 1979, pp. 431-432). Then, Congress passed the inflation-indexation of social security benefits to begin in 1975.

In addition, the Supplemental Security Program (SSI), enacted in 1972, is a negative income tax, or guaranteed annual income for the elderly, blind and disabled. SSI provides a non-contributory, income-tested cash welfare benefit to any elderly person who did not work enough to qualify for social security benefits; it also provides supplements to those who had low earnings and hence a low social security benefit. All of the poor elderly, but not all poor children or adults, are thus entitled to a monthly cash benefit.

From the early 1970s to the early 1990s, the earnings of workers failed to keep up with inflation. As a result, average social security benefits increased relative to average wages, relative to the poverty line, and relative to the government benefits available to the nonelderly. For example, in 1960, the mean annual social security benefit for an elderly married couple was 80 percent of their poverty line. The mean social security benefit rose to the same level as their poverty line in 1970 and to 34 percent more than that line in 1980 (Smolenksy, Danziger and Gottschalk, 1988). In 1964, the social security benefit for a single male retiree was 20 percent of the mean annual earnings of a nonsupervisory production worker. By 1999, this ratio had increased to 45 percent.

Figure 2 presents trends from 1975 to 2003 in the percentage of total family income that is due to government cash transfers for the elderly and for one-parent families with children. These data are based on computations from various March Current Population Surveys. There has been little change in the extent to which elderly families rely on government support –around 41 percent of their money income came from cash transfers in each of the years shown. In contrast, reliance on government cash support for single parent families has dramatically fallen over this period. Just over 23 percent of total family income was from government cash benefits in 1975; this amount fell steadily to 14 per cent in 1985, 11.5 percent in 1995 and to 7 percent in 2003. The largest decreases occurred between 1975-85 and 1995-2003. Given these trends, it will come as no surprise that the antipoverty effectiveness of government transfers is much greater for the elderly than for families with children.

The Antipoverty Effects of Government Transfers

We have shown that the U.S. safety net seems quite comprehensive for the elderly, but not for families with children. Rainwater and Smeeding (2004) show that other industrialized countries provide much more generous government benefits to families with children than does the U.S. As a result, these other countries do not have the wide difference between the poverty rates of children and the elderly that we showed in Figure 1.

We now turn to an analysis of how the antipoverty effects of government transfers have evolved over the past several decades. Table 1 reports trends in the official poverty measure (which does not count noncash benefits or the EITC) between 1967 and 1979 for elderly persons in the top panel and for families with children headed by males in the middle panel and for families with children headed by females in the bottom panel. In each panel, we show the poverty rate before and after cash transfers.

Table 2 reports similar trends between 1979 and 2002 for elderly persons and for children using a more comprehensive poverty measure that does include the receipt of noncash transfers and the EITC and subtracts income and payroll taxes paid. The series in Table 2 provides a better picture of the antipoverty effects of the safety net, but comparable data are not available for the years prior to 1979.

The top panel of Table 1 shows a dramatic increase in the antipoverty effects of cash transfers for the elderly. In both 1967 and 1979, the poverty rate for the elderly would have been about 58 percent if they had relied entirely on their market income.[4] Cash transfers reduced poverty by 28.6 percentage points in 1967 increasing to 43.8 points in 1979. Thus, all of the decline in the official poverty rate for the elderly during this period was due to the increasing antipoverty effects of cash transfers.

The top panel of Table 2 shows that all of the decline in poverty among the elderly between 1979 and 2002 was due to their increasing market income, as their pretransfer poverty rate declined from 54.2 to 49.9 percent. In each year, transfers had a very large impact, reducing poverty by about 41 percentage points.

The bottom two panels of Table 1 show that much of the poverty reduction for families with children was due to growth in market incomes and not cash transfers. For families with male heads, poverty declined by 2.8 percentage points between 1967 and 1979 (from 10.0 to 7.2 percent), with 1.9 points due to declining pretransfer poverty (from 11.5 to 9.6 percent) and 0.9 points due to the increased antipoverty effect of transfers (from 1.5 to 2.4 points).

