DOCUMENT RESUME

ED 245 053 UD 023 651

TITLE	Poverty Rate Increase. Hearings before the Subcommittee on Oversight and Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means. House of Representatives, Ninety-Eighth Congress, First Session (October 18; November 3, 1983). Serial 98-55.
INSTITUTION	Congress of the U.S., Washington, D.C. House Committee on Ways and Means.
PUB DATE	84
NOTE	400p.; Large sections of this document are marginally reproducible due to small print.
PUB TYPE	Legal/Legislative/Regulatory Materials (090) -- Reports - Evaluative/Feasibility (142)
EDRS PRICE	MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS	*Economic Factors; Federal Government; *Government Role; Hearings; *Measurement Techniques; *Poverty; *Public Policy; State Government; Taxes
IDENTIFIERS	Supplemental Security Income Program

ABSTRACT

The major purpose of these hearings was to assess the reasons for the increase in the poverty rate, from 11.4 percent in 1978 to 15 percent in 1983. Topics examined included (1) the relation of the increase to the recession, demographic trends, budget reductions, and the 10-year decline in the real level of public assistance benefits; (2) the Supplemental Security Income program and its role in reducing poverty; (3) the impact of tax policy on the disposable income of low-income families; (4) the extent to which improvements in the economy would contribute to a decrease in the poverty rate; (5) what changes in the law would yield the greatest decrease in poverty; and (6) measures of poverty other than the current official one and their recent trends. Testimony was given by representatives of the Reagan Administration and other Federal Officials, State officials, witnesses from charitable organizations, and expert witnesses. CMG)

JUN 26 1984

POVERTY RATE INCREASE

ED245053

HEARINGS

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

AND

SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION

OF THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

FIRST SESSION

OCTOBER 18; NOVEMBER 3, 1983

Serial 98-55

Printed for the use of the Committee on Ways and Means

UD023657

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1984

COMMITTEE ON WAYS AND MEANS

DAN ROSTENKOWSKI, Illinois, *Chairman*

SAM M. GIBBONS, Florida
J. J. PICKLE, Texas
CHARLES B. RANGEL, New York
FORTNEY H. (PETE) STARK, California
JAMES R. JONES, Oklahoma
ANDY JACOBS, Jr., Indiana
HAROLD FORD, Tennessee
ED JENKINS, Georgia
RICHARD A. GEPHARDT, Missouri
THOMAS J. DOWNEY, New York
CECIL (CEC) HEFTEL, Hawaii
WYCHE FOWLER, Jr., Georgia
FRANK J. GUARINI, New Jersey
JAMES M. SHANNON, Massachusetts
MARTY RUSSO, Illinois
DON J. PEASE, Ohio
KENT HANCE, Texas
ROBERT T. MATSUI, California
BERYL ANTHONY, Jr., Arkansas
RONNIE G. FLIPPO, Alabama
BYRON L. DORGAN, North Dakota
BARBARA B. KENNELLY, Connecticut

BARBER B. CONABLE, Jr., New York
JOHN J. DUNCAN, Tennessee
BILL ARCHER, Texas
GUY VANDER JAGT, Michigan
PHILIP M. CRANE, Illinois
BILL FRENZEL, Minnesota
JAMES G. MARTIN, North Carolina
RICHARD T. SCHULZE, Pennsylvania
BILL GRADISON, Ohio
W. HENSON MOORE, Louisiana
CARROLL A. CAMPBELL, Jr., South Carolina
WILLIAM M. THOMAS, California

JOHN J. SALMON, *Chief Counsel*
JOSEPH K. DOWLEY, *Assistant Chief Counsel*
ROBERT J. LEONARD, *Chief Tax Counsel*
A. L. SINGLETON, *Minority Chief of Staff*

SUBCOMMITTEE ON OVERSIGHT

CHARLES B. RANGEL, New York, *Chairman*

SAM M. GIBBONS, Florida
J. J. PICKLE, Texas
FRANK J. GUARINI, New Jersey
BERYL ANTHONY, Jr., Arkansas
RONNIE G. FLIPPO, Alabama
BYRON L. DORGAN, North Dakota

JAMES G. MARTIN, North Carolina
JOHN J. DUNCAN, Tennessee
CARROLL A. CAMPBELL, Jr., South Carolina
WILLIAM M. THOMAS, California

WILLIAM A. KIRK, *Professional Staff*
WENDELL E. PRIMUS, *Professional Staff*
BETH K. KUNTZ, *Professional Staff*
RUSSLYN G. GUERITZ, *Professional Staff*

SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION

HAROLD FORD, Tennessee, *Chairman*

FORTNEY H. (PETE) STARK, California
DON J. PEASE, Ohio
KENT HANCE, Texas
ROBERT T. MATSUI, California
WYCHE FOWLER, Jr., Georgia
BARBARA B. KENNELLY, Connecticut

CARROLL A. CAMPBELL, Jr., South Carolina
W. HENSON MOORE, Louisiana
BILL FRENZEL, Minnesota
WILLIAM M. THOMAS, California

M. KENNETH BOWLER, *Professional Staff*
ALLEN C. JENSEN, *Professional Staff*
FRANCIS M. CANAVAN, *Professional Staff*

3

CONTENTS

4

POVERTY RATE INCREASE

TUESDAY, OCTOBER 18, 1983

HOUSE OF REPRESENTATIVES, COMMITTEE ON WAYS AND MEANS, SUBCOMMITTEE ON OVERSIGHT; SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION,

Washington, D.C.

The subcommittees met at 9:45 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Charles B. Rangel (chairman of the Subcommittee on Oversight) presiding.

[The press releases announcing the hearings follow:]

[Press release of Thursday, Sept. 1, 1983]

HON. CHARLES B. RANGEL (D., N.Y.), CHAIRMAN, SUBCOMMITTEE ON OVERSIGHT, AND HON. HAROLD FORD (D., TENN.), CHAIRMAN, SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCE A 1-DAY HEARING ON THE POVERTY RATE INCREASE

The Honorable Charles B. Rangel (D., N.Y.), Chairman of the Subcommittee on Oversight and the Honorable Harold Ford (D., Tenn), Chairman of the Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means, announced today that the Subcommittees will hold a joint hearing to examine the reasons for the increase in the poverty rate from 11.4 percent in 1978 to the recently announced rate of 15 percent. Further details and specific dates for the hearings will be announced in a subsequent press release.

The hearing will focus on an assessment of the reasons for the recent increases in poverty. For example, to what extent is the increase related to the recession, demographic trends, budget reductions and the decline over the past ten years in the real (after inflation) level of public assistance benefits. A review of the SSI program and its role in reducing poverty will also be examined. The hearing will also assess the extent to which improvement in the economy will contribute to a decrease in the poverty rate and examine what changes in the law would yield the greatest decrease in poverty (per dollar spent). Other measures of poverty and their recent trends will also be investigated.

The Subcommittees will be receiving testimony from invited witnesses only. Those witnesses will include representatives from the Office of Management and Budget, the Department of Health and Human Services and the Bureau of the Census, the Congressional Budget Office, the Institute for Research on Poverty, and State public assistance experts.

[Press release of Friday, Sept. 30, 1983]

HON. CHARLES B. RANGEL (D., N.Y.), CHAIRMAN, SUBCOMMITTEE ON OVERSIGHT, AND HON. HAROLD FORD (D., TENN.), CHAIRMAN, SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCE FURTHER DETAILS FOR THE HEARING ON THE POVERTY RATE INCREASE

The Honorable Charles B. Rangel (D., N.Y.), Chairman of the Subcommittee on Oversight, and the Honorable Harold Ford (D., Tenn.), Chairman of the Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means, announced today further details on a joint hearing of the Subcommittees which will examine the reasons for the increase in the poverty rate from 11.4 percent in 1978 to the recently announced rate of 15 percent. The hearing will be held on Tuesday, October 18, 1983, beginning at 9:30 a.m. in the Committee on Ways and Means Main Hearing Room, 1100 Longworth House Office Building.

The hearing will focus on why poverty has increased by more than 30 percent over the last four years. For example, to what extent is the increase related to the recession, demographic trends, budget reductions and the decline over the past ten years in the real (after inflation) level of public assistance benefits. A review of the Supplemental Security Income (SSI) program and its role in reducing poverty will also be examined. The Subcommittees will also receive testimony on the impact of tax policy upon disposable income of low-income families. In addition, the extent to which improvements in the economy will reduce poverty and projections of the poverty rate under current governmental policies into the near future will be examined.

The current official measure of poverty is one definition of how many poor there are in the United States. Over time, this definition measures the progress that we have made in reducing poverty. The hearing will look at alternative measures and their recent trends.

The Subcommittees will also examine selected policy alternatives and their impact upon poverty.

The Subcommittees will be receiving testimony from invited witnesses only. The Honorable David A. Stockman, Director of the Office of Management and Budget will present testimony on behalf of the Administration. Invited witnesses will include the Director of the Congressional Budget Office, expert witnesses from the Institute for Research on Poverty, the Brookings Institution, the American Enterprise Institute, the Bureau of the Census, the Joint Center for Political Studies and a panel of State officials describing state decision making with respect to public assistance benefit levels and budget reductions. In addition, there will be two witnesses from charitable organizations.

For those who wish to file a written statement for the printed record of the hearing, six copies are required and may be submitted by the close of business Monday, October 31, 1983, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515. An additional supply of statements for the printed record may be furnished for distribution to the press and public if supplied to the Committee office during the hearing.

(Press release of Friday, Oct. 21, 1983.)

HON. CHARLES B. RANGEL (D., N.Y.), CHAIRMAN, SUBCOMMITTEE ON OVERSIGHT, AND HON. HAROLD FORD (D., TENN.), CHAIRMAN, SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCE A CONTINUATION OF THE HEARING ON THE POVERTY RATE INCREASE

The Honorable Charles B. Rangel (D., N.Y.), Chairman of the Subcommittee on Oversight, and the Honorable Harold Ford (D., Tenn.), Chairman of the Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means, announced today a continuation of the joint hearing of the Subcommittees to examine the reasons for the increase in the poverty rate from 11.4 percent in 1978 to the recently announced rate of 15 percent. The hearing will continue on Thursday, November 3, 1983, beginning at 9:30 a.m. in the Committee on Ways and Means Main Hearing Room, 1100 Longworth House Office Building.

The Subcommittees will be receiving testimony from the Honorable David A. Stockman, Director of the Office of Management and Budget and Dr. Robert J. Rubin, Assistant Secretary for Planning and Evaluation, Department of Health and Human Services.

For those who wish to file a written statement for the printed record of the hearing, the deadline for submission has been changed from October 31 to November 21. Six copies are required and may be submitted by the close of business Monday, November 21, 1983, to John J. Salmon, Chief Counsel, Committees on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515. An additional supply of statements for the printed record may be furnished for distribution to the press and public if supplied to the Committee prior to the hearing.

Chairman RANGEL. Good morning. The Subcommittee on Public Assistance and Unemployment Compensation and the Subcommittee on Oversight of the Committee on Ways and Means will come to order.

This morning the Subcommittee on Oversight and the Subcommittee on Public Assistance and Unemployment Compensation are holding a joint hearing on recent dramatic increases in the poverty rate.

For the fourth consecutive year, the poverty rate has increased. The current poverty rate of 15 percent is the highest level since 1965. Some 34.4 million people have incomes below a poverty threshold which today is $9,860 for a family of four.

A number of Federal programs such as aid to families with dependent children, [AFDC], supplemental security income [SSI], child support enforcement [CSE], and child welfare services, which are designed to address the problems of low-income individuals, are within the jurisdiction of the Committee on Ways and Means. Thus, we are interested in examining the impact of these programs upon poverty, and the role of recent legislative changes.

We are also interested in the impact the recession has had on the poverty rate and to what extent a healthy economy will significantly reduce the rate. Many analysts have indicated that the Reagan budget cuts and the recession are the primary reasons why poverty has been increasing so rapidly.

Another aspect of Federal policy that we hope to examine today is Federal taxation of families and individuals with earnings near or below poverty. At present, approximately 50 percent of total income for female-headed families near poverty, and 75 percent for other families with children, comes from earnings—not governmental transfer programs.

In 1978, a family of three had an annual tax burden of $35 if earnings were equal to the poverty threshold. This was less than 1 percent of income. In fact, from 1975 to 1980, the earnings level at which most families with children began paying taxes was above the official poverty thresholds. This has dramatically changed.

In 1984, under the administration's tax policies, a poor three-person family will have a tax burden of $546 or 6.6 percent of income. For a four-person family, the tax liability will be $946.

We had reason to expect that this morning David Stockman, director of the Office of Management and Budget, would be here to testify. For the last several weeks, this hearing was based on that assumption. We were informed last Thursday that the director could not be with us today. However, he has agreed to present testimony to the subcommittees on November 3 of this year.

Margaret Heckler, the Secretary of the Department of Health and Human Services, was also invited to testify this morning. While initially she thought she had a problem in doing that as well as having a problem in sending a representative for her, she did agree, after talking with me and receiving a letter from the chairman, to reconsider. Again, we are disappointed, but we were informed that she is unable to make it but will join with Mr. Stockman in presenting testimony to the joint subcommittees on November 3.

Naturally, we think it is critical that we hear from the administration on this matter, particularly whether they plan any new policies or initiatives to combat the growing poverty and also to see what their analysis would be as to whether or not any of the administration's tax or domestic policies has caused the increase in poverty in this country.

Most analysts maintain that however poverty is measured, the increase in poverty has been substantial. Even if the poverty rate were as low as 10 percent, some 23 million Americans would have incomes below the poverty line.

I believe all of us have a moral obligation and duty to aid those of us who are less fortunate. The Federal Government cannot turn its back on 34.4 million Americans who are poor.

Therefore, after the hearings are completed, I will join with members of this committee to carefully review the testimony with the intention of introducing legislation whose primary purpose will be to reduce poverty. I don't know exactly what policy initiatives are appropriate, but I hope to explore this during the hearing this morning, and joining that with the response we hope to receive on November 3, that we will be able to move forward with some effective legislation.

Also today, Chairman Ford and I are releasing a study which provides for members and the public a great deal of information about poverty. It describes the poverty population, trends in poverty, factors which influence the poverty rate, and Federal taxation of the poor.

Before recognizing any members who wish to make opening remarks, I wish to express my appreciation to our invited witnesses for their participation in our hearings. I also want to thank the Congressional Research Service and the staff of the Joint Committee on Taxation for their assistance in preparing the background study.

Mr Pease.

Mr. PEASE. I have no statement.

Chairman RANGEL. Mr. Campbell.

Mr. CAMPBELL. Mr. Chairman, as the ranking member on the Republican side on the Subcommittee on Public Assistance and Unemployment Compensation, I would like to explore the subject that we are taking up today from several different perspectives. It is very broad and it is very complex.

Before I do that, I would like to say that Mrs. Heckler is appearing on a television show on the subject of child support and child support enforcement, a subject matter that is before my subcommittee and one that we think impacts on the problems of poverty in this country. We think that it is a very important thing that she is trying to do in getting public support for changes in the laws governing child support.

But viewed from any standpoint, poverty is a very tough condition to define. It is relative and it is personal, and to the persons who feel they are in that condition, it is far more finite than abstract.

To a degree, at least, poverty is truly in the eyes of the beholder. Each culture, each society has defined poverty in its own way. Many groups have seen it in terms of the relationship between one's needs and one's means.

The President's Commission on Income Maintenance in 1978, under the Carter administration, summed it up this way. They said:

> As society becomes more affluent, it defines poverty not only as the lack of the components of a subsistence of living, but also the lack of opportunity for persons with limited resources to achieve the quality of life reflected by persons with an average amount of resources.

Adding to the definitional problems or the varied lifestyles so prevalent in this country and so conspicuously absent in others, consider, for example, the street people who refuse to accept room and board and medical attention even when offered. Our democracy threads a challenging line between its responsibility to guarantee personal freedoms and its responsibility to protect those who cannot care for themselves.

Consider also those who work in the underground economy and underreport their income. As a matter of fact, the underground economy has been reported as growing between 1973 and 1981 for this category in dollars from $29.3 billion to $87.3 billion, according to the American Institute of Certified Public Accountants. Now, when we consider that, we would also have to say that these people should be paying their share of taxes, not collecting food stamps.

In 1976, John Palmer and Joseph Minarik of the Brookings Institution speculated that a definition of household income including both the recipient's cash valuation of in-kind benefits and adjustments for underreporting of cash income would probably reflect a current poverty rate closer to 5 percent than the then-official rate being used which was 12 percent.

Obviously, defining poverty is both difficult and tricky. If it is defined as a lack of basic needs, then it has almost been eliminated.

According to the statistical abstract of the United States, total Government spending on all social welfare programs in the United States increased from $77 billion in 1965 to over $332 billion in 1975. In 1965, a combined spending of Federal, State, and local governments on public welfare was just over $6 billion. That is the direct aid portion. By 1980, it had grown to $72 billion.

The Department of Health and Human Services spent on social programs in 1969 over $45 billion; in 1974, $88 billion; in 1983, $274 billion; and by 1984, $288 billion. From 1964 to 1977, the total amount of money spent cumulatively on public welfare by Federal, State, and local governments in the war on poverty was $300 billion. The estimated cost of fighting World War II was $288 billion.

Why, then, during this time in 1978 under the last administration, which was totally controlled by one party, did poverty start to go up in 1978 if the dollar is the problem? I think we have to explore this in the context.

You know, we have often legislated as if money alone would solve problems. There has been a general failure to consider the negative impact of massive welfare programs on personal and family responsibilities. The layering of one program on top of another without regard for interrelationships and without provisions for determining accountability should make us question the extent to which well intentioned programs have aided the nation's poor.

A strong argument can be made that poverty is, to a great extent, a feminist issue, as the chairman has mentioned. Most people are aware that one out of every two marriages end in divorce. However, what many people don't realize is that divorce is economically disastrous for many of the affected women and children accounting for much of the flow into and out of poverty.

Single-parent families increased 69 percent during the past decade. Such families now constitute 19 percent of all families with children. Within 1 year of divorce, the average woman's standard of living decreases 73 percent and the man's standard of living increases 42 percent. That is assuming that the man is the predominant breadwinner.

According to Bruce Chapman, former Director of the Census Bureau, it is not that such families are poorer today; they are not. But that so many more of them are swelling the ranks of the poor as others go on to more affluence without a sharing.

The real income of intact families went up in the 1970's. Unfortunately, salary statistics for women are dismal. Of the 2.38 million women who work full time, 53 percent earn less than $5,000 a year. Of all income earners making only $15,000, only 9 percent are women; 21 percent of the female-headed households with the head working full time still fall below the poverty line and one-third of all full-time working mothers with children under 5 are poor.

Many working women continue to be impoverished; but poverty is, of course, much more than a feminist issue. It is economic as well as social; and it is global.

In some countries, per capita income of more than $100 per year might be considered as placing the recipient above the poverty level. In the United States, a single person with an annual income below $4,860 can be considered poor—even though that person may have inkind income in the form of food stamps, subsidized housing, and medicaid worth, in total, thousands of dollars more each year.

Traditionally, America has viewed poverty both logically and emotionally. We have taken the general stance that our society must take care of its members who cannot take care of themselves and we have welcomed with relatively open arms the poor of other nations who have wanted to leave their homes and seek a better life among us.

Generations ago the poet Emma Lazarus described our outlook in words that were inscribed on the Statue of Liberty: "Give me your tired, your poor, your huddled masses yearning to breathe free." Over the years since, we have modified to some extent our basic immigration policies, but we have not modified our basic attitude that this is a country where people can find economic opportunity—and I emphasize that, economic opportunity—as well as freedom.

I do not think that we want to lose sight of this basic attitude today. Certainly defining poverty is important and I sincerely hope these hearings will help us do that more accurately. But we should pursue with equal vigor our overriding objective, which is to keep on providing that economic opportunity to those who are already here as well as to those who are on their way. If we can provide economic opportunity for all, our problems with poverty, both definitional and societal, will tend to diminish.

After all, I should hope that we recognize our ultimate goal should be to provide opportunities and not guarantees. I hope that these hearings will move us in that direction also.

Chairman RANGEL. The Chair appreciates the testimony given by Mr. Campbell, and would advise members of the committee that I did not mean to state anything in my opening statement that would infer that I was trying to take the constitutional right away from anyone to be poor. It could very well be that we might even legislate and outlaw poverty as a definition.

But if there are any opening remarks that any members would like to make at this time before we receive the testimony of the witnesses that are on the list, the Chair would be only too glad to recognize them.

Mrs. Kennelly.

Mrs. KENNELLY. Thank you, Mr. Chairman.

I welcome this opportunity to hear from our witnesses invited to testify before the subcommittee today on the poverty rate increase.

The poor in our country have often been described as being poor in a land of plenty. I happen to come from a State where the contrast between the well off and the poor, which exists nationwide, has grown particularly sharp. Connecticut's citizens enjoy the second highest per capita income in the Nation, yet two of our cities are among the 10 most distressed in the country. Our total unemployment rate is below 6 percent, yet the percentage of the population living in poverty in the city of Hartford is in double digits.

Our high school students go on to further education at rates much higher than the national average. However, our infant mortality rate in Hartford is twice the national average and one out of 50 newborns will die before his or her first birthday.

Poverty has increased over 30 percent since 1978 and we in Connecticut have seen the increase of new poor very vividly in urban, rural, and suburban communities across the State. Charitable and social service agencies have found it impossible to meet the needs of these individuals at a time when Federal funds or assistance programs have been dramatically reduced.

The Salvation Army in our capital city experienced a 400-percent increase in the demand for its food assistance over the past 4 years and has had to shut its doors to single men in order to concentrate its limited resources on families with children.

Perhaps the only semiencouraging news about the current statistics is the continued decrease in the rate of poverty among the elderly. On the other hand, it is extremely disturbing that there is growing economic vulnerability among women and children.

As a nation, we have recognized that it is morally wrong to abandon the elderly to a life of poverty. It is both morally wrong and squandering our Nation's future to abandon the children of our country.

I am sorry that the administration's witnesses are not going to testify today and I look forward to hearing them at a later date.

Over the last 3 years, we have been subjected to misinformation and rhetoric about who relies on our social programs, and why. We hear stories about vodka bought with change left over from food stamps, and we hear stories that the social safety net is intact. We have been told that the administration's reductions in welfare have been fair and equitable on the basis of a study which in fact shows that Americans want to work and will continue to work even when faced with a net decline in their overall income.

In this climate, it is extremely important that we have forums like today's hearings to document that the truly needy are not better off than they were 3 years ago and to make it clear that many Americans are much worse off and their numbers are increasing.

We do not have unlimited resources at the Federal level to address the problem of poverty, but the trickle-down theory of economics is not a viable alternative to setting Federal priorities which are fair to low-income citizens.

I know that this committee will take an active role in suggesting solutions to the issues raised by the poverty rate increase.

I thank you, Mr. Chairman, for giving me this time.

Chairman RANGEL. Is anyone else seeking recognition?

Then we welcome our first witness, Dr. Rudolph Penner, the new Director of the Congressional Budget Office.

I understand this is the first time that you have appeared before this committee. On behalf of the chairman and the full committee, we welcome you and we welcome your testimony.

As you well know, we have your statement. You can proceed as you find most comfortable.