For single-mother families, pretransfer poverty rates are as high as those of the elderly, more than 50 percent, but the official rate is much higher than that for the elderly, because of the less-effective safety net for families with children. Between 1967 and 1979, their poverty rate fell by 5.8 percentage points (from 49.1 to 43.3 percent), with 5.3 points due to reduced pretransfer poverty (from 58.8 to 53.5 percent) and only 0.5 points due to the increased antipoverty effects of transfers (from 9.7 to 10.2 points).

As mentioned, Table 1 does not account for the rapid growth in noncash transfers and the

EITC. Thus, for children, Table 2 provides a much better perspective on how changes in welfare policies and the EITC have affected child poverty over the last quarter century.

Consider the period from 1979 to 1996, an era of intense welfare reform debate, slow growth in real wages, falling welfare benefits and rapidly rising EITC payments. Market income poverty among all children increased by 3.5 percentage points over these 17 years (from 20.1 to 23.6 percent). Cash and noncash transfers reduced poverty by 6.8 percentage points in 1979 and by a bit less, 5.8 points in 1996 (for each year, subtract the rate in row 2 from that in row 1). However, the antipoverty effects of the EITC became significant. In 1979, the social security and income taxes paid by the poor actually exceeded their EITC payments, so that the row 3 poverty rate was 0.3 points higher than the one in row 2. By 1996, the EITC reduced child poverty by 1.7 percentage points (17.8 -16.1 percent); the antipoverty effect of the EITC increased further to 2.2 percentage points by 2002 (14.8 -12.6 percent).

Over the 23-year period from 1979 to 2002, market income poverty for families with children fell by only 0.4 points, the antipoverty effect of cash and noncash transfers fell by 1.9 points, and the antipoverty effect of the EITC increased by 2.5 points. The net result was a child poverty rate that dropped by only one percentage point over a generation (from 13.6 to 12.6 per cent). The EITC emerged as the primary antipoverty policy for families with children as Americans rejected the notion of cash assistance for the nonworking poor and turned instead to cash assistance for the working poor.

The antipoverty effects of government programs can also be evaluated by measuring the percentage reduction in the pretransfer poverty gap due to government transfers. The poverty gap is the dollar amount needed to bring all poor persons up to the poverty line. Since it is a continuous measure, the poverty gap can show a different pattern than the trend in the percentage of persons taken out of poverty by transfers. For example, consider a family whose market income was $4000 below their poverty line that received $4200 from the maximum EITC. In this year, the family would be taken out of poverty by the EITC, and the EITC would have filled 100 percent of the poverty gap. Now assume that a recession occurs, pretransfer income falls to $5000 below the poverty line, and the $4200 EITC is still received. Now, this family is not taken out of poverty by transfers; however, the poverty gap is reduced by 84 percent ($4200/5000).

The poverty gap (U.S. House of Representatives, 2004) is reduced less by government programs for children than for the elderly in any year. For the elderly, this reduction been around 90 percent for every year between 1979 and 2002. The antipoverty effects of the safety net on children follow a pattern that is consistent with the policy history reviewed above. In 1979, cash, noncash transfers and the EITC reduced their poverty gap by about 62 percent; after the Reagan budget cuts and the recession of the early 1980s, this effect declined to 57 percent in 1983. In the midst of an economic boom and after the 1993 EITC expansion, 62 percent of the pretransfer poverty gap for children was filled in 1996. After the 1996 welfare reductions and the recession of 2001, this declined to 54 percent.

Lessons from the U.S. Experience for Other Countries

While most Presidents after Lyndon Johnson have given major addresses on welfare reform, we are not aware of any President who proposed a major antipoverty initiative. Since the Nixon Administration, poverty has fallen from the top of the public's agenda to the periphery. Despite its ideology of a commitment to providing equality of opportunity, the U.S. has in place a less-effective safety net than that of most other industrialized nations.

Poverty is not a high priority for the public either. A 2001 poll by the Henry J. Kaiser Family Foundation found that only 10 percent of the population considered poverty, welfare or something similar as one of the top two issues government should address, whereas 20 percent or more mentioned health care, education, and tax reform. The poll reported the following about the public's view of the 1996 welfare reform:

> Americans who know about the new welfare law like the way it is working....And the most important reason they give for why it is working well is that it requires people to go to work. Americans appear to value work so strongly that they support welfare reform even if it leads to jobs that keep people in poverty. The vast majority of those who know there has been a major change in the welfare laws (73 %) **believes that people who have left the welfare rolls are still poor, despite having found jobs (**emphasis added).

Thus, it seems that poverty is higher in the U.S. than in other industrialized countries because Americans want to increase work among the poor more than they want to reduce income poverty.

These preferences are long standing. Ladd and Bowman (1998) review opinion polls from industrialized countries and conclude that Americans "are inclined to the idea that opportunity is present to whose who avail themselves of it. As a result, they are unsympathetic to government redistribution of wealth (p. 115)." They cite a 1992 poll that asked, "Do you agree or disagree that it is the responsibility of the government to reduce the differences in income between people with high incomes and those with low incomes?" and "Do you agree or disagree that the government should provide everyone with a guaranteed income?" The percentages reporting "agree" plus "strongly agree" were lower in the U.S. (38 and 35 percent, respectively), than in Australia (43 and 51 percent), Sweden (53 and 46 percent) the U.K. (66 and 68 percent) and West Germany (66 and 58 percent).

In contrast, U.K. Prime Minister Tony Blair made poverty a high priority for his administration in 1999, stating that "Our historic aim will be for ours to be the first generation to end child poverty, and it will take a generation. It is a 20 year mission but I believe it can be done." The anti-poverty policies put into place in the UK are based to a significant extent on U.S. experiences and poverty policy research. The broad categories in which significant new U.K. programs have been set up and in which funding in existing programs has been increased are designed to promote "work for those who can, security for those who cannot," and to increase investments in children and expand opportunity and intergenerational mobility.

A major departure from the U.S. experience is that the Blair government increased cash welfare benefits. In 2003, these were 85 percent higher in real terms than in 1997; universal child benefits also increased by 25 percent over this period. A Working Families Tax Credit that is similar to the structure of the EITC in that benefits rise with earnings and then fall was put into place. And, the credits are more generous relative to the average wage and are paid to a greater percentage of families, including childless working adults. A minimum wage that is higher as a percentage of the average wage than is the U.S. minimum wage was also introduced.

Other U.K. programs have been modeled on the U.S. experience. The Sure Start program for early childhood enrichment is similar to the U.S. Head Start program. There are also expanded child care funds to guarantee slots in preschool and expand access to child care. They have expanded paid parental leave and are planning to start providing tax-free child savings accounts.

In total, spending on children increased by about 75 percent between 1997 and 2004, representing an additional 1 percent of GDP, and child poverty has fallen substantially (Hills and Waldfogel, 2004). As this UK experience demonstrates, if there is a political will to reduce poverty, there are many public policies that can be put in place to achieve child poverty reduction.

Implications for Antipoverty Policy in Mexico

An antipoverty initiative in any country will have a hard time succeeding if that country does not achieve and maintain stable economic growth. In addition, the increasingly-competitive globalized economy and continuing rapid technological changes require that substantial effort be given to raising the human capital and skills of the labor force. Globalization and labor-saving technological changes are exerting strong pressure in all countries, including the U.S., to hold down wage costs. Thus, productivity increases are the best way to raise real wages. In the long run, this primarily requires an increase in access to schooling to raise the educational attainment of the labor force.

Maintaining economic growth and raising the skills of the poor were key goals of the War on Poverty planners four decades ago. Thus, attention to both macroeconomic and education policies is a necessary component of successful poverty reduction strategies. These policies are discussed in other chapters in this volume.

The experience of the U.S. in the 1960s and in the UK since the late 1990s suggest that powerful political leadership and a willingness to devote additional resources to the problems of the poor are prerequisites for launching a major antipoverty initiative. The U.S. policies have been successful over the long run in reducing poverty among the elderly; the UK has succeeded in its newer comprehensive set of child poverty reduction programs. In both cases, government spending increased substantially.

What are the lessons that we draw for Mexico, assuming that it can muster the political willingness to devote sufficient resources to an antipoverty agenda, from our review of the U.S. experience? We consider it essential that the antipoverty agenda promote both work and income security for the poor and increase the educational attainment of children from poor families. A daunting challenge of such programs is how best to fund them, given the problems of the tax base in Mexico and other economies where the rural sector and the informal sector account for a substantial share of total economic activity.

For example, earnings supplements for working poor families with children, such as the Earned Income Tax Credit or the Working Families Tax Credit work well only in countries where most workers participate in the payroll tax and income tax systems, as these records are required to determine the amount of the poor family's credit. We realize that such programs are not feasible in many developing economies.