Thank you, Dr. Penner, for agreeing to testify this morning.

STATEMENT OF RUDOLPH G. PENNER, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. PENNER. Thank you very much, Mr. Chairman. I am pleased to be here.

I would like just briefly to summarize my statement and submit the whole testimony for the record.

Although controversy abounds concerning the appropriate definition of poverty and hence concerning the exact proportion of persons classified as poor in the United States—that is, the poverty rate—most alternative measures display a consistent upward trend since 1978. Figure 1 of my testimony shows the official poverty rate, while figure 2 shows the rates for the elderly and nonelderly.

Note also that the proportion of the poor who are elderly declined, not because of a drop in the number of elderly poor, but because of a large increase in the number of nonelderly persons in poverty.

The degree of poverty—that is, the extent to which those in poverty are below the thresholds—has also been increasing. Between 1981 and 1982, the poverty gap, which measures the cumulative amount of shortfall between the incomes of the poor and their particular poverty thresholds, rose faster than the rate of poverty, increasing in 1982 dollars from $39 billion to $43 billion. Moreover, the proportion of poor persons with incomes at 75 percent or less of the poverty lines increased from 61 percent in 1978 to 68 percent in 1982.

The income-based poverty measures have been criticized on two basic grounds: the way that the threshold level of income is determined and what is included in the definition of family income. Alternative ways to deal with either problem could lead to higher or lower measured rates of poverty, but the trend in poverty rates for the last 5 years would generally remain the same.

A common concern is the failure to include noncash benefits that the poor receive from various levels of Government—in particular, benefits from food stamps and housing assistance. Recipients of these programs are less poor than their cash incomes would indicate, because they can purchase other goods with the cash they would otherwise have to spend on housing and food. If these benefits were added to income, for example, the poverty rate for all persons would be in the range of 14 percent rather than 15 percent.

My full testimony discusses the problem of medicaid and the problem it poses for definitions.

The definition of income might also be modified to reflect other resources, such as assets, and certain liabilities, such as payroll and income taxes.

Using an annual measure of poverty can also be misleading because individuals and families move into and out of the poverty population over time on such a large scale. Some will live in poverty for most of their lives while others are in poverty only temporarily because of illness, an unusual spell of unemployment, or voluntary withdrawal from the labor force. Annual measures ignore the poverty of persons who have low incomes for only a few months of the year but also fail to reflect the transitional nature of poverty for many households.

Poverty measures are sensitive to economic factors, demographic factors, and the size and nature of Government programs providing benefits to low-income families, but the factors explaining changes over time vary for different groups, particularly between those under and those over the age of 65.

Economic factors contributed substantially to the increase in poverty rates for children and working-age adults.

Two longer-term influences have also been important: Demographic factors, such as the growth in the number of female-headed families, and a decline in the real level of some cash benefits provided to the poor.

Finally, between 1981 and 1982, another factor began to enter the picture: benefits were cut by legislative changes at the Federal level.

In contrast, the stable poverty rate for persons 65 and over reflects the degree to which the elderly are insulated from the effects of the business cycle while at the same time through 1982 there have not been major changes in programs targeted on the elderly.

The subcommittee has requested that the Congressional Budget Office identify and analyze options for increased welfare expenditures that would reduce the poverty rate and/or the poverty gap. Any increase in outlays must, of course, be financed either by cutting nonwelfare programs, by raising taxes or by increasing an already large deficit. All means of financing are likely to have some negative impacts on the economy as a whole, however, including some that may indirectly offset a portion of the increased benefits to the poor.

Analysis of such complex interactions is far beyond the scope of this testimony, so we have examined the options only with regard to criteria that might be used to judge their effectiveness as welfare programs. But if several options were combined, the macroeconomic effects could be significant.

A wide range of criteria or goals, some of which conflict, are often offered in debate over changes in welfare programs. Some of the major ones are: Targeting benefits toward those most in need, treating persons with similar incomes alike, encouraging families to remain together, maintaining incentives so that program recipients who can work do so, simplifying the system and reducing administrative costs, and keeping total costs as low as possible.

Deciding who among the poor are the most in need is not necessarily straightforward, and specific definitions may conflict with the goals of treating similar persons uniformly and encouraging families to remain together. Traditional definitions of need have concentrated on assisting single-parent families with children, the elderly, and the disabled rather than treating persons with similar incomes alike, regardless of family characteristics.

If, instead, severity of poverty were the criterion for eligibility, unrelated individuals and childless couples under the age of 65 would be eligible. Moreover, if keeping families together is a major goal, benefits would be directed at two-parent families who are often better off than those headed by single parents, thereby violating the goal of concentrating aid on those most in need.

If the first three goals were all to be met, costs would be high because the current welfare system pays little or no benefits to those with income below poverty, and benefits for those who do participate in government programs—particularly AFDC—can also be quite low. Even though roughly $92 billion was spent by the Federal Government in 1982 on cash programs, food stamps, and housing assistance for persons with household incomes below $10,000, not all of whom are classified as poor; the remaining poverty gap was between $30 billion and $35 billion.

Work incentives could be provided positively by allowing recipients to keep a share of their earnings or negatively by denying eligibility or keeping benefits low for those able to work, but both approaches conflict with other goals. The first would be relatively expensive and would provide benefits to persons close to and possibly above the poverty line who may be less in need. Denying benefits to those able to work may penalize some very poor families and may be thought too stringent when children would be affected and when high levels of unemployment make it difficult to obtain jobs.

Simplifying welfare programs and keeping administrative costs low are difficult objectives to achieve within the current welfare structure, which includes numerous cash and in-kind programs that are directed at various recipient groups in part to keep costs down. Moreover, structuring welfare programs to enhance work incentives could add to their complexity and might require additional coordination among programs.

Past proposals to meet several of these goals simultaneously—for example, replacing current programs with a negative income tax—

would generally require major restructuring of the welfare system. A discussion of such approaches is, however, beyond the scope of my testimony today.

Rather, for the purpose of illustration, I shall briefly describe eight options that could be used to reduce poverty within the context of the current welfare system. More detailed analysis appears in my written statement. I would be pleased to elaborate on any of them if you have questions.

But very briefly, first, the Congress could establish a national minimum AFDC benefit level. As AFDC is now constituted, benefits vary substantially across States, from the 1983 maximum guarantee level of $96 per month for a family of three in Mississippi with no earnings at all to a monthly maximum of $530 in Vermont for the same size family.

One way to reduce the variation in AFDC benefits across States would be to establish national minimum guarantee levels for the program similar to those for the SSI program. Unless the Federal guarantees were kept fairly low, however, program costs would be increased substantially. If the AFDC guarantee were set at $260 per month for a family of three, for example, Federal expenditures would increase by $600 million to $800 million in 1985 and State costs would rise by another $450 million to $700 million. Such guaranteed levels would result in total monthly incomes including food stamps of about two-thirds of the official poverty threshold.

This option would target much of the increase in benefits on single-parent families and States where payments are quite low, resulting in more equal treatment across States for such families. On the other hand, national minimums would not allow States to reflect fully local costs of living and local wage levels and could add to their budgetary difficulties.

The second option, the Congress could require State participation in the unemployed parent program under AFDC. In 31 States and territories, participation in AFDC is limited to families headed by a single parent.

One way to expand eligibility for poor two-parent families would be to make State participation in the unemployed parent portion of AFDC mandatory. Such an option would provide benefits to an additional 85,000 to 130,000 families in fiscal year 1984—increases of 40 percent to 55 percent—at a total cost of $0.5 to $0.7 million, about three-fifths of which would be borne by the Federal Government.

This approach would remove the current incentive for men to leave home so that their families can become eligible for AFDC, but State costs could rise substantially.

Third, the Congress could expand food stamp benefits. The food stamp program is the only means-tested Federal program providing benefits to poor households regardless of their family characteristics. The maximum monthly benefit now paid to two-person households is $139, or about one-fourth of the poverty level.

Raising the maximum food stamp benefit would increase assistance for a broad range of poor people including the working poor and childless individuals and couples who often are not eligible to participate in other programs. Increasing expenditures by roughly

$1 billion in 1984 would, for example, raise total benefits by 8 percent, or about $1 per participant per month.

Fourth, eligibility for medicaid could be expanded to include all families with children whose incomes are above the poverty level. In 1985 this option would cover an additional 12 to 15 million adults and children at a Federal cost of about $6 billion and a State cost of about $5 billion if the current cost sharing arrangements remain the same.

The extension of eligibility would reduce work disincentives for AFDC families by allowing them to continue medicaid coverage even though their earnings resulted in a loss of cash benefits, but the additional costs, again, could represent a substantial burden for the States.

Fifth, the Congress could expand the dependent care tax credit for low-income families. The dependent care tax credit provides relief through the individual tax system to working persons with eligible dependents, usually their children.

The credit could be made refundable and cover 60 percent of expenses for families with incomes below $10,000. In 1984, such a change would reduce revenues by $1.5 billion to $2 billion. These changes could double the number of families benefiting from the credit, but they would probably be above or just above the poverty thresholds and able to pay at least a share of the cost of formal child-care services.

Sixth, the Congress could change the earned income tax credit. The earned income tax credit provides cash supplements through the personal income tax system to working parents with relatively low incomes. Eligibility for this program could be broadened to include unrelated individuals or childless couples, increasing the revenue loss by about $500 million. Such an approach would extend coverage to poor individuals not now eligible for Federal cash benefits, but might preclude other options with direct additional benefits to poor children.

Seventh, child support enforcement could be expanded. The child support enforcement program is quite different from other welfare programs discussed here since it provides support to the States to aid families in establishing and collecting child support payments from absent parents.

Several different approaches are possible to increase child support payments. One would make certain enforcement techniques mandatory for the States—withholding of child support payments from wages, for example. The Federal Government would save $25 to $50 million a year from mandatory withholding, but AFDC families would not gain since the collections would be used to offset AFDC benefits.

A second approach would seek to increase States' handling of non-AFDC cases either by incentive payments or by requirements such as clearinghouses through which all child support payments would pass.

Both options would aid poor, as well as nonpoor, families by raising the incomes of needy families who do not participate in AFDC. Opponents also point out that requiring specific techniques might violate States' rights, and activities such as the creation of interstate data banks might invade the privacy of individuals.

Eighth, the Congress could moderate the asset test required under SSI. SSI provides benefits to aged and disabled persons who meet both an income and an asset test. The asset test of $1,500 for an individual and $2,250 for a couple has not changed since the beginning of the program in 1974 and may contribute to the low participation rate among the elderly and disabled who would seem to qualify for SSI on the basis of their income. The limits of the SSI asset test could be increased by 50 percent. While costs are difficult to project, they would likely be less than $500 million. Such a change would decrease the number of elderly eligible for SSI. However, the potential recipients might be expected to exhaust their own savings before receiving aid from the Federal Government.

Thank you, Mr. Chairman. I would be pleased to take your questions now.

[The prepared statement follows:]

STATEMENT OF RUDOLPH G. PENNER, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Poverty increased in the United States in 1982—part of a continuing trend since 1978. This growth has again focused attention on the debate over government policies directed at raising the well-being of the poor. My statement today will discuss three areas:

The measurement and magnitude of the poverty problem;

The factors related to increases in poverty rates and prospects for the future; and

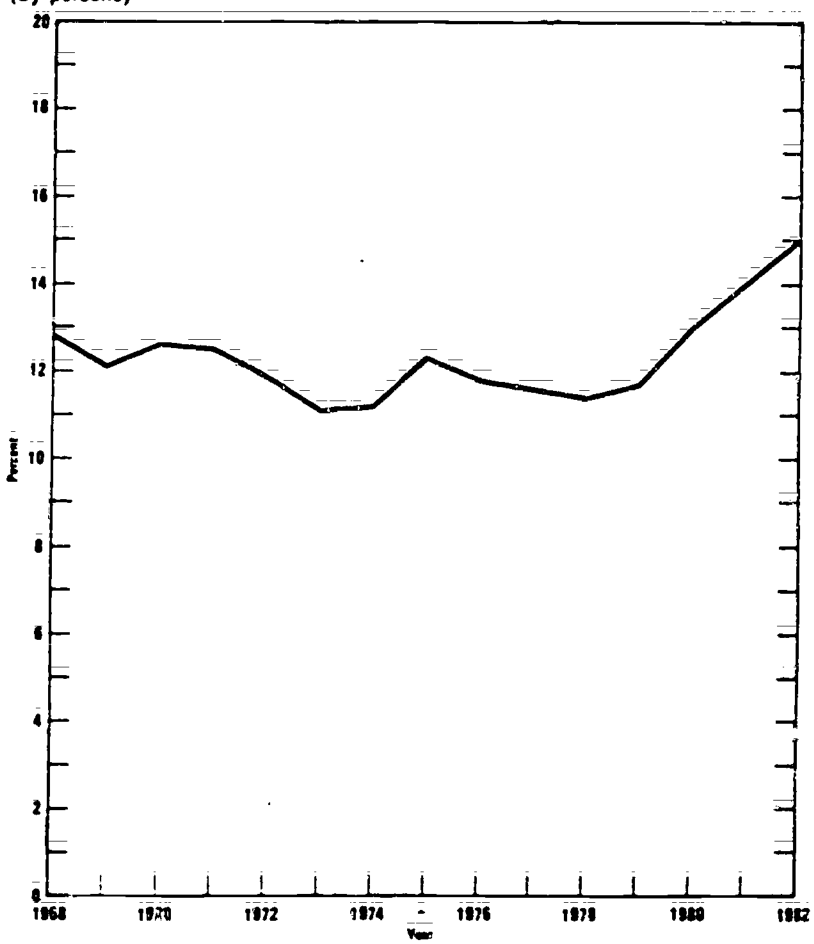
Some policy options the Congress might wish to consider.

A LOOK AT POVERTY STATISTICS

Although controversy abounds concerning the appropriate definition of poverty and hence the exact proportion of persons classified as poor in the United States (that is, the poverty rate), most alternative measures display a consistent upward trend since 1978. The official definition of poverty classifies as poor those families whose money incomes are less than specified poverty thresholds that vary with family size and consumer prices—$9,862 for a family of four in 1982, for example. Under this definition, the poverty rate was 15.0 percent in 1982, up from 11.4 percent in 1978, or an increase in the number of poor persons from 24.5 million to 34.4 million. In fact, the 1982 rate is the highest in 15 years. In contrast, the rate for the elderly declined substantially between 1968 and 1974 and has remained relatively stable since then. Figure 1 shows the overall historical pattern of poverty rates, while Figure 2 shows these rates for the elderly and nonelderly.

The composition of poverty has also changed since 1978, with large increases occurring in the number of poor person in young two-parent families. The proportion of poor persons living in nonelderly husband-wife families rose from 34 percent to 40 percent, making that the largest poverty group. Poor persons in female-headed nonelderly families—the largest group in 1978—declined to 35 percent of the total in 1982, although their absolute numbers increased. The proportion of the poor who are elderly declined, not because of a drop in the number of elderly poor, but because of a large increase in the number of nonelderly persons in poverty. Over this period, the rate of poverty among those under age 65 effectively caught up with the rate for the elderly, which has been relatively stable since the mid-1970s. Figure 3 illustrates the composition of poor persons on the basis of their individual and family characteristics in 1978 and 1982.

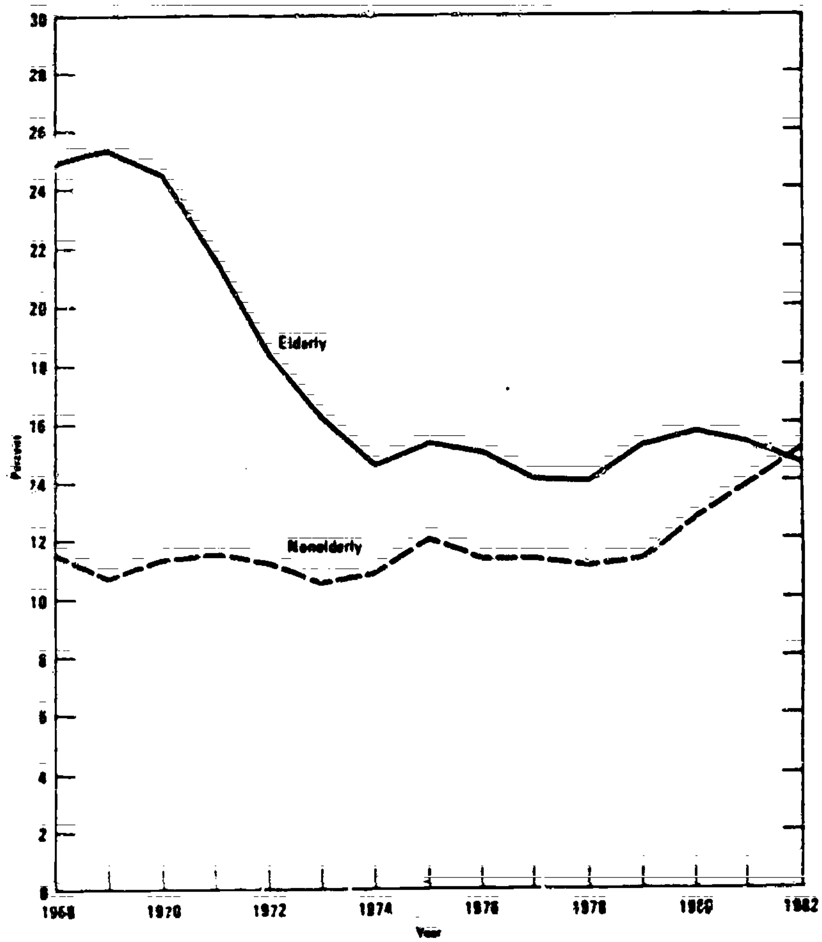
Figure 1.
Poverty Rate, 1968-1982
(By persons)



SOURCE Data derived from U.S. Department of Commerce, Bureau of the Census, Current Population Reports—Consumer Income, *Money Income and Poverty Status of Families and Persons in the United States: 1982*, Series P-60, No. 140, July 1983

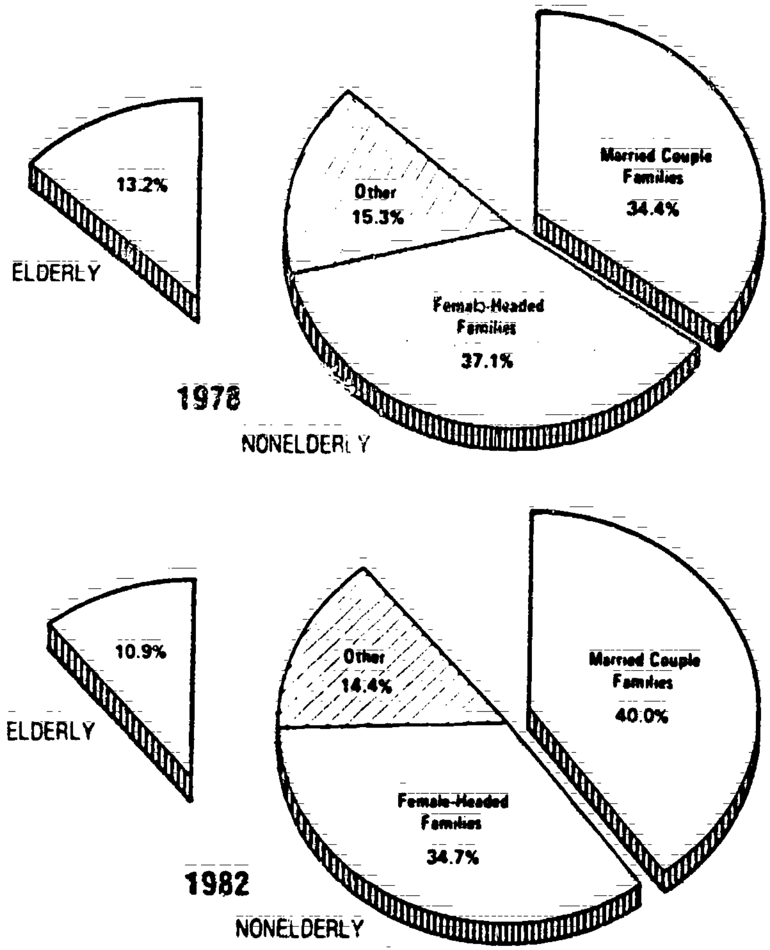
Figure 2:

Poverty Rates for Elderly and Nonelderly Persons, 1968-1982



SOURCE Data derived from U.S. Department of Commerce, Bureau of the Census, Current Population Reports, Consumer Income: *Money Income and Poverty Status of Families and Persons in the United States: 1982*, Series P-60, No. 140, July 1983

Figure 3:
Composition of Poverty



NOTE The figures presented are for persons in poverty. Individuals aged 65 and over are placed in a separate category, while other individuals are summarized by the type of family in which they reside. The other nonelderly category includes single-parent families headed by a man and unrelated individuals.

SOURCE U.S. Department of Commerce, Bureau of the Census, Current Population Surveys, 1979 and 1983

Not only has the rate of poverty been increasing, but so has the degree of poverty—that is, the extent to which those in poverty are below the thresholds. Between 1981 and 1982, the poverty gap, which measures the cumulative amount of shortfall between the incomes of the poor and their particular poverty thresholds, rose faster than the rate of poverty—increasing (in 1982 dollars) from $39 billion to $43 billion. Moreover, the proportion of poor persons with incomes at 75 percent or less of the poverty lines increased from 61 percent in 1978 to 68 percent in 1982.

Children and working-age adults acccount for more than 93 percent of the poorest of the poor—those with incomes under three-fourths of the poverty line. This is slightly higher than their share of all those in poverty. Nonelderly persons in female-headed families constitute the largest share of the very poor—41 percent. Since 1978, however, the number of husband-wife families with incomes less than three-fourths of the poverty line has been increasing as well.

These income-based poverty measures have been criticized on two basic grounds—the way that the threshold level of income is determined, and what is included in the definition of family "income."[1] Alternative ways to deal with either problem could lead to higher or lower measured rates of poverty, but the trend in poverty rates for the last five years would generally remain the same.

The first criticism of the current poverty thresholds emphasizes that they are arbitrary and are based on outdated studies indicating what constitutes a minimally adequate diet and the share of income that families normally devote to buying food. In addition, flaws in the Consumer Price Index (CPI), which is used to index the thresholds, may have led to raising them too fast in the late 1970s. Possible adjustments would update the studies used to calculate food consumption as a share of income, change the way the thresholds are adjusted over time, or use a more complete analysis of household budgets.

The second criticism is that the present definition of income omits some important resources. A common concern is the failure to include noncash benefits that the poor receive from various levels of government—in particular, benefits from food stamps and housing assistance. Recipients of these programs are less poor than their cash incomes would indicate, because they can purchase other goods with the cash they would otherwise have to spend on housing and food. If these benefits were added to income, for example, the poverty rate for all persons would be in the range of 14 percent rather than 15 percent.

In addition to housing and food benefits, some adjustments for in-kind transfers would include medical care benefits as part of income, but such calculations would probably overstate the reduction in poverty achieved by the medical programs (principally Medicare and Medicaid). For example, while elderly individuals—who receive large amounts of medical benefits, on average—could be moved well over the poverty threshold by counting the insurance value of such benefits as income, they could remain unable to purchase adequate food, housing, and other basic necessities.