Instead, Mexico has demonstrated a creative new mechanism for helping poor families with children that has already spread to other developing economies--conditional cash transfer programs like PROGRESA/Oportunidades program (Escobar, 2005, this volume). It seems feasible for Mexico to further expand cash assistance and other assistance to the poor through similar means-tested programs. Other Latin American countries are developing such conditional cash transfer programs with the expectation that they can not only reduce economic hardship but also lead to positive educational and health outcomes for recipients (Rawlings, 2004; Gertler and Boyce, 2001).

We think it is possible to build on both the U.S. experience and the PROGRESA/

Oportunidades experience to develop a non-contributory income-tested cash transfer for the Mexican elderly that might be financed by a levy against oil revenues. Since the 1970s, the U.S. has had such a program for the elderly, blind and disabled poor – the Supplemental Security Income program. To the extent that the elderly share residences with their children and grandchildren in developing countries, cash payments to the elderly poor have spillover effects that also raise the living standards of substantial numbers of the nonelderly poor.

For example, Barrientos (2003) analyzed the antipoverty effects of non-contributory pension programs for the elderly in Brazil and South Africa and found that persons who reside in a household with a pension recipient have an 18 percent lower probability of being poor in Brazil and a 12 percent lower probability in South Africa than those whose households do not contain a pension recipient. He reviews other studies that show that such non-contributory pension programs enable physical and human capital investments within households, strengthen intergenerational transfers, and encourage local economic activity. Because these programs are targeted on the elderly, there is little concern about reduced work incentives, as there would be with such a program that was not conditioned on old age.

Mexico has already put in place an administrative mechanism that seems to have successfully income-tested the PROGRESA/ Oportunidades program. It seems feasible to create a similar mechanism to distribute the benefits of a non-contributory pension program.

There are likely to be many other components to an antipoverty strategy for the Mexican economy. But poverty is likely to remain high if fighting poverty is not a top national priority. This is another lesson that can be learned from the U.S. experience of the last several decades–in the absence of antipoverty policies, the poor are not likely to fully benefit from the GDP gains generated by a growing economy in the current global economic environment.

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Endnotes

1. This section draws heavily from Danziger (2001).

2. This section draws from Danziger and Gottschalk (2004). The data presented here are computations from the micro-data files of the Decennial Censuses of Population. These rates differ somewhat from the official poverty rates published by the Bureau of the Census because they use a different price index, the consumer price index research series, CPI-U-RS, to adjust for inflation after 1969.

3. The official poverty rate is based on the sum of money income from all sources received by all family members. Noncash transfers, such as Food stamps, and refundable tax credits, such as the EITC, are not counted as money income.

4. The calculations reported here make the simplifying assumption that there are no labor supply or saving responses to transfers that have caused market incomes to be lower than they would have been in the absence of transfers. Because transfers do induce such changes, the antipoverty effects shown in Tables 1 and 2 should be considered as upper-bounds.

Figure 1: Poverty Rate by Age, 1959-1999

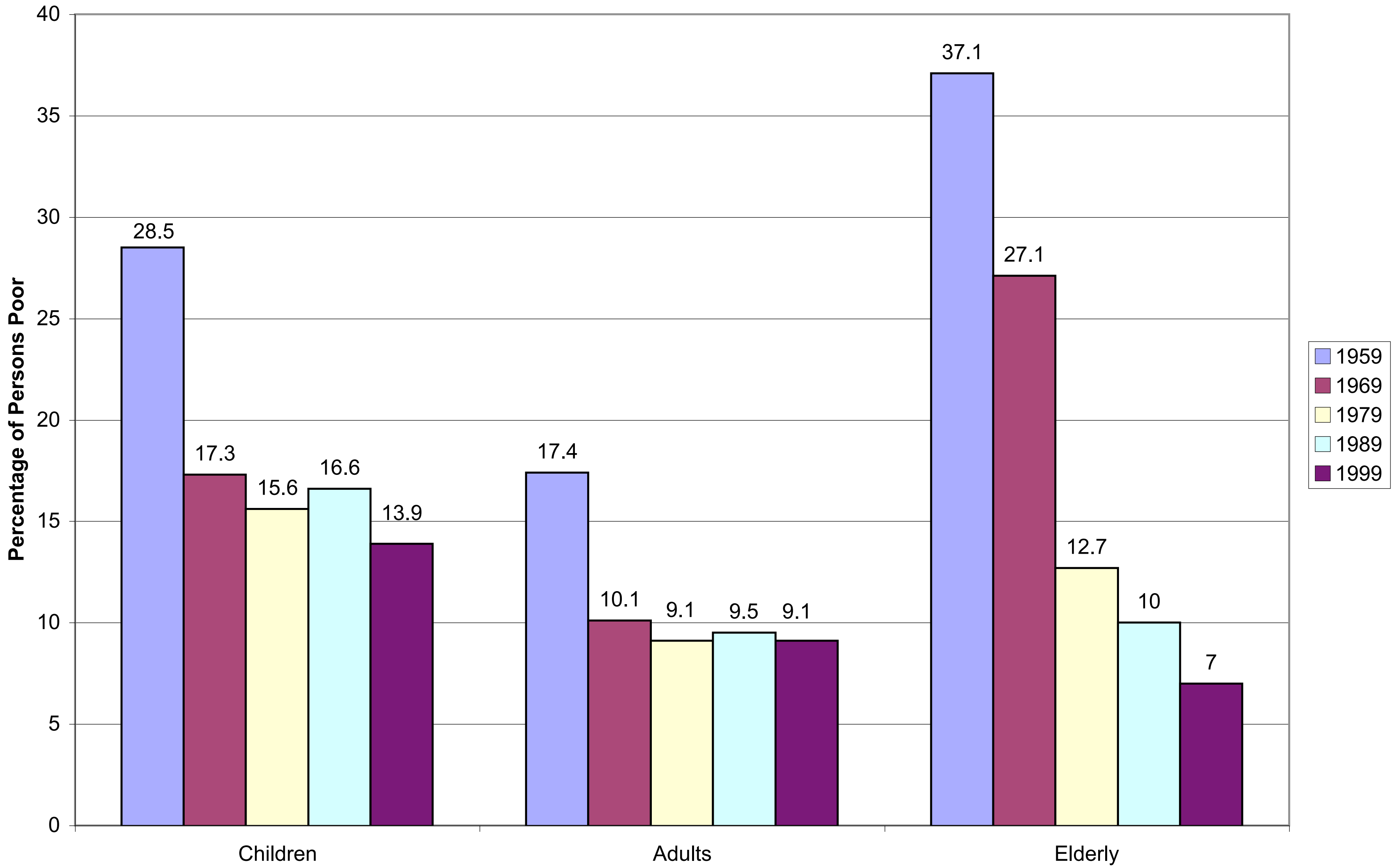

Figure 2: Percentage of Total Family Income from Cash Transfers

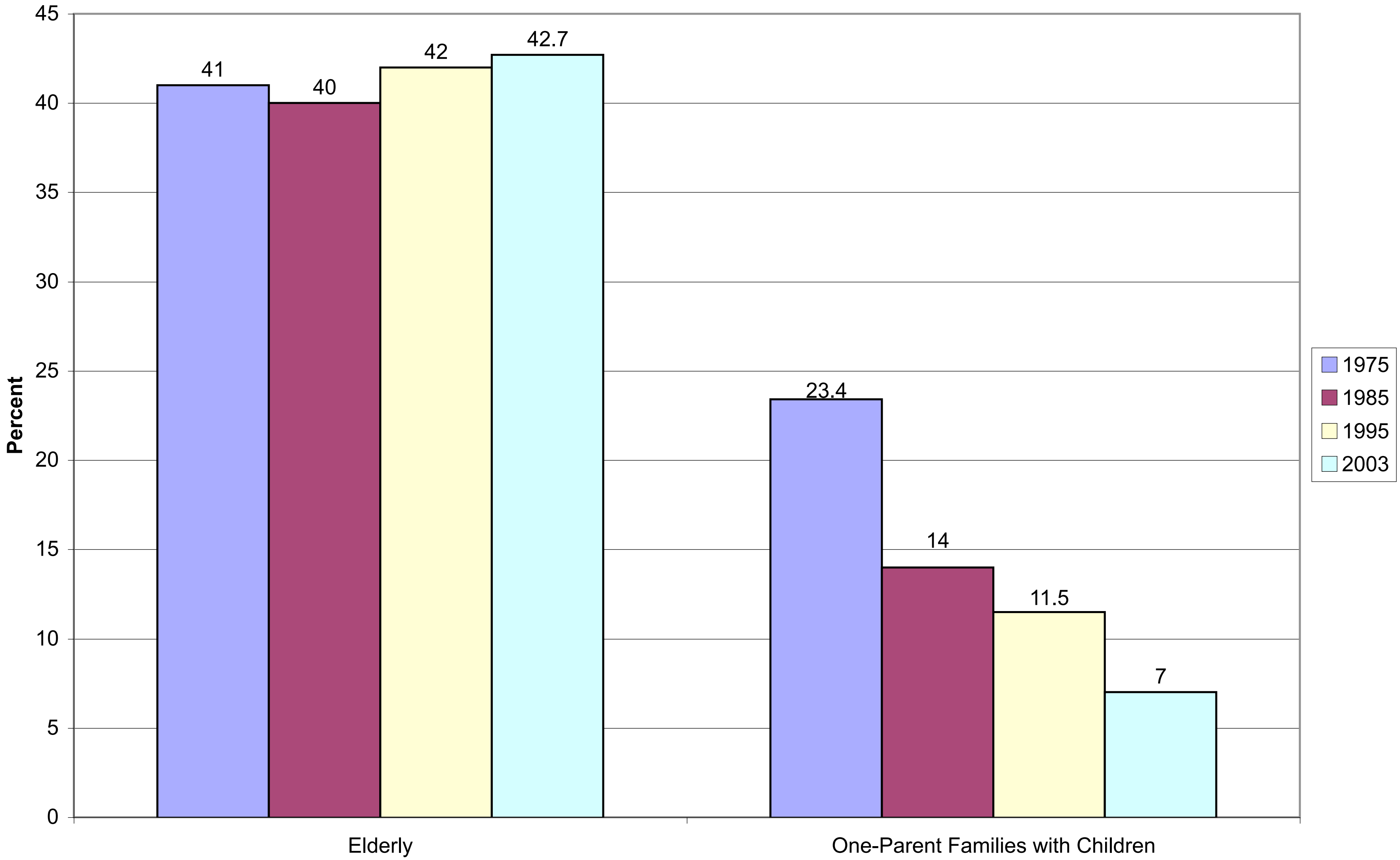

Table 1
Poverty Rates and Anti-Poverty Effects of Cash Income Transfers, 1967 and 1979

Elderly Persons Age 65 and Older

Poverty Rate	1967	1979
(1) Before Transfers	58.3	58.9
(2) After Cash Transfers	29.7	15.1
Percentage Point Reduction in Poverty (1) - (2)	28.6	43.8

Persons Living in Families with Children: Male Family Head

Poverty Rate	1967	1979
(1) Before Transfers	11.5	9.6
(2) After Cash Transfers	10.0	7.2
Percentage Point Reduction in Poverty (1) - (2)	1.5	2.4

Persons Living in Families with Children: Female Family Head

Poverty Rate	1967	1979
(1) Before Transfers	58.8	53.5
(2) After Cash Transfers	49.1	43.3
Percentage Poing Reduction in Poverty (1) - (2)	9.7	10.2

Source: Danziger and Weinberg, 1994

Table 2
Poverty Rates and Anti-Poverty Effects of all Income Transfers and Federal Tax Credits, Selected Years, 1979-2002

Elderly Persons Age 65 and Older

Poverty Rate	1979	1996	2002
(1) Before Transfers	54.2	50.1	49.9
(2) After Cash and NonCash Transfers	13.5	9.2	9.0
(3) After EITC and Less Taxes Paid	13.5	9.2	9.0
Percentage Point Reduction in Poverty (1) - (3)	40.7	40.9	40.9

Children Under 18

Poverty Rate	1979	1996	2002
(1) Before Transfers	20.1	23.6	19.7
(2) After Cash and NonCash Transfers	13.3	17.8	14.8
(3) After EITC and Less Taxes Paid	13.6	16.1	12.6
Percentage Point Reduction in Poverty (1) - (3)	6.5	7.5	7.1

Source: U.S. House of Representatives, 2004 Green Book, Appendix H