The definition of income might also be modified to reflect other resources, such as assets, and certain liabilities, such as payroll and income taxes. Including assets, such as the value of a home, would raise a number of technical measurement problems, however.

Using alternative definitions of family income might affect comparisons across different groups of the population, making some appear to be better or worse off relative to others. For example, in-kind transfers are more likely to go to those traditionally covered by welfare programs—the elderly and single-parent families. Moreover, assets are relatively more concentrated among the elderly. Adjusting for those factors would make these groups appear less poor. Subtracting income and payroll tax liabilities would lower the measured economic status of the working poor relative to other groups.

Finally, using an annual measure of poverty can be misleading because individuals and families move into and out of the poverty population over time on such a large scale. Some will live in poverty for most of their lives while others are there only temporarily because of illness, an unusual spell of unemployment, or voluntary withdrawal from the labor force for the purpose of obtaining additional education or training. Annual measures ignore the poverty of persons who have low incomes for

---

[1] In addition to these conceptual issues, important technical problems in measuring poverty may have an even larger impact on measured poverty rates. For example, income from transfers tends to be underreported on the Current Population Survey—the data base normally used for calculating poverty rates—which may cause poverty rates to be overstated. On the other hand, there is some evidence that very-low-income households are also underrepresented on the survey.

only a few months of the year, but also fail to reflect the transitional nature of poverty for many households.[2]

CHANGES IN POVERTY OVER TIME

Poverty measures are sensitive to economic factors, demographic factors, and the size and nature of government programs providing benefits to low-income families. Just as the level and pattern of change in poverty rates and gaps vary among different population groups, the factors explaining such changes may also vary, particularly between those under and those over the age of 65.

Children and working-age adults

Poverty among children and working-age adults has been rising steadily since 1978—from 11 percent to 15 percent of all persons under the age of 65 over the five-year period. In 1982, 30.6 million nonelderly persons were poor and the poverty rate for children under age 15 reached 23 percent.

Economic factors contributed substantially to this increase. Unemployment trended upward over the period and, through 1981, inflation was unusually high, so that the real value of earnings declined on average. Indeed, over the 1978 to 1982 period, the poverty rate for persons in husband-wife families—those whose incomes are most likely to be sensitive to economic factors—rose by 60 percent, from under 6 percent to 9 percent. Because unemployment is expected to average about the same in 1983 as in 1982, poverty rates for 1983 will probably not change much. The impact of lower inflation and unemployment could, however, help to lower the rates in 1984 and beyond.

Two longer-term influences have also contributed to the increasing poverty rates—demographic factors and a decline in the real (adjusted for inflation) level of some cash benefits provided to the poor. For example, persons in families headed by a woman with no husband present has increased more than 15 percent since 1978, compared to a 6 percent growth in overall population. Such women generally have lower earnings than the average worker and are often the sole support of their children, leading to a higher rate of poverty. Moreover, the cash benefits provided through Aid to Families with Dependent Children (AFDC)—which are not indexed and vary substantially from state to state—declined in real terms over this five-year period. Continued growth in the number of female-headed families suggests that poverty rates for the nonelderly may not fall rapidly even with a continuation of the current economic recovery.

Finally, between 1981 and 1982, another factor began to enter the picture—benefits were cut by legislative changes at the federal level. For example, federal expenditures on AFDC—the largest means-tested cash program for the nonelderly—were reduced by an estimated 10 percent and food stamps were reduced by 12 percent from the levels that would have occurred if the law had not been changed.[8] Actual outlays declined from $8.2 billion to $8.0 billion under AFDC and from $11.3 billion to $11.0 billion for food stamps and would have declined even more had the severity of the recession not increased the eligible population substantially. Some of the program cuts focused on recipients believed to be above the poverty lines; others moved some recipients from above to below the lines; still others reduced the incomes of those already below the thresholds. Because of data limitations, we cannot provide precise estimates of the total effect of recent program changes on poverty rates or poverty gaps, but we suspect that they had a greater impact on gaps since most recipients of welfare benefits were already below the poverty thresholds.

The elderly

The rate of poverty for persons 65 and over has remained at about the same level since 1974, reflecting the degree to which the elderly are insulated from the effects of the business cycle. Few elderly persons remain in the labor force after age 65, and a large share of the income received by this group is indexed for inflation. Indeed, the CPI, which is used to index Social Security, is also used to adjust the

[2] For example, the University of Michigan's Panel Study of Income Dynamics found that, although about a quarter of the U.S. population was poor in at least one year during the 1969–1978 decade, only about 3 percent of the population was poor eight or more of those years. Overall, in any given year, between 20 percent and 30 percent of those in poverty are members of this "long-term" poverty group.

[8] Another cut that may affect poverty rates and gaps is the change in unemployment insurance (UI) which limits receipt of extended benefits. Although the effects of this UI change on poverty are unknown, UI benefits in general are more concentrated among the higher income unemployed and the size of the cuts relative to the size of UI benefits overall was small in 1982.

poverty threshold annually, although the exact computations differ somewhat. Moreover, few policy changes that would reduce benefits substantially were enacted in the recent past in Social Security, Supplemental Security Income (SSI), or veterans' pensions, which are the major cash programs aiding elderly persons.

Almost 3.8 million elderly had incomes below the poverty threshold in 1982, with the very old who live alone experiencing disproportionately high rates of poverty. Almost 31 percent of unrelated individuals 80 years of age and older were in poverty in 1982, although this rate declined from about 34 percent in 1978.

POLICY OPTIONS

The Subcommittees requested that the Congressional Budget Office (CBO) identify and analyze options for increased welfare expenditures that would reduce the poverty rate and/or the poverty gap. Any increase in outlays related to welfare programs must, of course, be financed either by cutting nonwelfare programs, by raising taxes, or by increasing an already large deficit. An increased deficit could, in turn, be financed by issuing debt or by creating new money. All means of financing are likely to have some negative impacts on the economy as a whole, however, including some that may indirectly offset a portion of the increased benefits to the poor.

An analysis of such complex interactions is far beyond the scope of this testimony, however. We have examined the options only with regard to criteria that might be used to judge their effectiveness as welfare programs, ignoring their macroeconomic effects. Each of the individual options has small costs relative to the size of the economy, so its macroeconomic effects would be minor. But if several options were combined, the macroeconomic effects could be signficiant.

A wide range of criteria or goals—some of which conflict—are often offered in debate over changes in welfare programs. Some of the major ones are: Targeting benefits toward those most in need; treating persons with similar incomes alike; encouraging families to remain together; maintaining incentives so that program recipients who can work do so; simplifying the system and reducing administrative costs; and keeping costs as low as possible.

Deciding who among the poor are most in need—the first goal—is not necessarily straightforward, and specific definitions of need may conflict with the second and third goals of treating similar persons uniformly and encouraging families to remain together. Traditional definitions of need have concentrated on assisting single-parent families with children, the elderly, and the disabled. Treating persons with similar incomes alike, however, would suggest that preferential treatment not be provided on the basis of family characteristics. If, instead, the severity of poverty were used as the criterion for eligibility, groups now excluded from federal cash programs such as unrelated individuals or childless couples under the age of 65 would be eligible.* Moreover, if keeping families together is a major goal, benefits would be directed at two-parent families who are often better off than those headed by single parents, thereby violating the goal of concentrating aid on those most in need.

If the first three goals were all to be met, costs would be high because our current welfare system pays little or no benefits to many of those with incomes below poverty, and benefits for those who do participate in government programs—particularly AFDC—can also be quite low. Even though roughly $73 billion was spent by the federal government in 1982 on cash programs for persons with household incomes below $10,000 (not all of whom are classified as poor), the poverty gap stood at about $43 billion. Including food stamps and housing assistance would raise these expenditures to about $88 billion and lower the poverty gap to between $30 billion and $35 billion, but it would still be expensive to bring all persons up to the poverty lines—or even up to, say, 80 percent of those lines.

Work incentives could be provided positively by allowing recipients to keep a share of their earnings or negatively by denying eligibility or keeping benefits low for those able to work, but both approaches conflict with other goals. The first would be relatively expensive and would provide benefits to persons close to and possibly above the poverty lines—who may be less in need. Denying benefits to those able to work may penalize some very poor families and may be thought too stringent when children would be affected and when high levels of unemployment make it difficult to obtain jobs.

---

* Included in this group would be young adults in school who have chosen to have low incomes while seeking an education. Such individuals could explicitly be excluded, however, as is now done under the food stamp program.

Simplifying welfare programs and keeping administrative costs low are difficult objectives to achieve within the current welfare structure, which includes numerous cash and in-kind programs directed at varying recipient groups. Changes that would eliminate categories—such as family characteristics—in determining eligibility would meet the goals of simplicity, low administrative costs, and equal treatment of like families, but would be costly. In contrast, structuring welfare programs to enhance work incentives could add to their complexity and might require additional coordination among programs.

Past proposals to meet several of these goals simultaneously—replacing current programs with a negative income tax, for example—would generally require major restructuring of the welfare system. Similarly, retargeting benefits from entitlement programs toward the poor would require changes in non-means-tested programs since existing means-tested ones already provide most of their benefits to poor persons. Other options for responding to the poverty problem would emphasize training and education. A discussion of such approaches is, however, beyond the scope of my testimony today. Rather, for the purpose of illustration, I shall focus on eight options to highlight the issues that arise in attempting to reduce poverty within the context of the current welfare system.

Establish a national minimum AFDC benefit level

As AFDC is now constituted, benefits vary substantially across states, from a 1983 maximum guarantee level of $96 per month for a family of three in Mississippi (with no earnings) to a monthly maximum of $530 in Vermont for the same size family. In general, guarantees have declined in real terms since at least 1969 and, in proportion to the poverty lines, the AFDC guarantee level plus food stamp benefits are in all cases below the federal minimum guarantee for couples receiving SSI.[8]

One way to reduce the variation in AFDC benefits across states would be to establish national minimum guarantee levels for the program, similar to those for the SSI program. Unless the federal guarantees were kept fairly low, however, program costs could be increased substantially. If the AFDC guarantee were set at $260 per month for a family of three, for example, and costs continued to be shared between the states and the federal government as they are now, federal expenditures would increase by $600 million to $800 million in 1985 and state costs would rise by another $450 million to $700 million. Benefits would be increased for 1.0 million to 1.3 million current recipients living in 25 states, and 75,000 to 150,000 families would be newly eligible for the program. Such guarantee levels would result in total monthly incomes, including food stamps, of about two-thirds of the poverty thresholds.

To bring total AFDC plus food stamp benefits up to three-fourths of the poverty thresholds, federal expenditures would have to rise by $1.2 billion to $1.6 billion in 1984, and state costs by another $1.0 billion to $1.5 billion. Under this version benefits would be increased for 1.3 million to 1.6 million families living in 28 states, and 150,000 to 300,000 families would become newly eligible.

Establishing national AFDC minimum guarantees would target much of the increase in benefits on single-parent families in states where payments are quite low, resulting in more equal treatment across states for such families. On the other hand, national minimums would not allow states to reflect local costs of living and local wage levels, except to the extent that they supplement the minimum level. Achieving the national minimum would be difficult in states experiencing budgetary problems.

Require State participation in the unemployed parent program under AFDC

In 31 states and territories, participation in AFDC is limited to families headed by a single parent. In the remaining jurisdictions, the unemployed parent program (UP)—a state option—covers intact families that are in need because the prinicipal wage earner is unemployed.

One way to expand eligibility for poor two-parent families would be to make state participation in the unemployed parent portion of AFDC mandatory. Such an option would provide benefits to an additional 85,000 to 130,000 families in fiscal year

[8] The current combined national federal guarantee from Supplemental Security Income and food stamps (assuming recipients qualify for only the standard deduction) is 79 percent of the poverty level for unrelated individuals living alone and 96 percent for couples. State supplements can further increase SSI benefits. For AFDC, Alaska actually has the highest benefit guarantees, but is also subject to higher poverty thresholds to account for substantially higher costs of living.

1984 increases of 40 percent to 55 percent—at a total cost of $0.5 billion to $0.7 billion, about three-fifths of which would be borne by the federal government.[6]

This approach would remove the current incentive for men to leave home so that their families can become eligible for AFDC, and would treat families more uniformly on the basis of income rather than family characteristics. It would also provide better countercyclical protection against future recessions. Since maximum benefit levels are generally below the poverty lines, rates of poverty would not change dramatically, but proverty gaps would be lowered. On the other hand, state costs could rise substantially, placing heavy burdens on states with low fiscal capacities.

Under this option, expenditures on AFDC would likely rise more rapidly in periods of increasing unemployment, but because of the strict asset test that families must also meet, newly unemployed families would have to divest themselves of a large portion of their monetary assets—and in some cases their cars—in order to be eligible under current program rules. To support more families unemployed as a result of a recession, the $1,000 asset limit could be raised. Such an increase would, however, reduce the extent to which aid would be confined to the poorest families.

Expand food stamp benefits

The Food Stamp Program is the only means-tested federal program providing benefits to poor households regardless of their family characteristics—working-age person in childless households are eligible, it they meet the income and asset limits and comply with work registration requirements. The maximum monthly benefit now paid to two-person households is $139, or about one-fourth of the poverty level. Benefits decline by 30 cents for each dollar of net income.[7]

Raising the maximum food stamp benefit would increase assistance for a broad range of poor people, including the working poor and childless individuals and couples who often are not eligible to participate in other programs. Increasing expenditures by $0.9 billion to $1 billion in 1984 would, for example, raise total benefits by 8 percent—or about $4 per participant per month. Current law benefits are now projected to be about $42 per recipient during 1984.

Raising the maximum benefit level would be administratively simple and would increase benefits to all food stamp households except some of those one- and two-person households receiving the $10 monthly minimum benefit. Since food stamps do not require state matching contributions, this option would not require additional expenditures by the states. On the other hand, stages might reduce AFDC, SSI, and general assistance—or limit their rate of increase—at least partially offsetting food stamp increases for those who participate in more than one program.

In addition, food stamps could be transformed into a cash program rather than one providing coupons that are restricted to the purchase of food. "Cashing out" food stamps might reduce the abuses often cited from counterfeiting and black market activities, and simplify administration, but opponents object to providing aid that could be used to purchase commodities other than food.

Expand medicaid eligibility to all poor families with children

Medicaid is the joint federal-state program that finances much of the medical care for specific categories of low-income persons. For example, families receiving AFDC are eligible for Medicaid and some states have chosen to extend coverage to those who, except for their higher incomes, would qualify for AFDC. Many families with incomes below poverty are not eligible for Medicaid, however, either because their incomes exceed their state's income standard for AFDC eligibility or because their state does not provide coverage for families with an unemployed parent. Moreover, federal law excludes working poor two-parent families from Medicaid.

Eligibility for Medicaid could be expended to include all families with children whose incomes are below the poverty level. In 1985, this option would cover an additional 12 million to 13 million adults and children at a federal cost of about $6 billion and a state cost of about $5 billion, if the current cost-sharing arrangements remained the same.[8]

This extension of eligibility would reduce work disincentives for AFDC families by allowing them to continue Medicaid coverage even though their earnings resulted in a loss of cash benefits. It would result in more uniform treatment of families with

[6] About one-half of these added costs would be for additional Medicaid benefits.

[7] Net income is gross income less certain allowed deductions.

[8] Proposals being considered by the House and Senate to extend Medicaid coverage to children in low-income families, funded fully by the federal government, could serve as the first step toward uniform coverage of families, although eligibility would be more limited than under the option being discussed here.

similiar incomes living in different geographic areas and improve their access to medical care. On the other hand, state flexibility would be reduced and the additional costs could represent a substantial burden for all states, particularly those with relatively low AFDC needs standards and with limited fiscal capacity.

Expand the dependent care tax credit for low-income families

The dependent care tax credit provides relief through the individual income tax system to working persons with eligible dependents—usually their children. For families with adjusted gross incomes below $10,000, a nonrefundable credit of 30 percent of expenses up to $2,400 for one dependent (for a maximum credit of $720) is allowed. Above that income level, the credit declines gradually to a minimum of 20 percent of expenses.

The credit could be made refundable and cover 60 percent of expenses for families with incomes below $10,000. In 1984, such a change would reduce revenues by $1.5 billion to $2 billion.

This expansion would increase work incentives by extending benefits to some poor families who do not now gain from the credit either because they owe no taxes or because they cannot afford the 70 percent of child-care costs not covered by the tax credit. Although it is particularly difficult to predict whether those who do not now file income taxes would participate, these changes could double the number of families benefiting from the credit.

On the other hand, this credit would more likely be beneficial to those above or just below the proverty thresholds who can afford to pay at least a share of the costs of formal child-care services. Moreover, even refundable tax credits are only of limited aid to the very poor, because reimbursement for expenses at the end of the year does not help those who cannot afford to pay expenses initially during the year and advance payments would be difficult to arrange.

Change the earned income tax credit

The Earned Income Tax Credit (EITC) provides cash supplements through the personal income tax system to working parents with relatively low earnings. A refundable tax credit is available to those with adjusted gross incomes less than $10,000 who maintain households for children. The credit rises to a maximum of $500 for those with earned incomes between $5,000 and $6,000, and then declines to zero for those earning $10,000 or more. Beneficiaries must often wait to receive the EITC as a lump sum payment after a year of low earnings, however.[9]

Eligibility for this program could be broadened to include unrelated individuals or childless couples, increasing the revenue loss by about $500 million. Such an approach would extend coverage to poor individuals not now eligible for federal cash benefits. It would also provide strong work incentives for those with not or very low earnings and would be simple to administer.

On the other hand, childless couples or unrelated individuals who are very poor because they have no earnings would remain excluded from cash benefits (unless they are disabled), while full-time students with earnings would be eligible unless explicitly excluded. Moreover, this option could act as a work disincentive for those with slightly higher earnings, because they lose 12½ cents of benefits for very dollar of income between $6,000 and $10,000. Many more recipients are likely to be found in the phase-out range where the program imposes work disincentives than in the phase-in range where work incentives are provided. Higher benefits under this program might also preclude other options that would direct additional benefits to poor children.

Other possible changes would be to increase the size of the credit or to lower the 12.5 percent tax rate used to phase out the credit. Both approaches would raise benefits to the working poor, and the second option would lower the work disincentives of the EITC, although compared to other means-tested programs the disincentive is already low. Such changes would, however, extend benefits to additional families with incomes above the poverty lines.

Expanded child support enforcement

The child support enforcement program is quite different from the other welfare programs discussed here, since it does not provide federal payments to families or individuals. Rather, this program provides support to the states to aid families in establishing and collecting child support payments from absent parents.

---

[9] Employers have generally been reluctant to participate in that part of the EITC which permits employees to seek advance payments of the credit from the employer.

The lack of child support payments from absent parents contributes significantly to poverty. In 1982, only 40 percent of poor families with an absent parent had been awarded child support payments. Among those with awards, 39 percent did not receive any payment in 1981 and many others received only partial payments. Moreover, court-ordered payments averaged only $2,050 a family, less than the increase in the poverty thresholds for one additional child.

Several different approaches are possible to increase child support payments. One would make certain enforcement techniques mandatory for the states—withholding of child support payments from wages, for example. Wage withholding would probably increase child support collections by at least 10 percent and would help non-AFDC families directly. The federal government would save $25 million to $50 million a year from mandatory withholding, but AFDC families would not gain since the collections would be used to offset AFDC benefits.

A second approach would seek to increase states' handling of non-AFDC cases, either by incentive payments or by requirements such as clearinghouses through which all child support payments would pass. Changes in incentive payments could be implemented without any increase in federal costs, whereas setting up a clearinghouse would require initial computer and other development costs in somes states and could cost up to several hundred million dollars a year thereafter. Both options would aid poor, as well as nonpoor, families by raising the incomes of needy families who do not participate in AFDC. The magnitude of poverty reduction from these approaches is not known, however. Opponents also point out that requiring specific enforcement techniques might violate states' rights, and activities such as the creation of interstate data banks might invade the privacy of individuals.

Moderate the asset test required under SSI

SSI provides benefits to aged and disabled persons who meet both an income and an asset test. The income limits for SSI are relatively generous compared to those in AFDC and are indexed each year to the growth in the CPI. By contrast, the asset test of $1,500 for an individual and $2,250 for a couple has not changed since the beginning of the program in 1974. If the asset limits had also been tied to the CPI, they would now be approximately $3,050 for individuals and $4,550 for couples. These limits may contribute to the low participation rate among the elderly and disabled who would seem to qualify for SSI on the basis of their incomes.

The costs of raising the limits of the SSI asset test by 50 percent are difficult to project, but would likely be less than $500 million. Such a change would increase the number of elderly and disabled persons eligible for SSI, since those who retain some limited savings against future emergencies would be able to participate in the program, although the resulting impact on SSI participation is not known. Since assets held in nonmonetary forms—such as a car of modest value or a home of modest value—do not restrict eligibility, this change would help treat families with similar resources more uniformly. On the other hand, the asset test currently excludes a number of resources so that the limit applies mainly to liquid assets. Potential recipients might, therefore, be expected to exhaust their own savings before receiving aid from the federal government, particularly if extra expenditures on such persons would preclude aid to AFDC families or other poor persons who are subject to even stricter asset tests.

CONCLUSION

Since 1978, official poverty rates and poverty gaps have both increased, particularly for those under age 65 whose financial positions are sensitive to the state of the economy. Though based on somewhat arbitrary thresholds, these rates indicate whether the poverty problem is growing or declining.

If the economic recovery continues, poverty rates will decline from their current high levels. The Congress will have to decide whether changes in welfare programs are needed to accelerate this decline and, if so, which of the conflicting goals discussed above are to be given priority. No single program could achieve all of the goals simultaneously, and policy changes such as those considered in this testimony would all increase the costs of the welfare system. Especially in a time of fiscal stringency, one way to finance benefit expansions would be to adopt cost-saving opportunities in other programs. CBO's annual volume on deficit reduction options, which will be released next February, will analyze several such measures.

As the Subcommittees wrestle with these difficult decisions, the Congressional Budget Office would be pleased to provide further detail on the illustrative options presented here or to analyze other possibilities you may want to consider.

Chairman RANGEL. Thank you, Doctor.

The Chair would like to advise the members that the full committee will be requesting the hearing room at 2 p.m. when we resume our deliberations, marking up the industrial development bonds; and so in order to get the maximum exchanges between members and witnesses, we will proceed on the 5-minute rule.

Dr. Penner, on the basis of your analysis, could we conclude that the major reasons for the increase in the poverty rate from 1981 to 1982 is primarily the recession and the budget reductions that have been enacted in 1981?

Mr. PENNER. Yes, that is correct, with probably the biggest cause being the recession, although we can't estimate this precisely.

Chairman RANGEL. How much of the increase could you relate to each factor roughly, even though I know you cannot be precise?

Mr. PENNER. We really are unable to do that simply because the income statistics that we have do not correspond exactly to the very precise poverty lines. Moreover, it is a very difficult matter to assign the effects of particular changes in the welfare rules, such as counting stepparents' incomes, for example, for very specific families. So we just have not been able to make that very precise distinction.

You can see, however, from figure 1 in my testimony, how extremely sensitive the poverty rate is to the business cycle. You see it going up with the recession of 1970, and going up again in 1974. Of course, we have now had two recessions back to back, in 1980 and 1982, without having time to recover from the first one before we were hit by the second. So that is a very major factor in all of this.

Chairman RANGEL. Can your office direct the Chair and the members to any study that may try to show the actual economic cost of poverty in dollars and cents? What I am trying to ask is, as a result of cutback in medicaid, can we have any projection as to the increase in illness, disease and, therefore, institutionalized hospitalization?

Has poverty affected education and, therefore, lack of training for job opportunity? Has poverty affected productivity? Can we project loss of income taxes rather than the cost of a transfer of payment? I know it is a complex question, and I don't raise it for an answer today except we constantly hear because of the GI bill or the education to veterans and, of course, everyone agrees that the contribution that they have made in dollars and cents, forgetting the contribution they have made in scientific and advancement, has been beneficial.

Have studies been made by economists as to the dollars and cents cost of poverty?

Mr. PENNER. I know of nothing as comprehensive as you are suggesting, sir, partly because this increase is a fairly recent phenomenon, but perhaps more importantly because the sort of thing you are suggesting would be just so difficult to do conceptually.

Chairman RANGEL. Then is there any way to talk without even trying to close the gap or to cap the increase in poverty as to the increase in costs as it exists now for local, state and Federal Governments as people are thrown into the entitlement programs?

Mr. PENNER. One aspect of your question is the budget costs of such things and we do, of course, have estimates for the Federal budget of how much, for example, an increase in the unemployment rate of one percentage point would cost.

Chairman RANGEL. What figure does your office use?

Mr. PENNER. We are currently revising our estimates of the effect of changes in the unemployment rate on the deficit, but the revised estimates will not be available for several more weeks. When these calculations were made last year, however, the impact on the deficit of a one-percentage-point increase in the unemployment rate was estimated to be roughly $30 billion to $35 billion in the first full year after the change—a decrease of $25 to $28 billion in revenues and an increase of $5 to $8 billion in outlays.

Chairman RANGEL. $30 billion to $35 billion each?

Mr. PENNER. That is the order of magnitude.

Chairman RANGEL. Mr. Campbell?

Mr. CAMPBELL. Thank you, Mr. Chairman.

Dr. Penner, there are two points that I think you have made that are very important, and one is that poverty is extremely sensitive to economic conditions, the situation in the country. Let me ask you this: are people that are at this end of the spectrum better or worse off with a lower rate of inflation in the country?

Mr. PENNER. Well, again, the problem is very complex.

Mr. CAMPBELL. Does high inflation exacerbate the problems of poverty?

Mr. PENNER. It would plainly affect the AFDC population because their benefits are not indexed officially for inflation, and the States have not, over the last number of years, kept those benefits rising with inflation.

Mr. CAMPBELL. In a relative sense, with percent inflation, would a person be better off if they were on AFDC than if inflation were 13 percent?

Mr. PENNER. If the States continued to follow their past practice, that would certainly be true, yes.

Mr. CAMPBELL. We have about that today, as opposed to the other in 1979 and 1980.

Now, you mentioned the double recession in 1980 and the recent recession back to back. If we all know that the recession impacts poverty, why did poverty start to go up in 1978 and, in fact, we were spending more money at that time and austensibly were not in a recession?

Mr. PENNER. I would suggest it is mainly because of the very closely linked problems of inflation and productivity at that time.

Mr. CAMPBELL. Productivity was going down at that time?

Mr. PENNER. Yes.

Mr. CAMPBELL. It is going up now, isn't it?

Mr. PENNER. Right now in the recovery, it is.

If you look at what happened to median family income over the period that you are discussing: In 1982 dollars, it went from $26,099 in 1978 down to $24,626 in 1980, to $23,761 in 1981, and to $23,433 in 1982. Real hourly earnings, for example, moved negatively in 1979, 1980, and 1981 and have gone up very slightly in 1982.

Mr. CAMPBELL. Let's go back to that. People's real earnings in 1978 and 1979 were going down and they are now going up; is that what I heard you say?

Mr. PENNER. It depends on how you measure it, sir. Median family income continued to go down in 1982. Real hourly earnings went up by eight-tenths of 1 percent in 1982.

Mr. CAMPBELL. So real hourly earnings went up in 1982 and they were going down in 1978 and 1979?

Mr. PENNER. Between 1979, 1980, and 1981, yes, sir.

Mr. CAMPBELL. How about the after-tax earnings of working people; do you have that figure?

Mr. PENNER. I don't have that figure.

[The information follows:]

Average household incomes have declined in real terms since 1978, whether measured before or after income and Social Security taxes (see attached table). (Changes in after-tax earnings alone cannot be calculated, since income taxes are assessed on total income, not just earnings, and rates depend on the amounts of other income that households receive.) Overall, households' average after-tax income was about 8.1 percent lower in real terms in 1982 than in 1978. In comparison, average before-tax income declined in real terms by about 7.3 percent over this period. Between 1981 and 1982, however, there was a small increase in the purchasing power of both before- and after-tax incomes.

AVERAGE HOUSEHOLD INCOME, BEFORE AND AFTER INCOME AND SOCIAL SECURITY TAXES, 1978–82

	1978	1979	1980	1981	1982
In current dollars					
Average household income before taxes	$17,730	$19,544	$21,063	$22,787	$24,309
Average income tax paid per household	2,435	2,655	3,039	3,401	[1] 3,382
Average social security taxes paid per household	732	828	891	1,056	1,108
Average household income after Federal income and social security taxes	14,563	16,061	17,133	18,330	19,819
In constant (1982) dollars					
Average household income before taxes	$26,249	$25,988	$24,672	$24,184	$24,309
Percentage growth or decline relative to previous year		−1.0	−5.0	−2.0	+.5
Average household income after Federal income and social security taxes	$21,560	$21,357	$20,068	$19,453	$19,819
Percentage growth or decline relative to previous year		−.9	−6.0	−3.1	+1.9

[1] Preliminary estimate.

Mr. CAMPBELL. Just supply that for the record. I would appreciate the comparison between 1978 and 1979 and the 1982 comparison.

The other thing that I would like to get into, if I might for just a moment, is that in 1960 we had almost 6 million children, or about 9 percent of the children living, in single-parent families. In 1981, the number of children in single-parent families had risen to 12,600,000, which is about 20 percent. But by 1982, it had jumped to 22 percent.

Now, your testimony that you presented a moment ago pointed out one of the major problems that we have—and I opened with the same argument—the fact that the problems of the single-parent household and that group or that part of the family being thrust into poverty. Would you not say that the single-parent family is one of the causes of an increase in poverty?

Mr. PENNER. It is certainly very important, and the absolute numbers have increased. However, I would draw your attention to figure 3, which I must confess surprised me a little bit. That figure shows that married couple families grew very rapidly as a share of the poverty population as well, from 34.4 percent of the population in 1978 to 40 percent in 1982. But you are absolutely right that single-parent families grew in absolute numbers over that period as well.

Mr. CAMPBELL. So if we could attack that problem of child support, then we could impact some of the problems of poverty?

Mr. PENNER. Yes, sir, that is one of the options described in the testimony.

Mr. CAMPBELL. Thank you, sir.

Chairman RANGEL. Mrs. Kennelly.

Mrs. KENNELLY. There has been some talk, sir, about the payment of income tax by people who are below the poverty level. It has been an issue of controversy.

Have you got any idea of the magnitude of Federal income tax paid today in comparison to 1978 so we can see if this is one of the things adding to the poverty level?

Mr. PENNER. I don't have specific numbers with me, but I think the basic point is as follows: In the early 1970's, the tax system was adjusted in a way that overcompensated for inflation among the lower-income groups, particularly by greatly increasing what we used to call the standard deduction, and we now call the zero bracket amount. Since the late 1970's, however, we have not been adjusting the basic exemption or the standard deduction for inflation.

Mrs. KENNELLY. Just one other question. In all our testimony and all our remarks, we did mention the increase of poverty among female individuals, especially those who head single-parent households.

In your work in getting these figures together for us, have you come across any idea that might help the situation rather than just watching the rates go up?

Mr. PENNER. Again, that is a very difficult question. If you mean simple economic aid and if you mean concentrating on the very poorest among those in that population, I think that you would look carefully at changing the AFDC minimum, for example. That would be something that would impact that particular problem.

That does not go to the sociology of the issue, of course, which we have not investigated.

Mrs. KENNELLY. We are all worrying about deficits. Say we increased payouts $3 to $4 billion, do you think that would have a terribly adverse effect on the deficit or do you think by doing this and putting people more into the mainstream we might encourage people to be able to do better?

Mr. PENNER. If you mean would you get enough feedback to pay for such a move, very probably not.

The effects of such a move, of course, would depend in some detail as to how you would finance it, whether by deficits, whether by creating new money, whether by taxing, or so on.

Mrs. KENNELLY. So no answer really? We really are dealing with a problem we have not got the answer to?

Mr. PENNER. I am saying that the answer involves a lot of offsetting effects. Where exactly you come out net for that population is hard to say.

Mrs. KENNELLY. Thank you, sir.

Chairman RANGEL. Mr. Duncan?

Mr. DUNCAN. Thank you, Mr. Chairman.

Dr. Penner, the poverty rate has been increasing since 1978. What has happened since 1978 that actually caused the poverty rate to increase?

Mr. PENNER. I think it is the factors that we have already gone over. It is very closely associated with the business cycle, as is very apparent from figure 1 in my statement. You see the cycle for the recession of 1976 very clearly, and of course the recession of 1980 so quickly followed by 1982. That really caused the rate to rise.

It is closely associated with the unemployment rate, which, though it went down from 6.1 to 5.8 percent between 1978 and 1979, then went on a strong upward trend to 9.7 percent on average in calendar 1982. I have already mentioned the fact that AFDC benefits in particular did not keep up with inflation. You can see that the elderly, on the other hand, living on indexed SSI and social security, remained relatively constant over that period. And then, of course, in 1982 there were the cuts in the AFDC program and the food stamps and so on.

Mr. DUNCAN. Recently in the Forbes magazine I read that a columnist indicated that a great number of people were unemployed by choice, that they did not want to work.

What effect does that group of people, street people and so forth, have on the increase in the poverty rate?

Mr. PENNER. I don't have any numbers on street people in particular.

Mr. DUNCAN. Well, not necessarily street people, but all those people who are unemployed by choice. I think we all know in all of our communities we have such people.

Mr. PENNER. That is a very difficult concept, sir, and perhaps I am not sure what you mean. If you mean permanently by choice, I think that is a very small number. If you mean instead that people search a very long time before finding just the right job, that is to say, perhaps rejecting one or two job opportunities while they are searching in hope of something better, something that suits them, that of course is a more important phenomenon and probably involves a very large portion of the unemployed, except those temporarily laid off who have a job waiting for them.

That choice, of course, is affected by our benefit system, the nature of unemployment benefits, our tax system, and so on.

Mr. DUNCAN. Thank you very much, Dr. Penner.

Chairman RANGEL. Mr. Stark?

Mr. STARK. Thank you, Dr. Penner, for your testimony.

I want to just see if I can get some ball park figures from you. In your testimony you indicate that the 15 percent poverty figure would be pretty hard to crack down no matter what you included, whether you included unreported cash income or inkind benefits. If you lump everything in, you might get it down as low as 14 percent.

But is it correct to assume that it is unlikely that you are going to find less than 14 percent for citizens below the poverty level or would you say if you included everything you might get down to 13?

I am kind of looking for a rockbottom figure taking all kinds of consumable, legal and illegal income, and all the cheating that people on welfare can do. How low do you ratchet it down?

Mr. PENNER. One of the difficulties is, how do you treat medicaid? Obviously, you would not treat it according to how many benefits sick persons received because then the sicker they were the richer they would look; and that would be rather foolish.

Mr. STARK. I doubt many people are lining up to do that.

Mr. PENNER. No. But if you tried to estimate the insurance value of medicaid—that is, how much would it cost to buy that insurance policy—and count that as income, then the poverty rate would take quite a sizable drop down to 10 or 11 percent.

We did not do that because we don't think many people at that income level by their own choice would buy that kind of health insurance.

Mr. STARK. Or get sick just to have a gallbladder removed?

Mr. PENNER. Certainly not.

But, on the other side, it has to be said that the poverty rate is a rather arbitrary concept. As you know, the rate was calculated by trying to look at the minimum nutritional need and then simply multiplying that by 3. Well, you might say, why 3? Why not 2.5 or 4?

The intent when Molly Orshansky invented the poverty rate was to have an absolute notion of poverty rather than always having to talk about it in relative terms. I think it served that purpose, although I think she herself is a bit dismayed at the extraordinary status that it has gained in public policy discussion.

Mr. STARK. When do you think we will get down to 11.4?

Mr. PENNER. Well, if you look at figure 1, sir, you will see that the first thing that happens in recessions is a very sharp jump. The 1974-75 recession is classic in that regard. What then follows is a rather slow decline.

So, for example, after that 1974-75 recession, we never quite got down to the trough again, although we almost made it by 1978, which was about 3 years after the recession.

Now, obviously the correct answer to your question depends on how fast the economy will grow and that is, of course, always difficult to say, but it would be hard for me to imagine the rate getting back down to the 1978 and 1979 levels in less than three years. It could take longer.

Mr. STARK. Would you say to pick a number to the closest $5 million, except for the administrative parts of the program, that we could for 40 or 50 or 30 or 60 billion eliminate poverty in the aggregate? Is there a number that you could pick out of the air that might add up to 10 MX missiles or 9 B-1 bombers, or something in that range?

Mr. PENNER. Well, the poverty gap itself, as we said, is $43 billion in 1983 dollars.

Mr. STARK. So if somehow we had the magic answer to get the right money to the right people in the right proportions, which is I think a bureaucratic nightmare, we could eliminate poverty in this country by spending an absolute maximum of $50 million. Admittedly, there are some technical problems of getting it done, but I am trying to get this into proportion.

Mr. PENNER. That is our estimated difference between the incomes that people have and this rather arbitrary poverty line that we have been talking about.

Mr. STARK. That amounts to about the cost of 10 MX missiles or 10 B-1 bombers, does it not?

Mr. PENNER. I don't have those costs in my head, sir, but I will provide them to you later.

Mr. STARK. It is about $4.5 billion.

Mr. PENNER. Let me make an important point about thinking about it that way, however. The problem with that, of course, is that, if you were to just give people money to bring them to the poverty line and then cut them off cold at that point, you would have a terrible work disincentive. So usually you would think of smoothing that out or letting the amount decline as their income rose.

Mr. STARK. I don't mean to minimize the tremendous problem in creatively sustaining people and, in some cases, supporting them. It is not easy. As many of the professionals in the field find, money does not always solve the problem.

But I think it is a good idea sometimes to get the aggregate amount relative to other amounts of money we are wasting in this country into proportion and understand that it is not beyond our economic resources to solve these problems. It may be beyond our intellectual resources to do it, but not economic.

We have the resources in this country if we could figure out how to apply them. Is that a fair statement?

Mr. PENNER. Well, yes, coupled with the notion that, of course, such redistributions of income involve profound value judgments that the society has to make.

Mr. STARK. Thank you very much.

Chairman RANGEL. Mr. Thomas?

Mr. THOMAS. Thank you, Mr. Chairman.

Dr. Penner, every once in a while we get carried away with this poverty level. It is as if it is an organism that we need to eradicate and it would be OK if we could do something to get rid of it, when, in fact, as I think was stated earlier, it is a condition of being, of existence which changes over time in terms of the definitions. And that is part of our problem.

In the statistics that we are given, for example, 1978 compared to 1983, 11.4 in 1978 and approximately a 15-percent rate today, has the definition in fact of poverty changed between those two periods?

Mr. PENNER. No, it has not.

Mr. THOMAS. There was no change at all in the definition of poverty between 1978 and 1983?

Mr. PENNER. The line, of course, was adjusted for the consumer price index and you might argue that that was overstated as we noted in our testimony. It is very possible that the bias of the surveys differed somewhat between 1978 and 1982.

For example, there is some notion that the undercount of poor people was more severe in 1978 than in 1982, but those are not definitional changes but rather practical changes in formulating the statistics.

Mr. THOMAS. And so if we get better at collecting statistics, it will of course affect similar to the crime rate or other aspects.

My problem is, when you focus on a particular number and say we have to get back to that number and somehow the number has significance, but again, it tends to give the concept of poverty a life of its own when we are really talking about people and a condition of existence which may or may not be altered over time.

In terms of the type of people, after all, we are talking about people living in particular conditions of existence, in terms of the type of people within that poverty level, I know there has been some discussion again about the shifting type of people, the single-family structures.

Mr. Chairman, I would ask unanimous consent to include in the record an article from the October 5 Wall Street Journal which has, I think, some very enlightening statistics about the changing patterns, not just of the family structure but of birth rates and other factors, which I think definitely affect the definition of poverty.

[The information follows:]

[From the Wall Street Journal, Tuesday, Oct. 5, 1982]

SEDUCED AND ABANDONED: AMERICA'S NEW POOR

(By Bruce Chapman)

The way we use and understand certain words has special importance in public life—billions of dollars could be riding on it.

The interpretations analysts give to demographic and economic terms tend to influence the way problems get defined, issues developed, legislation drafted and those billions of dollars spent.

Take the concept of "poverty."

Poverty in America, as officially measured, went from 25.4 million persons below poverty level in 1970 to 31.8 million in 1981. With seeming incongruity, that rise took place during the very period when federal programs to combat poverty were greatly expanded.

Slow overall economic growth in the 1970s and three recessions, may have played a part in the perverse upward trend of poverty. But on closer inspection it also appears that the official measure of poverty may be somewhat overstating the numbers of the truly poor.

For instance, the official measurement of poverty doesn't take into consideration the value of such in-kind benefits as Medicaid, public housing subsidies, school lunches and food stamps—federal programs whose costs, after inflation, grew eightfold, from $5.2 billion to $42.4 billion between 1965 and 1980.

MORE SINGLE-PARENT FAMILIES

Also a source for possible official overstatement of poverty is the underground economy, which cannot be measured accurately, but which nearly all economists believe has been expanding; obviously, it's largely ignored when "poverty" is measured.

Recent data now points to another factor in today's relatively high official poverty levels—the expanding number of single-parent families, more than half of them poor or near-poor. There was a 89 percent increase in single-parent families during the past decade, and such families now constitute 19 percent of all families with children.

There does seem to be at least a partial connection between the change in attitudes toward family life, the rise in single-parent families and high poverty rates. It is not a neat or uniform equation, of course, and one can expect suggestions from a few quarters that no link exists at all.

At the outset, for example, some question the proposition that the traditional family institution in America really is in decline. They tend to dismiss the doubling of the divorce rate in the last 15 years as mere evidence that bad marriages are being ended with less hesitation these days. Likewise, they may chalk up the last decade's 90% drop in the remarriage rate to a more sophisticated populace who have learned that "getting burned once is enough." Perhaps.

But it's hard to dismiss the increased rate of marital separation, especially when one considers that separation is often just a euphemism for abandonment. The increase in separation is of particular concern among black families, where there were 225 separated persons per 1,000 married persons in 1981. That figure was up from 172 per 1,000 in 1971. For whites, the increase was from 21 to 29 per 1,000.

Nor can one rationalize easily the growing number of out-of-wedlock births that, as a proportion of all births, rose from 5.3% in 1960 to 17% in 1979.

Among whites the increase was from 2% in 1960 to 9% in 1979, while for blacks the number rose from 22% in 1960 to 55% in 1979. Four out of 10 of all out-of-wedlock births, moreover, are to teen-agers.

One result of such a surge in divorce, separation and out-of-wedlock births, then, has been a concurrent rise in single-parent families—90% of them are maintained by women.

These facts are worrisome in themselves, but might be consigned to the "social issue" agenda alone if they did not, in turn, tell us something about today's economic issues: notaly the problems of proverty and of public spending on social programs ment to alleviate that proverty. Family dissolution is helping create a strain on an already taut federal budget.

Census Bureau figures suggest that when a father physically leaves his family, for instance, he tends also to leave his former dependents to their own devices financially—and often to the care of government. Only two-fifths of single-parent families maintained by women receive child support payments from the father; and only 7% of never-married women with children. On the other hand, one-half of all families maintained by women receive some form of public assistance.

Thus, the single-parent family is the newly significant factor in the nation's high poverty figures and in growing social spending. It is not that such families are poorer today (they are not), but that there are so many more of them swelling the ranks of the poor.

When the effect of the growth of single-parent families is examined, in fact, poverty was in retreat in the past decade. Poverty levels for year-round, full-time workers have fallen close to zero, and those few full-time workers who are in poverty are there primarily as a result of large family size, not low salaries.

Much of the new data that illuminate the relationship of single-parent family status to poverty are found in a recent Census Bureau report by Gordon Green and Edward Welniak, "Changing Family Composition and Income Differentials."

Among the Green-Welniak revelations is that real median family income, which went up only 1% for whites in the 1970s, and declined 5% for blacks, reflects the consequences of increased family breakup, but does not represent what happened to intact families (two parents). The real income of intact families went up in the '70s. Indeed, as Messrs. Green and Welniak estimate, if one statistically adjusts the family composition of the 1980 population in the U.S. to reflect that which prevailed in 1970, real median family income would be seen to go up 3% for whites and 11% for blacks. In other words, had we not seen the increase in single-parent families in the 1970s, and all other factors had remained constant, we might not have seen such slow growth in median family income and such a high rate of poverty.

POVERTY-DIVORCE LINK

In reporting the Green-Welniak study, the Census Bureau did not examine "causality" between changing family composition and high poverty rates, but pointed only to the strong correlation. After all, from the data, one could argue that poverty contributes to family breakup, as well as vice versa. Personally, however, I question whether poverty per se is playing a larger-than-usual role in today's level of family dissolution, since we saw no comparable trend, say, in the far worse times of the Great Depression.

By coincidence, a little-noticed report released last June by Greg J. Duncan of the University of Michigan's Survey Research Center used different statistical methodology from that of the Census Bureau, but came to similar conclusions, with direct evidence of the link between poverty and family composition changes. Mr. Duncan's report stated, "Divorce is economically disastrous for many of the women and children involved in it, accounting for much of the flows into and out of poverty."

Those who deny the existence of a real decline in the traditional family in America, and those who accept it but deny that it has any serious consequences in affecting income levels, would have us ignore the new reality of poverty in America. But as with other social and economic interactions; the new poverty reality must be recognized if either the changed society or the changed economy is to be understood.

Mr. THOMAS. In addition to that, I think the Government response to poverty has changed over time, as was indicated in your testimony and others. We have gone from basically cash support to inkind support.

This is a very difficult question, but I want you to think about it and respond to it. I don't mean it in any cynical way. Let's take it from a positive position. We can talk about the quality of life or lack of it at or below the poverty level based on our conceptual framework of poverty in the 1960's and then look at today's situation using the same concept of poverty and the quality of life today.

Is there a difference in your mind?

Mr. PENNER. I think very obviously there is, sir. I think we have, between the early 1960's and today, added very greatly to what we call the safety net; and that is important in two ways, it seems to me. First, it simply raises levels of income, including the inkind benefits and income. Second, it cushions any fall in income or it protects against particular risks.

For example, I mentioned the difficulty of how to handle medicaid in defining what poverty is. But no one would deny that the existence of medicaid has been a great benefit to the poor and has protected them against certain risks.

Mr. THOMAS. There are people who utilize the full benefit of their medicare protection that wouldn't think they are better off, but psychologically someone would feel that they are better off if they knew it was there.

Mr. PENNER. That is the point I am trying to make, sir, and how you put a dollar value on that is extremely difficult.

Mr. THOMAS. The point I am trying to make is that psychologically and physically, with what you say, is roughly a similar definition of poverty; on a quality basis, on a level of existence basis people are relatively better off today than they were, let's say yesterday, and if we try to take it as a monetary approach and do away with an anthropomorphic thing called poverty that tomorrow, the definition of poverty will again change and that in fact we are, in essence, trying to solve a moving target.

And my concern is in the efforts to try to solve this, you indicated a number of changes that might be appropriate, including the national minimum AFDC series. Many of those have been voted out by this committee, and they have not become law.

But if you took that package which you indicated would be very desirable and we went through the unemployed period of eligible requirements and the dependent care assets and more generous SSI asset test, let's say, and put that together as a package and passed it, if we had a fit of generosity sometime this year and passed that entire package, what would be the national impact? What would be the macroeconomic impact of that kind of a package passing?

Mr. PENNER. Let me make that clear, sir. I have not said that those would be very desirable. What I had hoped to do was to identify, at the request of the subcommittee, the possibilities and assess their advantages and disadvantages.

Mr. THOMAS. If we were attempting to modify the percentage of people under poverty, would these be beneficial in doing that?

Mr. PENNER. I would not focus on those measures because just focusing on the poverty rates could be very misleading. Obviously the easiest way to reduce the poverty rate is to find people close to it and give them a few dollars and raise them above it.

What we tried to do with these options was simply to show that within the current welfare system are all of these programs that meet different problems and are focused on different groups of people. So the answer to all of this is not simple. It is really a question of what your main goal is and how you want to achieve it—the extent to which you trade off one goal against the other.

It had not been in my mind that the whole package would be accepted. At that point, as I said, you would have to consider very seriously the macroeconomic impact of that.

Mr THOMAS. And what would that be would be my question?

Mr. PENNER. Again, it depends on how you finance it. If you think of simply adding it to the deficit, you are talking about a very significant addition.

Mr. THOMAS. Briefly, I don't know what significant means. I used to think $50 billion was significant; I found out now it isn't. What is significant?

Mr. PENNER. Well, using even a minimal version of all of the things that we discussed here—and remember that many of the numbers are just illustrative—but we must be talking in terms of $20 or $30 billion if you were to do significant things to food stamps, for example. If you added up every single item?

Mr. THOMAS. Yes.

Mr. PENNER. Yes.

Mr. THOMAS. A total of $20 or $30 billion.

Chairman RANGEL. Mr. Dorgan.

Mr. PENNER. I am sorry, sir, I overstated that somewhat. It is closer to $20 billion.

Mr. DORGAN. Thank you, Mr. Chairman.

Dr. Penner, I was interested in reading your testimony. I was not here for all of the oral testimony that you delivered, but you talked about the effect of the business cycle on poverty, and we have had a business cycle that has moved rather dramatically up and down in this country.

In 1980, we had a significant recession. People forget in 1981, we were coming out of that. The first quarter we had about 8 percent annual growth and unemployment was about 7.4 percent. In the middle of 1982, I believe, we moved back to a recession that was a very deep recession and a lengthy one.

And you indicated, the business cycle has a substantial impact on levels of poverty. I would guess that is because the poor are less well trained and the poor are less well off than other people in this country; and, therefore, they are probably the first to lose their jobs and the last to gain jobs under a rising economic tide. The metaphor around here is "You wait around for the rising economic tide, and everyone will be helped." And some say, well, a notion of a rising economic tide suggests that only those who own boats will be helped.

To what extent do you attach an improvement to those that are poor in this country to a rising economic tide?

Mr PENNER I think it would be very substantial. As you are suggesting, the unemployment rate itself lags the change in economic activity somewhat, but as the increase in that economic activity goes on, you will see that unemployment rate respond and, of course, it has already. So that is extremely helpful to this situation, as will be the general increase of real income.

So while the trough of the recession was in the last quarter of 1982, the 1983 averages for unemployment and median family income are unlikely to be very different from those in 1982 just because of the peculiar pattern of the cycle. The poverty rate probably won't change much in 1983, but if the recovery continues, it would almost certainly go down in 1984.

Mr DORGAN. It is generally true, then, that the poor are the type of people who are the first fired and last hired responding to business cycles?

Mr. PENNER. That is difficult to say. I think different types of poor are affected very differently as the cycle goes on. To the elderly, as we have seen, the cycle it is hardly relevant at all.

Mr. DORGAN. The business cycle is just one element. You mentioned the elderly, and when we talk about poverty in the abstract, it sounds sort of sanitary. It is a bunch of numbers. But, for example, I remember speaking to a woman about 80 years old not too long ago. She was poor. Her total income was about $200 a month. She had a heart condition and diabetes, and her prescription cost was $80 a month above medicaid and medicare. She couldn't afford the $80 a month for prescription drugs to deal with the diabetes and heart condition; so she would go to the pharmacist and buy the full complement of drugs, but take only half of the dosage so that it would last twice as long.

That is the way people who are poor deal with those problems. But that woman will not be affected by the changes in the business cycle. The lot of that person is affected by the willingness of a Federal Government to respond to needs by appropriating money for various programs, is that not right?

Mr. PENNER. That is right. Obviously, that person will not be affected very much by the economy.

Mr. DORGAN. So that really deals with the question of what are we willing to do and what kind of programs are we willing to put in place, and are they effective; and part of that is responding to the business cycle, in the sense that as you have a business cycle that moves downward the Government sees less revenue coming in and, therefore, has more difficulty funding these programs.

I think one of the things that some of the questions have gotten at is the question of how much has poverty been institutionalized? The question about jobs and unemployment. I know some people who are on unemployment who could and should be working. All of us know some people like that, but that is the exception, not the rule. The rule is if 100 jobs come open in some of our cities, you have 3,000 people lining up to try to get them.

How much has poverty been institutionalized by a number of programs operating together in this country? Do you have any judgment about that?

Mr. PENNER. Economists argue about that a great deal because it goes to the core of the problem—that is to say, how exactly do people respond to these economic incentives and to the loss of benefits that they experience if they go out and work. I think we are probably oversimplifying this greatly. The data that I know seem to indicate that as far as the primary earner in the family is concerned, usually a male, economic responses are not very large.

They are, however, much larger for some people—for the secondary worker, for teenage children, and so on—who seem to be dissuaded from working by the loss of some of these benefits or by taxes as they get more affluent. I wouldn't dream of attempting to put a number on your concept, however, given the current state of our knowledge about these things.

Mr. DORGAN. Mr. Chairman, I will ask one further thing. We have been waging war on poverty officially for about 18 or 19 years in this country. The so-called war on poverty that was announced by President Johnson has had various initiatives and various successes and various failures, but as an economist, Mr. Penner, I wonder if you could give me a brief description of what you think the results of our so-called war on poverty have been? How would you characterize the results?

Mr. PENNER. Well, if you go back and start this analysis in the early 1960's, I would suggest that we have made enormous progress. Probably the group that has benefited the very most from Government intervention is the elderly. We had a huge poverty rate among the elderly in the early 1960's. As you can see from figure 2 in my statement, their rate is actually lower now than that of the nonelderly population.

That, of course, is due largely to the very rapid increase in social security benefits that we had in the late 1960's and early 1970's through the way social security is indexed.

Even with regard to the nonelderly, I think we have done a great deal—as has been noted before. To capture the full extent of our accomplishment, we have to include some sort of value for the inkind programs. We chose in the late 1960's to aid people by using things like food stamps or medicaid and not just giving them money.

If you value those things properly and if you add some value for the reduction of risk that people face, either medical or economic, because of the structure of these programs, I think you can see significant improvement.

Mr. DORGAN. Well, some suggest that the net effect of the war on poverty has been negative. I take it from your answer, you are saying that the net effect has been positive.

Mr. PENNER. I think very definitely that the net effect on poor people has been positive.

Mr. DORGAN. Thank you very much.

Chairman RANGEL. Dr. Penner, we want to thank you for the major contribution you have brought to this hearing and especially the professional manner in which you have handled yourself on this initial appearance. Because of the time, I would like to ask a question and have the answer put in our record at a later time: If the AFDC benefit levels had kept pace with inflation since the early 1970's, how much lower would the poverty rate of female-headed families be today and how fewer children would be in poverty today?

Mr. PENNER. I think that will be difficult for us, sir, but we will look at it, and we could tell you the effect on benefits of that sort of thing, if not the poverty rate.

[The information follows:]

If AFDC benefits had kept pace with inflation since 1970, both average benefit levels and total spending on AFDC would have been considerably higher than they are now. Average family benefits, for example, would have about $500 per month, compared to just over $300 per month under current law. Total spending on AFDC (both federal and state) would have been over $10 billion higher in 1983—more than 70 percent above current levels.

Although real benefit levels in AFDC have declined by about 40 percent on average since 1970, the overall impact of these changes on the poverty status and behavior of recipients is very difficult to assess. The changes in benefits since 1970 have varied greatly across the states—real benefit levels for a family of four have fallen by almost 70 percent in Texas, for example, while they have actually increased by about 10 percent in both California and Wisconsin. Since we do not have data on the relative poverty rates of AFDC recipients living in different states, it would be very difficult to calculate the impact of all of these changes on the national poverty rate. The CBO has estimated that, if benefits were now at the same levels as in 1970, the measured poverty gap in 1983 would have been about $4.5 billion to $5.5 billion lower, although a higher proportion of the increase in spending would have gone to poor households.

Chairman RANGEL. If in reviewing some of your answers you want to have the opportunity to add to them, the record will remain open for that.

Mr. THOMAS. And, again, under the question, Mr. Chairman, which I think is a very important one, if at all possible in your projections could you also analyze what would happen if the AFDC rate had maintained an increase with the cost of living and what your projections might be in terms of the number of increases in single-family homes and having children if you understand the other side of the coin?

Mr. PENNER. I understand what you are saying, sir. It is a very difficult question.

Chairman RANGEL. Of course, you could add to that if the states had programs for working parents as to what the subsequent impact could be.

Mr. THOMAS. We could go back and forth on that.

Mr. PENNER. I think we will be working a long time.

Chairman RANGEL. Just do the best you can. You understand what we both are trying to do, and we would appreciate whatever answers you could give in this direction.

We have a panel, the Institute for Research on Poverty, from the University of Wisconsin, Prof. Sheldon Danziger, professor of social work. From the same institution and university, Peter Gottschalk who is the project associate, also an associate professor of economics at Bowdoin College. And from the University of Utah, Division of Social Science Research, Tim Smeeding, who is a professor of economics.

We thank you very much for agreeing to bring your comments before this joint hearing.

Professor Danziger.

STATEMENT OF SHELDON DANZIGER, PROFESSOR OF SOCIAL WORK, INSTITUTE FOR RESEARCH ON POVERTY, UNIVERSITY OF WISCONSIN

Mr. DANZIGER. Thank you, Mr. Chairman.

Because I have entered my testimony into the record and because we have a time constraint, I will briefly summarize my written statement.

Chairman RANGEL. Let me state for the record that all of your full statements will be entered into the record, and you may highlight that testimony so that members might get involved in questions and answers. You may proceed, Professor.

Mr. DANZIGER. The recent rise in poverty that is the focus of today's hearings is relatively invariant to the measure of poverty used. Poverty has increased relatively rapidly between 1978 and 1982 for each of the alternative measures shown in my testimony.

And while poverty has been increasing, the antipoverty impact of Government transfer payments has been declining. This is because a smaller percentage of poor households are receiving transfers and because the transfers they are receiving have been declining in real terms.

There have been numerous discussions over the past 15 years as to whether the official poverty threshold and income concepts are appropriate. Despite these controversies, the adoption of an official poverty measure in the mid-1960's and its use as a social indicator is an important symbol of this country's commitments to raising the standard of living of its poor citizens.

In the testimony, I present both absolute measures of poverty, such as the official one, and relative measures which increase at the same rate as average income. The recent Census Bureau technical paper, which Professor Smeeding will discuss on the evaluation of in-kind transfers, addresses only the issue of augmenting the official income concept, not the issue of changing the current poverty threshold.

However, just as the valuation of in-kind transfers reduces measured poverty, the use of a relative poverty threshold during periods of rising incomes or even an updating of the official threshold would increase measured poverty.

Also, the official income concept, census money income, does not distinguish between income derived from market sources and income derived from Government sources. As such, it fails to separate the private economy's antipoverty performance from the antipoverty performance of Government programs.

Pretransfer poverty has received very little attention; yet it reveals the magnitude of the problem faced by the public sector after the private sector transfer system and the market economy have distributed their rewards. This information is essential for analyzing effects of economic growth on the poor and for assessing the extent to which public transfer programs reduce poverty.

In table 1 in my testimony, there are seven different time series on the incidence of poverty for all persons for selected years between 1965 and 1982. The absolute measures which use the official poverty threshold, declined over the early period and then increased rapidly in the 1978–82 period. That official data overstates poverty because the failure to adjust for inkind transfers can be seen by comparing columns 3 and 4.

Nonetheless, poverty adjusted for inkind transfers is higher today than at any point since the late 1960's. More important, I think, is the pretransfer measure shown in column 1.

Mr. Campbell earlier asked the question, "Why was poverty increasing if government transfers were increasing?" The series in column 1 on pretransfer poverty shows the extent of poverty after the market economy has distributed its rewards. That series has risen over a longer period and now shows that about a quarter of all persons live in households that do not receive enough from market sources to take themselves out of poverty. The lowest level for that series occurred in the late 1960's when 18 percent of the population was unable to achieve market incomes high enough to take themselves out of poverty. If the aged are removed from that 18 percent figure, pretransfer poverty would still have been over 10 percent of the population in the late 1960's when unemployment rates were well below 6 percent.

The relative poverty series found in the bottom panel show similar trends, although the declines for the earlier period and the increases for the later period are somewhat smaller. Nonetheless, they show higher poverty in every year, because the relative poverty thresholds have increased as incomes, adjusted for inflation, have grown over the long period. That has not been the case for the official measure which is not affected by changing real incomes.

In the early period, the growth and expenditures for cash and inkind transfers for recipient households far exceeded the real increase in per household income. This growth was a major development in American social welfare policy and accounts for much of the observed decline in poverty over this period. Growth rates for transfers obviously have slowed in recent years.

Table 2 in my testimony measures the antipoverty effectiveness of major programs by comparing the percentage of pretransfer poor persons removed from poverty by transfers. For each type of transfer and for each type of poverty shown, public transfers became increasingly effective from the mid 1960's until 1978, and then the antipoverty impact began to decline.

For example, about 70 percent of the pretransfer poor were taken out of poverty in 1966; that has fallen to less than 65 percent in 1982.

The poverty deficit shown in table 3 shows much the same pattern. Because transfers have risen less than the pretransfer deficit in the last few years, the pretransfer poverty deficit which had declined from 1.29 percent of GNP in 1967 to about 1 percent in 1979 has risen to a high point of 1.47 percent of GNP in 1982.

The data on poverty gaps reinforce the main points of the earlier tables—that poverty has been increasing and that the antipoverty impact of transfers has been decreasing in recent years.

The next two tables highlight demographic differences in poverty. The largest reduction in poverty for the 1967–79 period and the largest impact of inkind transfers in any single year were for elderly persons. It is important to point out that adjusted poverty rates in 1979—and these are the lowest poverty rates shown in the

Census Bureau technical report—for blacks, persons of Spanish origin, and female household heads remained above the official rates that existed for whites in 1967 when inkind transfers had little impact and shortly after the war on poverty was declared because of high poverty rates. The rates today for these groups would undoubtedly be higher than in 1979 because the overall inkind poverty rate has also increased rapidly since 1979.

Table 5 shows the composition of pretransfer poor households and reinforces a point brought up in the discussion earlier. The direct effects of economic growth on poverty for all persons are not likely to be large because only about one-third of those who were poor before the receipt of transfers can be expected to go to work. About two-thirds of persons, poor before the receipt of government transfers, are the aged, female heads of households with children under 6, students and the disabled. These groups are not likely to benefit from economic growth and are likely to remain dependent on public programs.

In sum, poverty, no matter how measured, has increased in recent years, and while the antipoverty impacts of income transfers have declined, they still significantly reduce poverty. Poverty would be much closer to 25 percent of the population than the official 15 percent if we did not have cash and inkind transfers.

These transfers, in addition to reducing poverty, also protect against income losses due to unemployment, retirement, disability, and death and guarantee access to minimum levels of food, shelter, and medical care. The growth in transfers has been accompanied by some decline in work effort and savings that may have contributed to sluggish economic performance.

But the magnitude of these declines, as I have shown in other research, is estimated to be relatively small. While reductions in poverty through increased market incomes has always been the primary stated goal of antipoverty policy, cash and inkind transfers have been major factors in the reductions in poverty that have occurred in the past 15 years.

If our projections of the growth on poverty are accurate, and Professor Gottschalk will talk about those next, then further reductions in transfers will lead to higher levels of poverty, however we choose to define poverty.

Thank you.

[The prepared statement follows:]

Statement of Sheldon Danziger, Institute for Research on Poverty, University of Wisconsin-Madison*

Introduction

Poverty as officially measured by the Census Bureau declined from 22.4 percent of all persons in 1959 to 11.1 percent in 1973, remained in the 11 to 12 percent range for the rest of the 1970's and then increased to 13.0 percent in 1980, 14.0 percent in 1981 and 15.0 percent in 1982. This recent rise in poverty is the focus of today's hearings. While there are many valid criticisms of the official poverty series, I show that the recent rise in poverty is not an artifact of the official measure. Poverty increased rapidly between 1978 and 1982 for each of the alternative poverty meas-

*The research reported here was supported in part by grants from the Graduate School Research Committee of the University of Wisconsin-Madison and the Alfred P. Sloan Foundation. Daniel Feaster and Christine Ross provided helpful computational assistance.

ates discussed here. And, while poverty has been increasing, the antipoverty impact of income transfers has been declining. This is because a smaller percentage of poor households are receiving transfers that have declining in real terms.

ALTERNATIVE MEASURES OF POVERTY

The official measure of poverty provides a set of income cutoffs adjusted for household size, the age of the head of the household, and the number of children under age 18 (until 1981, sex of the head and farm nonfarm residence were other distinctions). The cutoffs provide an absolute measure of poverty which specifies in dollar terms minimally decent levels of consumption. The official income concept, current money income received during the calendar year, is defined as the sum of money wages and salaries, net income from self-employment, Social Security income and cash transfers from other government programs, property income (e.g., interest, dividends, net rental income), and other forms of cash income (e.g., private, alimony). Current money income does not include capital gains, imputed rents, government or private benefits inkind (e.g., food stamps, Medicare benefits, employer-provided health insurance) nor does it subtract taxes, although all of these affect a household's level of consumption.

The official poverty cutoffs are updated yearly by an amount corresponding to the change in the Consumer Price Index so that they represent the same purchasing power each year. According to this absolute standard, poverty will be eliminated when the incomes of all households exceed the poverty lines, regardless of what is happening to average household income.

There have been numerous discussions over the past fifteen years as to whether the official poverty thresholds and income concept are relevant to policy choices (U.S. Department of Health, Education, and Welfare, 1976). Despite these controversies, the adoption of an official measure of poverty in the mid-1960s and its use as a social indicator, became a symbol of this country's commitment to raising the standard of living of the poorest citizens.

Income poverty is a complex concept, and different types of poverty thresholds and income concepts are appropriate for different purposes. An absolute perspective, such as the official measure, focuses on those with incomes that fall short of a minimum (fixed) level of economic resources. On the other hand, relative poverty indicators emphasize not only the household's own level of resources, but how its position compares to that of others. A relative definition draws attention to the degree of inequality at the lower at the lower end of the income distribution. Those whose incomes fall well below the prevailing average in their society are regarded as poor, no matter what their absolute incomes may be. A relative poverty threshold, therefore, changes at about the same rate as average income.

The recent Census Bureau technical paper (1982) on the valuation of in-kind transfers addresses only the issue of augmenting the official income concept, not the issue of changing the current poverty thresholds. However, just as the valuation of in-kind transfers reduces measured poverty the use of a relative poverty threshold during a period of rising real incomes or an updating of the official thresholds would increase measured poverty (e.g., see Fendler and Orshansky 1979).

FIGURE 1 A MATRIX OF POVERTY MEASURES

	Income concept	
	Pretransfer income	Posttransfer posttax income
[illegible]	I	II
[illegible]	III	IV

A matrix of poverty measures showing two income concepts and two types of poverty thresholds is presented in Figure 1. The official income concept lies somewhere between pretransfer income and posttransfer-posttax income on the first row. Census money income does not distinguish between income derived from market and private transfer sources (e.g., wages, dividends, alimony) and income derived from government sources (e.g., Social Security, Public Assistance income). As such, it fails to separate the private economy's antipoverty performance from the performance of government cash transfer programs. Households that do not receive enough money income from private sources to raise them over the poverty lines constitute the pretransfer poor (a more exact title would be pregovernment-transfer poor). Pretransfer poverty has received little attention, yet it reveals the magnitude of the problem faced by the public sector after the market economy and private transfer system (e.g., private pension, interfamily transfers) have distributed their rewards. This information is essential for analyzing the "trickle-down" effects of economic growth and for assessing the extent to which public transfer programs reduce poverty.

A related concept is prewelfare income. While pretransfer income does not count any monies income from government programs, prewelfare income excludes only income from cash public assistance (i.e., welfare) programs. Social insurance benefits (e.g., Social Security, Unemployment Insurance) which are based on past earnings and tax contributions are included in prewelfare income along with private market income because they are generally perceived by the public as earned. For many, the "real" poverty population, the one to whom antipoverty policy should be addressed, is the prewelfare poor.

The valuation of in-kind transfers does move the Census closer to the concept of posttransfer-posttax income. This preferred measure could have been obtained if, in addition to adding in-kind government transfers received by the poor, the report had also added in-kind private transfers (e.g., fringe benefits) and subtracted direct taxes paid. Nonetheless, recent studies suggest that the report's results would not be significantly affected by these adjustments.

TABLE 1 THE TREND IN THE INCIDENCE OF POVERTY AMONG PERSONS, SELECTED YEARS 1965–82

[In percent]

Type of measure, year	Pretransfer income (1)	Prewelfare income (2)	Posttransfer income (census money income) (3)	Adjusted income[1] (4)
Official measure				
1965	21.3	16.3	15.6	12.1
1968	18.2	13.6	12.8	9.9
1972	19.2	13.1	11.9	6.2
1974	20.3	13.1	11.6	7.2
1976	21.0	13.1	11.8	6.7
1978	20.2	12.6	11.4	NA
1979	20.5	12.9	11.7	6.1
1980	21.9	14.2	13.0	NA
1981	23.1	15.1	14.0	NA
1982	24.0	15.9	15.0	[2] 8.8
Percent change				
1965 to 1978[3]	5.2	22.7	26.9	49.6
1978 to 1982[3]	+18.8	+26.2	+31.6	+44.3
Relative measure				
1965	21.3	16.3	15.6	NA
1968	19.7	15.3	14.6	NA
1972	22.2	NA	15.7	NA
1974	22.9	16.1	[illegible]	NA
1976	24.1	16.3	15.4	NA
1978	23.9	16.5	15.5	NA
1979	23.8	16.6	15.7	NA
1980	24.5	16.9	16.0	NA
1981	25.5	17.8	16.9	NA
1982	26.5	18.5	17.8	NA
Percent change				
1965 to 1978	+12.2	+1.2	6	NA
1978 to 1982	+10.9	+12.1	+14.8	NA

[1] Adjusted income data are from Timothy Smeeding (1982).
[2] This is an estimate from Gottschalk and Danziger (1983).
[3] Percentage changes for adjusted income data are from 1965–79 and 1979–82.
NA Not available.

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

Table 1 presents seven different time series of the incidence of poverty for all persons for selected years between 1965 and 1982. Four series using the official poverty thresholds appear in the top panel, three series using a relative measure, in the bottom.

The relative measure is one developed by Robert Plotnick (Plotnick and Skidmore, 1975). In 1965, the first year for which detailed data is available, the relative poverty lines are set equal to the official (absolute) ones. (In 1965, the official lines were equal to about 44 percent of the median income). In succeeding years the relative lines are changed at the same rate as the median income.[1] With this approach, trends in absolute and relative poverty are easily compared because they begin with the same base year value.

Consider first the four series in the top panel. Each shows that poverty declined over the 1976 to 1978 period and then increased rapidly in the 1978 to 1982 period. That the official data overstate poverty because of the failure to adjust for in-kind transfers can be seen by comparing columns three and four. Nonetheless, poverty adjusted for inkind transfers is higher than at any point since the late 1960s. Also column 1 shows that about a quarter of all persons in 1982 live in households that do not receive market incomes high enough to take them out of poverty.

While the three series based on the official measure show a decline in the 1965–1978 period and then an increase, the three series based on the relative measure are more stable.[2] They show no significant declines for the early period, and smaller increases for the later period. Because the relative poverty line has been about 10 to 15 percent above the official line, it shows more poverty in every year.

THE ANTIPOVERTY EFFECTIVENESS OF TRANSFERS

Between 1965 and the mid-1970s, the growth in real expenditures for cash and in-kind transfers per recipient household far exceeded the real increase in per household income. This growth, a major development in American social welfare policy, accounts for much of the observed declines in poverty over this period. Growth rates for transfers have slowed in recent years.

Table 2 measures the antipoverty effectiveness of major income transfer programs by the percentage of the pretransfer poor persons removed from absolute or relative poverty by transfers.[3] The table divides all government transfers into cash social insurance transfers, cash public assistance transfers, and in-kind tranfers (whether social insurance or public assistance).

For each type of transfer and for each measure of poverty, public transfers became increasingly effective until 1978.[4] The fraction of absolute pretransfer poor households receiving a cash transfer payment rose from less than 70 percent in 1965 to over 80 percent in 1978 and declined slightly since then. The real value of recipient's transfers increased from 1965 to 1978, but declined thereafter. For example, the average cash transfer received by a pretransfer poor household declined by

[1] The specifics of this measure are as follows. Each family's current money income is divided by its official poverty line. This yields a "welfare ratio" that indicates the fraction by which a family's income exceeds or falls below the official poverty line. Families with the same welfare ratio are assumed to be equally well-off. The relative poor are defined as those families with welfare ratios below 0.44 of the median ratio.

The fraction 0.44 was not an arbitrary choice. In 1965, the base year for this analysis of changes in poverty, the median welfare ratio was 2.25. All living units with incomes below the official poverty lines had, of course, welfare ratios less than one. Thus, any household that in 1965 was poor under the official definition necessarily had a welfare ratio less than 1.00/2.25 of the median. Defining the relative poor as those with welfare ratios below 1.00/2.25 = 0.44 of the median yielded, in 1965, the same group of households as were poor from the absolute perspective.

[2] The adjusted income data are not compared to the relative poverty line. Estimating in-kind income from private sources (e.g., fringe benefits) and taxes paid by the nonpoor poses measurement problems that have not yet been solved. Thus, we could not compute a relative measure based upon the median adjusted income.

[3] The antipoverty impacts of seven cash and three in-kind transfer programs are assessed here. They are (1) Social Security and Railroad Retirement, (2) Medicare, (3) federal, state and local government employee pensions, (4) unemployment insurance, (5) worker's compensation, (6) veterans compensation and pensions, (7) Supplemental Security Income, (8) public assistance (AFDC, AFDC-U, General Assistance and, prior to 1974, OAA, APTD, and AB), (9) Food Stamps, and Medicaid. While several in-kind transfer programs and all expenditures on public education have been omitted, Food Stamps, Medicare, and Medicaid alone account for over 80 percent of all federal in-kind transfers. For 1976, and the estimate for 1982, School Lunch and Public Housing benefits are also included.

[4] Pretransfer income is calculated by subtracting government transfers from posttransfer income. While this definition assumes that transfers elicit no behavioral responses, transfers do induce labor supply reductions. As a result, recipients' net incomes are not increased by the full amount of the transfer and the pre/post comparisons made here will provide upper-bound estimates of the antipoverty effects of transfers.

about 5 percent between 1978 and 1982, to about $6,000. The decline was over 10 percent for the same period for nonaged women heading households, to about $4,400. As a result, transfers removed about 43 percent of the pretransfer poor from absolute poverty in 1965, over 70 percent in 1976, but less then 65 percent in 1982.

TABLE 2 — THE ANTIPOVERTY EFFECTIVENESS OF MAJOR INCOME TRANSFERS, SELECTED YEARS, 1965-82

Poverty measure	Percentage of the pretransfer poor persons removed from poverty by—			
	Cash social insurance transfers [1]	Cash public assistance transfers [2]	In kind transfers [3]	All transfers
Absolute measure				
1965	23.5	3.3	16.4	43.2
1976	37.6	6.2	28.1	71.9
1978	37.6	5.9	NA	NA
1980	35.2	8.5	NA	NA
1982	33.8	3.8	[4] 25.8	[4] 63.3
Relative measure				
1965	23.5	3.3	NA	NA
1976	32.4	3.7	NA	NA
1978	31.0	4.2	NA	NA
1980	31.0	3.7	NA	NA
1982	30.2	2.6	NA	NA

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

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

[3] In-kind transfers include medicare, medicaid, food stamps, and, for 1976, school lunch and public housing; this figure also adjusts for direct taxes and the underreporting of cash transfers.

[4] Based on estimate for adjusted income poverty 1982.

NA Not available.

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

POVERTY DEFICIT

The incidence of poverty reveals the percentage of persons whose incomes fall below the poverty threshold, but does not distinguish the degree of poverty. The "poverty deficit," which measures the total amount of income required to bring every poor person up to the poverty threshold, does distinguish between poor persons who are very close to being nonpoor and those tho are farther away from the thresholds. Table 3 shows the pretransfer (column 1) and posttransfer (column 3) poverty deficits in billions of current dollars for selected years between 1967 and 1982. Cash transfers received by the pretransfer poor are shown in column 2. The fourth column shows the percentage reduction in the poverty deficit due to these cash transfers. The fifth column shows the posttransfer poverty deficit as a percentage of GNP. The bottom panel shows the percentage growth in current dollars for these concepts.

TABLE 3.—POVERTY DEFICIT BEFORE AND AFTER CASH TRANSFERS, SELECTED YEARS, 1967-82

Year	Pretransfer poverty deficit [1]	Cash transfers received by pretransfer-poor households [1]	Posttransfer poverty deficit [1]	Percentage reduction in poverty deficit due to cash transfers	Posttransfer poverty deficit as a percentage of GNP
	(1)	(2)	(3)	(4)	(5)
1967	$22.6	$17.5	$10.0	55.5	1.29
1974	45.0	57.3	15.1	66.4	1.04
1979	70.5	80.0	23.9	66.0	1.02
1980	88.9	95.9	31.4	64.6	[illegible]
1981	104.1	109.0	39.3	62.2	1.37
1982	114.9	118.1	45.3	60.5	1.47
Percentage increase					
1979 to 1967 [2]	211.9	357.1	139.0		
1982 to 1979 [3]	63.0	47.6	89.5		

[1] Billions of current dollars.
[2] Between 1967 and 1979, the Consumer Price Index increased by 117 percent.
[3] Between 1979 and 1982, the Consumer Price Index increased by 33 percent.

Source: Computations by author from various March Current Population Survey data tapes.

Between 1967 and 1979, total cash transfers to the pretransfer poor grew faster than the pretransfer poverty deficit, so the postransfer deficit grew slowly. Between 1979 and 1982, the pretransfer deficit grew faster than did transfers. As a result, the posttransfer deficit grew more rapidly that the pretransfer deficit. This deficit declined from 1.29 percent of GNP in 1967 to 1.02 percent in 1979, and then increased rapidly until it was about 1.47 percent of GNP in 1982. the 1982 pretransfer poverty deficit of $114.9 billion means that the pretransfer income of the typical poor household is about $4,540 below the poverty line; the posttransfer deficit of $45.3, that the posttransfer poor are about $3,200 below the line. These data reinforce the points made above—poverty has been increasing and the antipoverty impact of transfers has been decreasing in recent years.

DEMOGRAPHIC DIFFERENCES

Table 4 highlights the differences in poverty levels and trends for several major demographic groups for the 1967-79 period. It also shows the effect of in-kind transfers on each group in 1979, the last year for which detailed data on the receipt of in-kind transfers is available. The largest reduction in poverty for the 12 year period and the largest impact of in-kind transfers in 1979 are for elderly persons. For example, between 1967 and 1979 poverty declined by about 20 percent for all persons, but by about 50 percent for the elderly. And, in 1979, in-kind transfers reduced poverty for all persons by about 42 percent but by almost 70 percent for the elderly. Adjusted poverty rates in 1979 for blacks, persons of Spanish origin and female household heads remain above the official rates that existed for whites in 1967, when in-kind transfers had little impact.

TABLE 4.—ALTERNATIVE MEASURES OF THE INCIDENCE OF POVERTY: OFFICIAL MEASURE FOR 1967 AND 1979 AND MONEY INCOME PLUS THE MARKET VALUE OF IN-KIND TRANSFERS FOR 1979

[In percent]

Persons living in poverty, by type of household head	Official measure, 1967	Official measure, 1979	Percentage decline in poverty between 1967 and 1979	Money income plus in-kind transfers at market value, 1979 [1]	Percentage decline in poverty due to in-kind transfers, 1979
	(1)	(2)	(3)	(4)	(5)
All persons	14.2	11.1	21.8	6.4	42.3
White	11.0	8.5	22.7	5.2	38.8
Black	39.3	30.4	22.6	15.1	50.3
Hispanic	NA	21.4	NA	12.0	43.9
Female householder, no husband present	40.6	34.8	14.3	17.6	49.4
Elderly (65 and over)	29.5	14.7	50.1	4.5	69.4

[1] In-kind transfers for food, housing, and medical benefits.
NA—Not available.

Sources: For 1979, U.S. Bureau of the Census, Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effects on Poverty, Technical Paper No. 50 (Washington, D.C.: U.S. ... Status of Families and Persons in the United States: 1982, series P-60, No. 140 (Washington, D.C.: U.S. Government Printing Office, 1983).

Table 5 shows the composition of pretransfer poor households in column (1) and posttransfer poor households in column (2). Each poor household has been placed into one of the eight categories shown. That the direct effects of economic growth on poverty for all persons are not large should not be surprising, as only about one-third of those who are poor before the receipt of transfers can be expected to work. The remaining two-thirds—the aged, female-headed households with children under six, students and the disabled—are likely to remain dependent upon public programs.

A comparison between the pretransfer and posttransfer poor shows the relative success of cash transfers in relieving poverty among the aged, who are about 43 percent of the pretransfer poor and only about 22 percent of the posttransfer poor. There are also significant differences in the composition of the poor by race. The major difference is that while 12.61 percent of all posttransfer poor households are headed by women with children under six, the corresponding percentage for blacks is 22.46 (data not shown).

TABLE 5.—COMPOSITION OF HOUSEHOLDS WITH INCOMES BELOW THE POVERTY LINE, OFFICIAL MEASURE, 1982

[In percent]

	Pretransfer poor	Posttransfer poor
	(1)	(2)
Percentage of poor households where head is:		
Over 65 years of age	43.31	22.01
Female, with children under 6	7.74	12.61
Student	4.08	6.56
Disabled	10.01	11.09
Persons working full-time full-year	8.51	13.07
Single persons working less than full-time, full-year	10.52	14.78
Male family head, working less than full-time, full-year	10.31	11.95
Female family head, no children under 6, working less than full-time, full-year	5.54	7.92
Total	100.00	100.00
Number of households millions	25.3	14.2

Source: Computations by author from March 1983 Current Population Survey data tape.

Note: Classification is mutually exclusive and is hierarchical. Any household head who fits in more than one category has been classified only in the one closest to the top of the table.

CONCLUSION

Poverty, no matter how measured, has increased in recent years. And, while the antipoverty impacts of income tranfers have declined, they still significantly reduce poverty. Transfers also protect against income losses due to unemployment, retirement, disability and death and guarantee access to minimum levels of food, shelter, and medical care. The growth in transfers has been accompanied by some declines in work effort and savings that may have contributed to sluggish economic performance. But the magnitude of these declines is estimated to be small (see Danziger, Haveman and Plotnick, 1981). While reductions in poverty through increased market incomes has always been the primary stated goal of antipoverty policy, increased cash and in-kind transfers have been major factors in the reductions in poverty that have occurred in the past 15 years. If our projections of the effects of economic growth on poverty (Gottschalk and Danziger, 1983) are accurate, then further reductions in transfer benefits will lead to higher levels of poverty, however measured.

REFERENCES

Danziger, Sheldon, Robert Haveman, and Robert Plotnick. 1981. "How Income Transfer Programs Affect Work, Savings and the Income Distribution: A Critical Review." Journal of Economic Literature, 19, 975–1028.

Fendler, Carol, and Mollie Orshansky. 1979. "Improving the Poverty Definition." Proceedings of the American Statistical Association.

Gottschalk, Peter, and Sheldon Danziger. 1983. "Changes in Poverty, 1967–1982." Institute for Research on Poverty Discussion Paper No. 737-83.

Plotnick, Robert and Felicity Skidmore. 1975. Progress Aganist Poverty. New York, Academic Press.

Smeeding, Timothy. 1982. "The Antipoverty Effects of In-Kind Transfers." Policy Studies Journal, 10, 499–521.

U.S. Bureau of the Census. 1982. Alternative Methods for Valuing Selected Inkind Transfer Benefits and Measuring Their Effects on Poverty. Technical Paper #50. Washington, D.C.: U.S. Government Printing Office.

U.S. Department of Health, Education, and Welfare. 1976. The Measure of Poverty. A Report to Congress. Washington, D.C.: U.S. Government Printing Office.

APPENDIX TABLE.—COMPARISONS OF LEVEL AND TRENDS FOR OFFICIAL POVERTY RATES FOR SELECTED GROUPS, CPI VERSUS CPI-X-1, 1978–82

	All persons	Percent of persons with income below the poverty line who live in households where head is			
		Elderly	Nonelderly white	Nonelderly black	Nonelderly hispanic
	(1)	(2)	(3)	(4)	(5)
I CPI based rates [1]					
1978	11 36	13 94	7.33	28 06	21.92
1982	15 01	14 53	10 52	32.27	30 40
Percent change	+32 13	+4 23	+43 52	+15.00	+38.69
II CPI-X-1 based rates [2]					
1978	10 42	12 25	6.75	26 01	20 45
1982	13 23	11 58	9 22	29 67	27.37
Percent change	+26 97	−5 47	+37.20	+14 07	+33.84

[1] The CPI increased by 47 95 percent between 1978 and 1982—from 195 4 to 289 1 (1967 = 100).

[2] The CPI-X-1 increased by 41 66 percent between 1978 and 1982—from 185 8 to 263 2 (1967 = 100). The CPI-X-1 includes a housing component which reflects rental rather than purchase costs.

Source: Computations by author from March 1979 and March 1983 Current Population Survey computer tapes.

Note: The CPI-X-1 is lower in each year than the CPI and it grew more slowly over the 1978–82 period. As a result, its use with the actual incomes reported in the Current Population Surveys results in a lower level of poverty in each year for each group shown and a smaller upward trend. The patterns are similar however—a substantial increase for each group, except the elderly, the highest poverty levels for minorities, the most rapid increase for persons living in households headed by nonelderly whites.

Mr. STARK [presiding]. Thank you, Professor Danziger. Professor Gottschalk is next.

Proceed in any manner. Your prepared statement will appear in the record.

STATEMENT OF PETER GOTTSCHALK, PROJECT ASSOCIATE, INSTITUTE FOR RESEARCH ON POVERTY, UNIVERSITY OF WISCONSIN

Mr. GOTTSCHALK. Given time constraints, I will summarize my testimony. Thank you for giving me the opportunity to report on the results of a study which Professor Danziger and I recently completed. This research attempts to determine the factors which affected poverty between 1967 and 1982 and the degree to which poverty will be reduced by economic growth over the next several years.

An understanding of what will happen to poverty rates in the future must be grounded in an analysis of the factors which caused poverty to change in the past. Our review of recent history leads us to the following conclusions.

First, there have been two offsetting factors influencing long-term changes in poverty. Increases in overall economic performance have helped low-income people. This has been partially offset by an increase in inequality of earnings which has tended to increase poverty. Both of these factors are quantitatively important.

Second, long-term growth in public transfer payments has been at least as important as economic growth in explaining past reductions in poverty.

Third, experiences have differed across demographic groups. For persons living in households headed by nonaged males, increases in earnings were roughly four times as important as changes in transfers in reducing poverty. For the elderly, transfers accounted for almost all of the decline in poverty. Increased inequality of income was a poverty-increasing factor for all demographic groups.

Finally, review of past patterns leads us to be pessimistic about the possibilities for reducing poverty in the near future. Poverty is likely to remain above the mid-1970's rates through the mid-1980's, even if the economy grows according to official predictions. The overall poverty rates will remain above 14 percent in 1983 and 1984.

Let me turn to those projections since they seem to be of most interest to the committee. Table 3 presents the actual poverty rates for selected years between 1967 and 1982 and our projections for 1983 and 1984. The projections are based on the Office of Management and Budget's July 1983 economic assumptions and proposed expenditures under the major transfer programs shown in the fiscal year 1984 budget.

Our projections indicate that the poverty rate for all persons will drop from 15 percent in 1982 to 14.6 percent in 1983 and will stay roughly at that same level through 1984. It would take either a stronger than expected recovery or an unexpected increase in income transfers to bring poverty, as officially measured, back to the 11- or 12-percent range of the late 1970's.

Projections of poverty using an income definition which includes in-kind transfer are less reliable—though we have no dispute with the fact that those poverty rates are the relevant poverty rates.

We estimate that the adjusted poverty rates increased from 6.1 percent in 1979 to 8.8 percent in 1982. By 1984, poverty rates, adjusted for the inclusion of inkind transfers, will remain around 8.2. This is comparable to the levels of the early 1970's.

This says that even if you include inkind transfers you would still find poverty rates today, next year and the following year at roughly the same level as during the early 1970's.

Our overall conclusion is that the changing economic growth is but one factor contributing to the past decline and recent increases in poverty. Clearly, increased transfers have had a substantial impact especially for the elderly. More disturbing is our conclusion that changes in inequality of earnings have had a large impact on poverty.

At this time, we cannot explain the increase in equality. However, if inequality does continue to grow, it will become increasingly difficult to get poverty rates back to their mid-1970's level.

Thank you very much.

Mr. STARK. Mr. Gottschalk, thank you very much.

[The prepared statement with attachment follows:]

STATEMENT OF PETER GOTTSCHALK, PROJECT ASSOCIATE, INSTITUTE FOR RESEARCH ON POVERTY, UNIVERSITY OF WISCONSIN, AND ASSOCIATE PROFESSOR OF ECONOMICS, BOWDOIN COLLEGE, BRUNSWICK, MAINE

Thank you for giving me the opportunity to report on the results of a study "Macroeconomic Conditions, Income Transfers, and the Trend in Poverty," which Sheldon Danziger and I recently completed. I am submitting this study for the record. This research attempts to determine the factors that have affected poverty over the 1967-1982 period and the degree to which poverty will be reduced by economic growth in the next several years. This question is particularly important since poverty, as officially measured, has risen from 11.7 to 15.0 percent of all persons between 1979 and 1982. I will first present the general conclusions of that study and then the key supporting materials.

MAJOR FINDINGS

An understanding of what will happen to poverty rates in the future must be grounded in an analysis of the factors which caused poverty to change in the past. Our review of recent history leads us to the following conclusions:

There have been two offsetting factors influencing long term changes in poverty. Increases in overall economic performance have helped low income people. This has been partially offset, however, by an increase in inequality of earnings which has tended to increase poverty.

Long term growth in public transfer payments has been at least as important as economic growth in explaining past reductions in poverty.

Experiences have differed across demographic groups. For persons living in households headed by non-aged males, increases in earnings were roughly four times as important as changes in transfers in reducing poverty. For the elderly, transfers accounted for almost all of the decline in poverty. Increased inequality of income was a poverty-increasing factor for all demographic groups.

Our review of past patterns leads us to be pessimistic about the possibilities for reducing poverty in the near future:

Poverty is likely to remain above the mid-1970s rates through the mid-1980s, even if the economy grows according to official predictions. The overall poverty rates will remain above 14 percent in 1983 and 1984.

SUPPORTING EVIDENCE

Table 1 provides the basic data on the level of economic activity (real GNP per household in column 1 and the unemployment rate in column 2), the growth in real cash (column 4) and real in-kind (column 5) transfers per household, and the poverty rate for all persons for selected years between 1950 and 1982. Data is presented on the official poverty rate (column 5) and, when available, a poverty rate based on a broader definition of income which includes the receipt of in-kind transfers and the payment of taxes (column 6). Column 5 shows that official poverty rates declined sharply in the 1960s and early 1970s, from about 20 to 12 percent, remained in the 11 to 12 percent range through 1979, and then increased sharply in 1980, 1981, and 1982 to 15 percent. I will present evidence that the recent rise in poverty has been caused both by recession and by longer term trends in some underlying factors.

Changes in the aggregate poverty rates can be viewed as the result of changes in the shape and position of the income distribution. If the incomes of all households increased proportionately, then average incomes would increase and relative inequality would remain unchanged. This would leave a smaller proportion of people in households below the fixed poverty line. Changes in average incomes are, however, not the only factor affecting poverty rates. If the shape of the income distribution changes, then poverty may increase in spite of increases in average incomes. This can happen if economic growth does not increase the incomes of all households equally.

TABLE 1.—TIME SERIES ON MACROECONOMIC CONDITIONS, INCOME TRANSFERS AND POVERTY, SELECTED YEARS 1950-82

Year	Real GNP per household (1972 dollars)	Percent unemployment rate	Transfers per household (1972 dollars)[1]: Real cash	Real in-kind	Percent incidence of—: Official	Poverty adjusted for in-kind transfers[2]
	(1)	(2)	(3)	(4)	(5)	(6)
1950	$10,880	5.3	$365	$29	NA	NA
1955	12,490	4.4	460	31	NA	NA
1960	13,060	5.5	664	40	20.2	NA
1961	13,170	6.7	730	43	21.9	NA
1962	13,810	5.5	770	49	21.0	NA
1963	14,200	5.7	791	54	19.5	NA
1964	14,630	5.2	801	58	19.0	NA
1965	15,350	4.5	816	63	17.3	12.1
1966	16,010	3.8	878	71	15.7	NA
1967	16,020	3.8	891	150	14.3	NA
1968	16,390	3.6	911	204	12.8	9.9
1969	16,470	3.5	958	231	12.1	NA
1970	16,080	4.9	1,010	242	12.6	9.3
1971	16,170	5.9	1,150	273	12.5	NA
1972	16,710	5.6	1,225	304	11.9	6.2
1973	17,170	4.9	1,272	320	11.1	NA
1974	16,720	5.6	1,263	327	11.2	7.2
1975	16,130	8.5	1,395	386	12.3	NA
1976	16,630	7.7	1,513	427	11.8	6.7
1977	17,070	7.1	1,508	452	11.6	NA
1978	17,440	6.1	1,488	464	11.4	NA
1979	17,580	5.8	1,419	472	11.7	6.1
1980	16,850	7.1	1,414	482	13.0	NA
1981	17,020	7.6	1,458	505	14.0	NA
1982	16,160	9.7	1,475	508	15.0	NA

[1] Transfers are divided by all households, not by recipient households.
[2] This series also adjusts census incomes for simulated values of taxes and income underreporting.
NA Not available.

Sources: For GNP, Consumer Price Index, and unemployment rate, 1982 Economic Report of the President; for cash and in-kind transfers, "Social Welfare Expenditures Under Public Programs in the United States," Social Security Bulletin, December 1968, December 1972, January 1971, January 1977, November 1981; for official poverty incidence and number of households, Current Population Reports, series P-60, "Consumer Income"; for adjusted poverty, Smeeding, Policy Studies Journal 10, 1982.

Table 2 shows the impact of changes in average incomes (columns 2 and 3) and changes in inequality (column 4) on the official poverty rate. Changes in average incomes are decomposed into two parts: changes in average market incomes (wages, salaries, private pensions, dividends, etc.) and changes in average cash income transfers (social security, unemployment compensation, welfare, etc.). In order to focus on the recent rise in poverty we look at the periods 1967 to 1979 and 1979 to 1982 separately.

Column 1 shows that while the actual poverty rate for all persons declined by 2.6 percentage points between 1967 and 1979, increases in average market incomes would have reduced poverty by 2.4 points if transfers had remained constant in real terms and the shape of the distribution had not changed. However, real transfers did increase, reducing poverty by an additional 3.1 points. Thus, between 1967 and 1979, increases in average transfers were slightly more important than increases in average market incomes in reducing poverty. Column 4 shows that changes in the shape of the distribution increased poverty by 2.9 points. Increases in inequality were sufficiently large to offset about half of the poverty-reducing effects of increases in market and transfer incomes.

TABLE 2.—DECOMPOSITION OF CHANGES IN POVERTY RATES

Household head	Actual percentage point change in poverty	Percentage point change in poverty association with change in—		
		Mean market income	Mean transfer income	All other factors
	(1)	(2)	(3)	(4)
All persons				
1967-79	-2.6	-2.4	-3.1	2.9
1979-82	3.3	.8	-.4	2.9
Young men				
1967-79	-1.9	-2.5	-.6	1.2
1979-82	5.8	3.0	-.6	3.4
Prime aged men				
1967-79	-1.7	-3.1	-.8	2.2
1979-82	3.0	.8	-.2	2.4
Elderly persons				
1967-79	-12.9	.5	-19.6	6.2
1979-82	-.6	-.1	-1.8	1.3

Source: Computations from data derived in Gottschalk & Danziger (1983).

Note: The sum of the changes in cols. 2, 3, and 4 is equal to the change shown in col. 1.

Row 2 shows the importance of each of these factors in explaining the 3.3 percentage point increases in poverty between 1979 and 1982. The recession led to a decline in average market incomes which increased poverty by 0.8 percentage points. This drop in market incomes was partially offset by countercyclical increases in transfers which reduced poverty by 0.4 points. However, by far the most important factor was the change in the shape of the distribution which accounted for a 2.9 point increase in poverty. In other words, if all households had experienced equal decreases in market incomes and equal increases in transfer incomes, poverty would have risen by only 0.4 points instead of 3.3 points between 1979 and 1982.

Because there have been large demographic shifts in the composition of households and because different demographic groups have had different experiences, the remaining rows in the table show the poverty rate decomposition for persons in households headed by young men, prime-aged men, and elderly persons. (We were not able to perform the same decomposition for households headed by nonaged women.) For young and prime-aged men, growth in mean market incomes were more important than transfer growth, but changes in the shape of the distribution were again offsetting in both periods for both groups. The largest drop in poverty between 1965 and 1982 occurred for households headed by elderly (males and females). This decline was solely a result of growth in real transfers.

In summary, economic growth does have an important impact on poverty by increasing the market incomes of the poor directly. However, there are other factors tending to counter the poverty-reducing impact of economic growth. The two most important factors are cyclical decreases in economic activity and long-term increases in inequality of market incomes.

We turn to some projections in order to see whether economic growth will be sufficiently strong to reduce poverty without substantial increases in transfers between now and 1984. Table 3 presents the actual poverty rates for selected years between 1967 and 1982 and our projects for 1983 and 1984 for all persons and for selected demographic groups. The projections are based on the Office of Management and Budget's July 1983 economic assumptions and proposed expenditures under the major transfer programs shown in the fiscal year 1984 budget.

[illegible] that the poverty rate for all persons will drop from 15 [illegible] percent in 1983 and will stay at that level through 1984. It [illegible] a stronger than expected recovery or an unexpected increase in [illegible] transfers to bring poverty as officially measured back to the 11-12 percent [illegible] the late 1970s.

[illegible] how experiences differ among demographic groups. Let me [illegible] two of the more striking conclusions. First, elderly persons were the only [illegible] continuous declines in poverty between 1980 and 1982 and they [illegible] group projected to experience continuing declines in poverty in 1983 [illegible] Second, while households headed by white males have below average pov- [illegible] they experienced some of the sharpest increases in poverty between 1979 [illegible] Their poverty rates are also expected to show some of the smallest de- [illegible] at which their rates will still be above their 1967 levels. All other [illegible] projected to have poverty rates below their 1967 levels, but above the [illegible] during the 1974 recession.

[illegible] of poverty using an income definition which includes in-kind transfers [illegible] since the Bureau of the Census has not published a consistent time [illegible] poverty that counts the value of in-kind transfers. Our rough estimate is [illegible] poverty rates increased from 6.1 percent in 1979 to 8.8 percent in 1982 [illegible] adjusted poverty is projected to be 8.2 percent, which is comparable to [illegible] 1970s.

[illegible] POVERTY RATES AND PROJECTED POVERTY RATES (OFFICIAL MEASURE) BASED ON [illegible] ECONOMIC ASSUMPTIONS AND PROPOSED LEGISLATION

[illegible]	[illegible]	[illegible]	White Male	White Female	Black Male	Black Female	Hispanic Male	Hispanic Female
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	30.0	61.6	NA	NA
[illegible]	[illegible]	[illegible]	[illegible]	31.4	21.7	58.8	NA	NA
[illegible]	[illegible]	[illegible]	[illegible]	28.1	18.2	53.6	20.1	55.6
[illegible]	[illegible]	[illegible]	5.5	24.9	16.2	52.2	15.5	48.9
[illegible]	[illegible]	[illegible]	6.9	27.1	17.9	53.1	18.5	52.5
[illegible]	[illegible]	[illegible]	7.6	28.4	19.4	55.8	18.6	54.0
[illegible]	[illegible]	[illegible]	8.7	28.7	20.0	57.4	22.0	57.4
[illegible]	[illegible]	14.2	8.4	27.8	18.5	55.2	19.9	56.2
[illegible]	[illegible]	[illegible]	8.1	28.5	19.8	55.4	21.7	54.7

[illegible] economic assumptions for 1982 and 1983 (growth in real GNP of [illegible] 1.7 and [illegible] percent), the budget projections for transfer programs found in the fiscal year 1984 Budget [illegible] percent), and the U.S. Bureau of the Census demographic projections. Actual data from Current [illegible]

CONCLUSION

[illegible] conclusion is that the changing rate of economic growth is but one [illegible] which has contributed to the past decline and recent increase in poverty. [illegible] income transfers have had a substantial impact, especially for the [illegible] More disturbing is our conclusion that changes in inequality of earnings [illegible] a large impact on poverty. At this time we cannot explain the causes of [illegible] inequality. However, if inequality does continue to grow, it will [illegible] increasingly difficult to get poverty rates back to their mid-1970s levels.

[illegible] BOWDOIN COLLEGE AND INSTITUTE FOR RESEARCH ON POVERTY, UNIVERSITY OF WISCONSIN-MADISON, AND SHELDON DANZIGER, INSTITUTE FOR RESEARCH ON POVERTY, UNIVERSITY OF WISCONSIN-MADISON

[illegible] This research was supported in part by funds granted to the Institute for Research on Poverty at the University of Wisconsin by the Department of Health and Human Services and by a grant from the Alfred P. Sloan Foundation. The views expressed in this paper are the authors' own and do not necessarily reflect the views of either grantor. Sally Davies, Daniel Feaster, Susan Marble, and Lisa Barrest provided valuable assistance. Nancy Rortvedt provided excellent clerical assistance. Lee Bawden, June O'Neill, Eugene Smolensky, and participants at the IRP/ASPE Policy Workshop and at the Urban Institute Conference provided helpful comments on the work-in-progress.]

Macroeconomic Conditions, Income Transfers, and the Trend in Poverty

Debate about the relative effectiveness of economic growth or targeted anti-poverty policies has been a recurring theme in the policy arena and in the academic literature (see Aaron, 1978, for a review). The War on Poverty adopted the premise that economic growth was not sufficient for alleviating poverty. The 1964 Economic Report of the President stated:

"Rising productivity and earnings, improved education, and the structure of social security have permitted many families or their children to escape; but they have left behind many families who have one or more special handicaps. These facts suggest that in the future economic growth alone will provide relatively few escapes from poverty. Policy will have to be more sharply focused on the handicaps that deny the poor fair access to the expanding incomes of a growing economy." (U.S. Council of Economic Advisors, 1964, p. 72)

Indeed, Kershaw and Courant (1970) cite the perceived declining antipoverty effectiveness of economic growth as the "analytical justification" of the War on Poverty.

The Reagan administration emphasizes the dual nature of economic growth. According to the U.S. Office of Management and Budget (1983):

"History teaches us that economic growth is a critical determinant of individual and family well-being. In the decade of the 1970s, the economy failed to perform as well as in the 1960s. . . . As a result, it was in the 1960s rather than in the 1970s that the greater inroads against poverty were made. Clearly, economic growth is vital to promoting the well-being of working families. But it also benefits those who cannot work, because as the wealth of the nation grows, more money is available to help those in need." (pp. 30-31).

By implication, economic growth helps the poor by raising their own market income and by raising the income of the nonpoor sufficiently to accommodate redistribution. The Reagan program reflects this dual approach. The "safety net" is to remain in place for those who cannot work. Yet, transfers to those who do work have been reduced, as they are expected to benefit from the expanded employment opportunities associated with growth.

How sensitive is poverty to increased economic activity, holding transfers constant? One would think that the experience of the last twenty years might offer an almost ideal social experiment to determine the relative importance of growth in market incomes and income transfers. Rapid economic growth in the late 1960s was followed by periods of slower growth and stagnation. The scope of income transfer programs, especially those targeted at low-income people, also underwent dramatic change. Variation in both of these key independent variables should have allowed researchers to accurately estimate how much poverty reduction was due to growth in market incomes and how much was due to increases in government income transfers.

We argue that this public policy debate has not been resolved because previous researchers have not provided a conceptual framework to link macroeconomic conditions and income transfers with poverty reduction. We begin by reviewing the descriptive data on economic growth, transfers, and poverty. Then we report the results of reestimating some of the standard single-equation models that have appeared in the literature. We conclude that although these models can be used to project poverty, they are not specified in a manner that that can be used to disentangle the effects of growing market incomes from the effects of increased transfers. We project that the recent increases in poverty will not be reversed. Poverty will remain close to current levels for the next several years, given the expected trends in economic growth, unemployment rates, and income transfers.

Finally, we use a conceptual framework that links secular and cyclical changes in macroeconomic activity to the mean and the shape of the income distribution, and hence, to changes in poverty. We apply this framework to date derived from the Current Population Surveys for 1967 through 1982. We find that between 1967 and 1979, growth in mean transfer income was about as important as growth in mean market incomes in reducing poverty for all persons. Since 1979, growth in transfers has not been large enough to offset poverty increasing declines in mean market incomes. Over the entire 1967-1982 period, changes in the shape of the income distribution have tended to increase poverty.

TIME-SERIES EVIDENCE

Table 1 presents the basic trends for macroeconomic performance, income transfers, and poverty. The rapid economic growth during the early 1960s and the slowdown during the late 1970s and early 1980s is readily apparent in the level of real GNP per household (column 1).[1] This slowdown was a result of worsening cyclical conditions coupled with slower growth, net of cycle. In spite of the rise in unemployment rates (column 2), the economy did experience modest net economic growth during the 1970s. Nonetheless, real GNP per household in 1982 was below the 1971 level. Thus, if econimc growth tended to reduce poverty, some decline in poverty might have been expected for the 1970s, though at a slower rate than in the early years.

TABLE 1. — TIME SERIES ON MACROECONOMIC CONDITIONS, INCOME TRANSFERS AND POVERTY, SELECTED YEARS 1950-81

Year	Real GNP per household (1972 dollars)	Percent unemployment rate	Transfers per household[1]: Real cash (1972 dollars)	Transfers per household[1]: Real in-kind (1972 dollars)	Percent incidence of—: Official poverty	Percent incidence of—: Poverty adjusted for in-kind transfers[2]
	(1)	(2)	(3)	(4)	(5)	(6)
1950	$10,880	5.3	$365	$29	NA	NA
1955	12,490	4.4	460	31	NA	NA
1960	13,060	5.5	664	40	20.2	NA
1961	13,170	6.7	730	43	21.9	NA
1962	13,810	5.5	770	49	21.0	NA
1963	14,200	5.7	751	54	19.5	NA
1964	14,630	5.2	801	58	19.0	NA
1965	15,350	4.5	816	63	17.3	12.1
1966	16,010	3.8	878	71	15.7	NA
1967	16,020	3.8	891	150	14.3	NA
1968	16,390	3.6	911	204	12.8	9.9
1969	16,470	3.5	958	231	12.1	NA
1970	16,080	4.9	1,010	242	12.6	9.3
1971	16,170	5.9	1,150	273	12.5	NA
1972	16,710	5.6	1,225	304	11.9	6.2
1973	17,170	4.9	1,272	320	11.1	NA
1974	16,720	5.6	1,263	327	11.2	7.2
1975	16,130	8.5	1,395	386	12.3	NA
1976	16,630	7.7	1,513	427	11.8	6.7
1977	17,070	7.1	1,508	452	11.6	NA
1978	17,440	6.1	1,488	464	11.4	NA
1979	17,580	5.8	1,419	472	11.7	6.1
1980	16,850	7.1	1,414	482	13.0	NA
1981	17,020	7.6	1,458	505	14.0	NA
1982	16,760	9.7	1,475	508	15.0	NA

[1] Transfers are divided by all households, not by recipient households.

[2] This series also adjusts census incomes for simulated values of taxes and income underreporting.

NA Not available.

Sources: For GNP, consumer price index and unemployment rate, 1982 Economic Report of the President; for cash and in-kind transfers, "Social Welfare Expenditures Under Public Programs in the United States," Social Security Bulletin, December 1968, December 1972, January 1971, January 1977, November 1984; for official poverty incidence and number of households, Current Population Reports, series P-60, "Consumer Income"; for adjusted poverty, Smeeding (1982a).

[1] In the regression results presented in the Appendix, aggregate GNP and transfers are divided by households to separate the impacts of economic and demographic. Dividing by population would also correct for demographic change, but would not account for increases in family needs as households split into smaller units. Since the official poverty thresholds refer to household incomes and represent a set of equivalence scales that accounts for economies of scale associated with larger household sizes, GNP and transfers per household are more appropriate measures. Regressions based on per capita independent variables are, however, also consistent with our findings and are available on request.

The growth in real cash and in kind transfers per household (columns 3 and 4), commonly referred to as the "social welfare explosion," is well-known. Possibily less well-known is the fact that real cash transfers per household declined almost 7 percent from 1976 to 1980 (column 3). This is not solely a reflection of increases in the number of households, since cash transfers as a percentage of GNP dropped by 8 percent over the same period. The growth rate of in-kind transfers has slowed in recent years, but their absolute levels have continued to increase. Thus, if increased transfers tended to reduce poverty, declines in official poverty through the mid-1970's and increases in the late 1970s would have been expected.

The trend in the official incidence of poverty for all persons (column 5) can be broken down roughly into three periods. Between 1960 and 1969 poverty rates plummeted from about 20 to 12 percent. This was followed, until 1979, by a leveling of poverty in the 11 to 12 percent range. The 1979 to 1982 period marked the first sharp increase in poverty over the full thirty-year period. Poverty rose from 11.6 in 1979 to 13 in 1980, 14 in 1981 and 15 percent in 1982. To put this increase into perspective, note that poverty only increased from 11.2 to 12.3 during the 1974-75 recession. Clearly, the recent rise in poverty stands in sharp contrast to previous experience.

The incomplete series on poverty that includes in-kind transfers (column 6) shows a steeper decline that the official series for the earlier years and the same leveling during the 1970s. Because no data are available after 1979, we cannot be sure that the in-kind poverty series would show as sharp an increase as the official series.

The simple story which emerges from Table 1 is that the early period of sharp poverty reductions (in both measures) was a result of strong economic growth, declining unemployment rates, and large increases in transfers. All three factors contributed to decreasing poverty. The second period, that of steady poverty rates, seems to be the result of two offsetting factors. The rise in unemployment rates was offset by increases in both cash and in-kind transfers. After 1979, all three factors contributed to increasing official poverty. By 1982 GNP per household had still not regained its 1971 value and unemployment had risen from 5.8 percent to 9.7 percent. This was accompanied by a constant value of real cash transfers per household, despite the generally countercyclical nature of transfers.

These stylized facts suggest that the poor benefit from secular economic growth, lower unemployment rates, and increased transfers. However, simple bivariate relationships are obviously inadequate to determine the relative importance of each of these factors in explaining the changes in poverty.

Before we turn to multivariate models, we review the possible effects of demographic change on the trend in poverty.[2] There has been rapid change in the composition of households (families plus unrelated individuals). Between 1965 and 1981, the total number of households grew by about 48 percent, while population grew by only about 18 percent. A wide differential also holds for the poor—poor households increased by 27 percent while poor persons increased by only 15 percent. Households with the lowest poverty rates proportionately declined the most. For example, the proportion of families headed by men of working ages fell from almost 60 to about 45 percent of all households. On the other hand, households headed by nonaged women increased from about 13 to almost 20 percent of all households, and from about a quarter to about 40 percent of all poor households. Thus, even if poverty rates had remained constant for each demographic group, the aggregate poverty rate would have risen.

Table 2 highlights the differences in poverty levels and trends for several major demographic groups for the 1967-79 period.[3] The largest reduction in poverty and the largest impact of in-kind transfers are for elderly persons. Adjusted poverty rates for blacks, Hispanics and women heading households remain above the official rates that existed for whites in 1967, when in-kind transfers were few and consequently had little impact. These data suggest that a disaggregated analysis of poverty trends is in order, a point made by Aaron (1967), but not followed in some of the

[2] All of the data in this paragraph come from computations by the authors from the 1966 Survey of Economic Opportunity and the March 1982 Current Population Survey.

[3] The poverty rates in column 3 of Table 2, available only for 1979 are the lowest adjusted poverty rates in the Census Bureau's technical report (U.S. Bureau of the Census, 1983). They value the transfers at market cost and include medical expenditures for institutional care. The poverty rate for all persons in column 3 differs from that shown for 1979 in column 6 of Table 1. That time series includes in-kind transfers at their cash equivalent values to recipients and simulates additional adjustments for underreporting of incomes and the payment of Federal income and payroll taxes. Danziger and Gottschalk (1983) discuss the Census Bureau report and its implications for the measurement of poverty.

recent time-series literature. We now turn to the types of regressions that have been estimated by previous researchers.

TABLE 2.—ALTERNATIVE MEASURES OF THE INCIDENCE OF POVERTY, OFFICIAL MEASURE FOR 1967, AND 1979 AND MONEY INCOME PLUS THE MARKET VALUE OF IN-KIND TRANSFERS FOR 1979

[In percent]

[illegible]	Official measure 1967	Official measure 1979	Money income plus in-kind transfers at market value 1979 [1]
	(1)	(2)	(3)
[illegible]	14.2	11.1	6.4
[illegible]	11.0	8.5	5.2
[illegible]	39.3	30.4	15.1
[illegible]	NA	21.4	12.0
Female householder, no husband present	40.6	34.8	17.6
Elderly (65 and over)	29.5	14.7	4.5

[1] In-kind transfers of food, housing and medical benefits.
NA Not available.

Source: [illegible] Bureau of the Census, Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effects on Poverty, Technical Paper No. [illegible] (Washington, D.C.: U.S. Government Printing Office, 1982). For 1967: U.S. Bureau of the Census, Money Income and Poverty Status of Families and Persons in the United States: 1982, series P-60, No. 140 (Washington, D.C.: U.S. Government Printing Office, [illegible]).

USES OF TIME-SERIES REGRESSIONS

In the tradition of Anderson (1965), Gallaway (1956, 1967) and Aaron (1967), several recent studies have estimated time-series regressions to obtain the partial effects of growth in GNP and transfers on poverty reduction. The results from these studies are conflicting. for example, Thornton, et al. (1978) state: "Our findings indicate that the contribution of growth has been overstated, . . . much of the past successes are illusory" (p. 385).

On the other hand, Murray (1982) claims that, "The effects of economic growth did indeed trickle down to the lowest economic levels of society. . . . The fortunes of the economy explain recent trends in poverty. But the flip side of this finding is that social welfare expenditures did not have an effect on poverty. Once the effects of GNP are taken into account, increases in social welfare spending do not account for reduction in poverty in the last three decades." (p. 11).

If Thornton et al. are correct, then the working poor will not be greatly aided by economic expansion. But if Murray is correct, then poverty rates should fall back to their 1979 levels after the economic recovery gets underway.

Why do studies obtain such different results? To answer this question, we estimated a large number of time-series regressions similar to those found in the literature. These regressions attempt to show how poverty is affected by economic growth, changes in cyclical conditions and transfer growth. The appendix to this paper gives a sample of the regressions we estimated. Our results suggest that previous studies have come to different conclusions because the estimated coefficients are not stable enough to accurately separate the impact of economic growth from impact of growing transfers and that of changes in unemployment. This is because the three factors vary closely together.

Consider a simple, but extreme case. Suppose that when economic growth is rapid, transfers increased as a result of increased taxpayer generosity. Increased economic growth and the resulting increased transfers would reduce poverty. However, it would be impossible to separate the impact of the two factors on poverty, since they would move exactly together. In practice transfers, economic growth and unemployment do not move perfectly together. They, however, do move in sufficiently similar manner to make it difficult to accurately separate their impacts.

While the regression framework has this drawback, it is a useful tool for analyzing whether the recent increase in poverty will be reversed as the economy recovers. This does not require that we determine whether further changes in poverty will result from growth in market incomes or transfers. We need only determine how much the joint changes in these variables will reduce poverty.

We use our estimated relationships between the poverty rate and real GNP per household, real cash transfers per household and unemployment to project poverty for 1983 and 1984. The projections are based on the Office of Management and Budget's July 1983 economic assumptions and the projections of transfers found in the FY 1984 budget. Between 1982 and 1983 growth in real GNP is projected to rise from −1.7 percent to 3.1 percent. Real cash transfers per household are projected to increase by 6 percent, primarily due to the projected increase in the unemployment rate. Between 1983 and 1984, economic growth is projected to increase but transfers are projected to decrease. The latter is partially a result of the decline in countercyclical transfers but also reflects legislated changes in transfers.

Table 3 presents the actual trend in poverty for all persons and for selected demographic groups for selected years between 1967 and 1982, and projections for 1983 and 1984. The poverty rate for all persons is projected to drop from 15.0 percent in 1982 to 14.6 percent in 1983 and to stay at the level in 1984. The recent rise in poverty will not be revised by the projected economic recovery. It would take either a stronger recovery or sustained increases in income transfers to bring poverty back to the 11 to 12 percent range of the 1970s.

There are large differences both in the 1967-1982 trends and in the projections for the demographic groups. Column 2 of Table 3 shows that poverty for the elderly is projected to continue to decline. Between 1979 and 1984, poverty for the elderly declines by 1.3 percentage points, while it increases by 2.9 points for all persons.

TABLE 3.—ACTUAL POVERTY RATES AND PROJECTED POVERTY RATES BASED ON OMB ECONOMIC ASSUMPTIONS AND PROPOSED LEGISLATION

	All persons	Elderly persons	Percent persons with income below the poverty line who live in households where head is—					
			White		Black		Hispanic	
			Male	Female	Male	Female	Male	Female
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Actual:								
1967	14.2	29.5	8.1	33.9	30.6	61.6	NA	NA
[illegible]	12.6	[illegible]	6.8	31.4	21.7	58.8	NA	NA
[illegible]	[illegible]	[illegible]	6.6	28.1	[illegible]	53.6	20.1	55.6
1979	11.7	15.2	5.9	24.9	16.2	[illegible]	15.5	48.9
1980	13.0	15.7	6.9	27.1	17.9	[illegible]	18.5	52.5
1981	14.0	15.3	7.6	28.4	19.4	55.8	18.6	54.0
1982	15.0	14.6	8.7	28.4	19.4	55.8	18.6	54.4
Projections:								
1983	14.6	14.2	[illegible]	27.8	18.5	55.2	19.9	56.2
1984	14.6	13.9	[illegible]	28.5	19.8	55.4	21.7	54.7

NA Not available.

Note.—[illegible] with the actual [illegible] poverty rates as the dependent variables and unemployment, real GNP per [illegible] transfers per household as the independent variables. All variables are in logarithmic form. The regressions are estimated over the [illegible] except for the Hispanic equations where data are available only after [illegible]. The projections are corrected for [illegible]. The regressions are shown in [illegible] of table A, for all persons and in table A3 for all of the demographic groups.

The data for whites, blacks and Hispanics, classified by sex of head, are shown in columns 3 to 6. Poverty rates for all of the groups are projected to decline from their 1982 levels as the economy recovers. The sharpest projected drop is for black females, a group which experienced an unusually large increase in poverty in 1982.

Nonetheless, the rates are projected to remain above those experienced before the recent rise in unemployment. For example, the poverty rate for white males is projected to remain well above the 1979 level of 5.9 percent, and above the 1967 rate of 8.1 percent. The other demographic groups are projected to maintain poverty rates below their 1967 levels but above the rates they experienced during the 1975 recession.

Projections of poverty using an income definition which includes in kind transfers are less reliable since the Bureau of the Census has not published a consistent time series on poverty that counts the value of in-kind transfers. In Gottschalk and Danziger (1983) we describe a method which can be used to project the adjusted poverty measure developed by Smeeding (1982a). This measure corrects for underreporting of income and values in-kind benefits at their value to recipients. We project that these poverty rates increased from 6.1 percent in 1979 to 8.8 percent in 1982. By 1984 adjusted poverty is projected to be 8.2 percent, which is comparable to the levels of the early 1970s.

The regression framework is useful for making short-term projections over periods where transfers and economic growth closely follow their historical patterns. However, this methodology does not answer the broader question of whether it is possible to reduce poverty substantially without continuing the expansion in social welfare spending experienced during the 1960s and 1970s.

We use two approaches to judge the relative importance of changes in the demographic composition of households, market incomes and transfers in reducing poverty over the past fifteen years. The first focuses on change in the relative size and poverty rates of specific demographic groups. Since the overall poverty rate is a weighted average of rates for the subgroups we can calculate what the overall poverty rate would have been if the weights, which reflect demographic composition, had not changed or if demographic specific poverty rates had remained constant. This decomposition provides a measure of the effect of changes in demographic composition. It also provides a rough indicator of the relative importance of increases in transfers since poverty rates for groups like the elderly are more likely to reflect changes in transfers than in market incomes. The second approach focuses directly on changes in the levels and distributions of market and transfer incomes. A conceptual model is used to show how changes in these components of income affected poverty over the last 15 years.

CHANGES IN THE DEMOGRAPHIC COMPOSITION OF HOUSEHOLDS

We used published data on official poverty rates for eight demographic groups, defined in terms of the head's sex, race and age (over 65 or not) to calculate weighted poverty rates in selected years. Table 4 shows the actual poverty rate for all persons (column 1) and the rates calculated using the 1967 demographic weights for each of the eight groups (columns 2–5). Column 2 shows the poverty rate that would have resulted from actual changes in the group-specific poverty rates if there had been no change in demographic composition since 1967. If this had been the case, poverty would have declined from 14.2 to 13.2 percent between 1967 and 1982. The difference between the rates in columns 1 and 2 grows continuously over the period because the percentage of the population living in households headed by those with above-average poverty rates—women and blacks—increased. For example, actual poverty rates fell from 14.2 to 11.7 percent between 1967 and 1979, the last year of near full employment. If the weights are held constant, the 1979 poverty rate falls to 10.1 percent. Thus, the group-specific rates declined on average between 1967 and 1979.

TABLE 4.—POVERTY RATES FOR ALL PERSONS IN SELECTED YEARS—ACTUAL AND SIMULATED VALUES

[In percent]

	Actual rate	Simulated rate if demographic composition had not changed since 1967 [1]			
			Only poverty rates of		
		All poverty rates change	Elderly change [2]	Nonaged females change [2]	Nonaged males change [2]
	(1)	(2)	(3)	(4)	(5)
1967	14.2	14.2	14.2	14.2	14.2
1974	11.2	10.3	12.7	13.8	12.1
1979	11.7	10.1	12.8	13.6	12.1
1980	13.0	11.7	12.8	13.8	13.0
1981	14.0	12.2	12.8	14.0	13.7
1982	15.0	13.2	12.7	14.2	14.6
Percentage point change over the period [3]					
1967–79	−2.5	−4.1	−1.4	−.6	−2.1
1979–82	+3.3	+3.1	−.1	+.6	+2.5
1967–82	+.8	−1.0	−1.5	0	+.5

[1] The simulated values are based on a classification of all persons into one of eight demographic groups. Different classification produce results that differ only slightly from those shown here.

[2] Poverty rates for all other demographic groups remain at their 1967 levels.

[3] Percentage point change over the period is defined as final period poverty rate less initial year rate. By definition the percentage point changes in cols. (3), (4), and (5) sum to the change in col. (2).

Most of the increase in poverty since 1979, however, cannot be attributed to demographic change. Actual poverty increased by 3.3 percentage points (column 1), while poverty in the absence of demographic change increased by 3.0 percentage points due to increases in the group-specific weights.

Columns 3, 4 and 5 show how changes in the poverty rates for selected demographic groups affected the rate for all persons. In each column, we hold the demographic composition for all groups and the poverty rates for all but the indicated group at their 1967 values. We vary only the poverty rate for the specified group.

Column 3 shows that reductions in poverty for the elderly accounted for a 1.4 point decrease in the overall poverty rate between 1967 and 1979 (14.2 minus 12.9%; reductions for non-aged females and non-aged males account for 0.6 points and 2.1 points respectively. Thus, almost half of the 4.1 percentage point decline in poverty from 1967 to 1979 reflected a drop in poverty for non-aged males.

The deterioration in macroeconomic conditions since 1979 increased poverty rates for all but the elderly. Poverty would have increased from 10.1 to 13.2 percent if the demographic weights had not changed (column 2). None of this increase is accounted for by changes in poverty for the elderly. In contrast to the earlier period, increases in poverty for non-aged males accounted for 2.6 points of the total 3.1 point increase.

This decomposition shows that several factors are quantitatively important in determining whether it will be possible to reduce poverty without large increases in transfers in the future. First, if the demographic composition of the population continues to change as it has, it will prove more difficult to achieve lower poverty rates. This factor accounted for a 1.8 point increase in the poverty rate between 1967 and 1982. A continuation of this trend implies a yearly poverty rate that is higher by only 0.1 percentage points. Second, cyclical downturns had a major impact on poverty. Between 1979 and 1982 poverty rates, adjusted for demographic shifts, increased by 3.1 points. Third, changes in transfers were quantitatively important since declines in poverty rates of households with an elderly head decreased the overall poverty rate by 1.5 points between 1967 and 1982. This largely reflects the increase in Social Security benefits received by these households.

This decomposition suggests that the role of economic growth is limited because those who depend most on market incomes already have low poverty rates. For example, if poverty rates among households headed by a non-aged male had been 3 percent in 1979, instead of 6.5 percent, the poverty rate for all persons would still have been 8.5 percent. Further reductions will have to come from increased incomes for households headed by women, who have up to this point not benefitted directly from economic growth.

CHANGES IN THE LEVEL AND DISTRIBUTION OF MARKET INCOME AND TRANSFER INCOME

The preceding analysis has at least two drawbacks. First, we derived inferences about the importance of market versus transfer income by associating changes in poverty among non-aged males with changes in market incomes, and changes among the elderly with changes in transfers. At best, this is a rough approximation. Non-aged males receive some transfers (e.g., unemployment insurance) and the elderly receive some market income. Second, we controlled for changes in the cycle by comparing the data between pairs of years with varying macroeconomic conditions.

We derive a more precise method for measuring the relative importance of increased market or transfer income, by using a model which explicitly focuses on cyclical and secular changes in the levels and distrubitions of these two sources of income. The details of the methodology can be found in Gottschalk and Danziger (1983). The model proceeds as follows. Poverty can be viewed as changing because shifts in the income distribution alter the proportion of households falling below a fixed poverty line. These shifts in income distribution can be described by changes in the mean income, the dispersion of income around the mean (i.e. the variance) and the degree to which households are concentrated in the lower tail of the distribution (i.e., skewness). Changes in the shape, as well as the level, of the distribution can affect poverty. For example, poverty will not decrease when mean incomes grow if growth is accompanied by increased inequality and the increased inequality is sufficiently large to offset the poverty-reducing effect of the increased mean.

Since reported Census income is composed of market income (e.g., wages, salaries, private pensions, dividends, interest, rents and income from other private sources) and public cash transfers, we decompose changes in Census income into changes in these two types of income. Each of these components varies with the business cycle and follows a long-term trend. During the past fifteen years, average market incomes decreased and average transfers increased during recessions. The tendency was for both to increase. Inequality of earnings, which affects the shape of the income distribution increased during recessions and grew over time (Dooley and Gottschalk, 1982).

We decompose the impact of changes in macroeconomic conditions on poverty into components due to changes in mean market incomes, mean transfers, and other factors that affect the shape of the distribution.[4] The March 1968 and 1973 to 1983 Current Population Surveys were used to calculate the basic data which describe the distribution of market income and transfers in each year (i.e., the means, variances, covariance and a measure of skewness).

We now focus on the effects of actual changes in mean market income and mean transfer income and group the remaining factors into a residual category. This residual category is decomposed in Gottschalk and Danziger (1983).

Table 5 shows the contributions of changes in mean market and transfer income in changing poverty between 1967 and 1979 and between 1979 and 1982.[5] Row 1 shows that while the actual poverty rate for all persons declined by only 2.6 percentage points between 1967 and 1979, increases in the mean of market income would have reduced poverty by 2.4 points, if transfers and factors affecting the shape of the distribution had remained constant. Increases in mean transfers would have reduced poverty by 3.1 points, ceteris paribus. These two poverty decreasing factors were offset by changes in the shape of the distribution which increased poverty by 2.9 points. Thus, between 1967 and 1979 increases in mean transfers were slightly more important than increases in mean market income in reducing poverty. Changes in the shape of the distribution, however, were as important as either of these factors.

TABLE 5 — DECOMPOSITION OF CHANGES IN POVERTY RATES

[illegible]	Actual percentage point change in poverty	Percentage point change in poverty associated with change in —		
		Mean market income	Mean transfer income	All other factors
	(1)	(2)	(3)	(4)
[illegible]				
[illegible]	2.6	2.4	3.1	2.9
[illegible]	3.3	.8	.4	2.9
[illegible]				
[illegible]	1.[illegible]	2.5	[illegible]	1.2
[illegible]	5.8	3.0	[illegible]	3.8
[illegible]				
[illegible]	1.7	3.1	[illegible]	2.2
[illegible]	3.0	.8	[illegible]	2.4
[illegible]				
[illegible]	12.9	.5	19.6	6.2
[illegible]	.6	.1	1.8	2.3

Source: Computations from data derived in Gottschalk & Danziger (1983).

Note: The sum of the changes in cols. 2, 3 and 4 is equal to the change shown in col. 1.

Row 2 decomposes the 3.3 percentage point increase in poverty between 1979 and 1982. The decline in mean market incomes led to a 0.8 point poverty increase, which was partially offset by a 0.4 percentage point decline due to increased transfers. By far the most important factor, however, was the change in the shape of the distribution, which accounted for a 2.9 point increase in poverty. In other words, if all

[4] Our model is based on the assumption that total income divided by the poverty line has a displaced log normal distribution (see Metcalf, 1972). We use the needs ratio (income divided by the poverty line) rather than actual income to correct for differences in family size. We use the terms market income and transfer income interchangeably with the more cumbersome terms market income to needs ratio and transfer income to needs ratio.

[5] Changes in the shape of the distribution result from changes in the coefficient of variation (variance/mean²), the coefficient of skewness (the third moment/mean³) and changes in higher level moments. For example, column 2 reflects both the poverty-decreasing effects of changes in mean market income and the poverty increasing effects of changes in the variance which keep the coefficient of variation constant. Our calculations would show no change in the shape of the distribution if market incomes and transfer incomes each increased by the same rates for all households. Gottschalk (1981) presents a different decomposition model, but he ignores changes in the covariance and the variance of transfers.

households had experienced the mean changes in market and transfers incomes, poverty would only have risen by 0.4 points.

Because changes in demographic composition have had a significant impact on the trend in poverty, Table 5 shows disaggregated results for persons in households headed by prime-aged males, young males, and elderly persons.[6] From 1967 to 1979, growth in mean market income accounted for a 3.1 percentage point drop in poverty for prime-aged males. Growth in mean transfers accounted for only a 0.8 percentage point drop. Changes in the shape of the distribution increased poverty by 2.2 points. The cyclical downturn between 1979 and 1982 reversed the effect of changes in mean market income. Changes in the mean increased poverty by 0.8 percentage points. While growth in mean transfers still reduced poverty, the effect was only 0.2 percentage points. As in the earlier period, changes in the shape of the distribution had a large poverty-increasing impact, 2.4 points. In sum, for prime-aged men, growth in mean market incomes were more important than transfer growth, but poverty-increasing changes in the shape of the distribution offset their combined effect.

Cyclical changes are even more important for persons in households headed by young men (less than 25 years old). From 1967 to 1979, growth in mean market income decreased poverty by 2.5 points, while growth in mean transfers accounted for only a 0.6 point drop. Changes in the shape of the distribution increased poverty by 1.2 points. The 1979-82 downturn in mean market income increased poverty by 3.0 points and changes in the shape caused a 3.4 point increase. These effects more than offset the net gains this group had made from 1967 to 1979.

The largest drop in poverty between 1967 and 1982 (13.5 points) occurred for households headed by elderly persons (males and females). As might be expected, this decline was almost solely a result of growth in mean transfers.

Simulations.—The fact that increased unemployment increases poverty by decreasing market income has never been disputed in the literature. The key issue revolves around the relative importance of secular increases in market incomes and transfers in reducing poverty. Our method for controlling for cyclical changes has been to compare poverty in 1967 and 1979, two years of close to full employment, and 1979 and 1982, two years of very different macroeconomic conditions. This is a crude method for separating secular from cyclical change.

We now use simulations to remove the cyclical component and focus on secular change. We begin with initial-year values for mean market income, mean transfers and the other parameters describing the shape of the income distribution. We then assume that each household's market income and transfer income-to-needs ratios grew at constant rates (which we specify below). We can then simulate values of poverty which would have been consistent with the assumed growth rates in market and transfer income had there been no cyclical downturn after 1979. We use 1979 as the base year since it was the last year of close to full employment.

Because we impose the constraint that market and transfer incomes grow at constant rates, we eliminate all cyclical changes. We further assume that market and transfer incomes of those at the bottom of the distribution grow as fast as those higher in the distribution. This results in the shape of the income distribution remaining constant over time. This restriction will overstate (understate) the amount of poverty reduction due to secular growth if growth would actually have been accompanied by increasing (decreasing) inequality of market or transfer incomes.

Table 6 shows the actual poverty rate in 1979 and 1982 (columns 1 and 2) and the poverty rates which would have existed if the market and transfer incomes of all households had grown at the rates specified for columns 3-6. The trend rates reflect the secular growth in each income source for each demographic group over the period 1974 to 1981, after controlling for changes in cyclical conditions.[7] Column 3 show the poverty rate which woud have been observed in 1982 if the market income of each household had grown at the specified rate, but transfers remained constant in real terms. Comparing columns 1 and 3 shows that between 1979 and 1982 trend

[6] The displaced log normal distribution does not adequately describe the shape of the income-to-needs distribution for nonaged female heads of households. As a result, we did not estimate the means separately for this group.

[7] If we had used the full 1967-81 period to estimate secular growth rates, net of cycle, the rates for both mean market and mean transfer incomes would have been higher. Gottschalk and Danziger (1984) simulate with the full period trends for all persons of 0.9 percent per year for mean market income and 4.2 for transfers, rather than the 1974-81 trends of 0.3 and 0.7 that are used here. Simulations with the higher growth rates show a larger percentage point decline in poverty, with a larger proportion of the decline attributable to to the growth of transfers. We use the 1974-81 rates because they are more likely than the higher rates to represent future growth prospects.

growth in market incomes would have reduced poverty by 0.2 points for all persons, 0.5 points for young men, and 0.3 points for prime-age men. Trend increases in market income for the elderly would have had a negligible impact. Column 4 shows the poverty rates consistent with secular growth in both market and transfer incomes. A comparison of columns 3 and 4 indicates that trend growth in transfers would have reduced poverty by an additional 0.1 points overall, and 1.3 points for the elderly. Secular growth in transfers would have had a negligible impact on prime-aged men and would actually have increased poverty of young men since they received reduced transfers, once we control for cyclical changes in their transfers.

TABLE 6 POVERTY RATES IN 1979 AND 1982 ACTUAL AND SIMULATED VALUES

	Actual poverty rates		Simulated 1982 poverty rates			
	1979	1982	Market income grows at actual trend, transfer income at 1979 level	Transfers and market incomes grow at actual trend	Market incomes grow at 2 percent, transfers at 1979 levels	Market incomes grow at 3 percent, transfers at 1979 levels
	(1)	(2)	(3)	(4)	(5)	(6)
All persons	11.7	15.0	11.5	11.4	11.0	10.7
Persons in households headed by						
Young men	12.7	18.5	12.4	12.5	11.5	11.1
Prime-aged men	6.1	9.1	5.8	5.8	5.5	5.2
Elderly persons	14.9	14.3	13.9	13.6	14.8	14.8

Note: Col. 3: Market incomes are assumed to grow at the same proportional rate for all people within the demographic group (0.3, 0.4, 0.7 and [illegible] percent for all persons, young men, prime men and elderly, respectively). These rates are obtained from regressions using the observed log [illegible] market income [illegible] as the dependent variable and time and unemployment as the independent variables.
Col. 4: Market incomes are assumed to grow at the rates indicated above and transfer incomes are assumed to grow at 0.7, -4.9, 0.2 and 1.4 percent for the four groups. These rates are obtained from similar regressions using log transfer income [illegible] as dependent variables.
Cols. 5 and 6: Market incomes are assumed to grow at 2 percent (col. 5) and 3 percent (col. 6) for each demographic group.

Columns 5 and 6 show the poverty rates which are consistent with steady market income growth, holding real transfers constant at their 1979 levels. In this sense, they give an upper bound to the property reduction which could have been achieved solely through more rapid growth in market incomes. If market incomes of all households had grown by 2 percent per year (column 5), then poverty for all persons would have declined from 11.7 to 11.0 percent over this period. Poverty rates for young men would have declined to 11.5 percent, slightly above the overall rate. Poverty rates for prime-aged men would have been 5.5 percent. As might be expected, the elderly would have been considerably worse off if there had been rapid growth in market incomes but no growth in transfers than they were under the actual expanded transfer system and lower market income growth. Under this scenario, their poverty rates would have decreased only from 14.9 to 14.8 percent.

A comparison of columns 5 and 6 shows the incremental effect of an additional one-percentage-point increase in the growth rate of market incomes. For example, if market incomes grew at 3 percent per year, poverty for all persons would have been 10.7 rather than 11.0 percent. A comparison of columns 1 and 6 shows that even sustained growth in market incomes for persons at all income levels for a three-year period would not have a very large impact on poverty. At 3 percent per year, it would take about 11 years to reduce poverty from the 1982 rate to its 1979 level, if all other factors remained constant.

We also simulated the effects of secular growth in in-kind transfers on poverty. We used microeconomic data from an adjusted March 1975 Current Population Survey provided by Timothy Smeeding and assumed that secular growth rates in market incomes and cash plus in-kind transfers were equal for all households.[9] We assumed that Smeeding's adjustment for underreporting, which affects the 1974 poverty level, would not affect the growth rates of market and cash transfer incomes as adjusted. We increased the growth rates for transfers in the simulations, which in-

[9] Smeeding (1982a) adjusted for income underreporting and the payment of personal income and payroll taxes, as well as for in kind transfers. About half of the difference between the official and the adjusted poverty rates reflects adjustments for underreporting. The decrease in poverty from underreporting is probably an upper bound, since measurement error would cause some overreporting, a factor not taken into account by Smeeding. The March 1975 Current Population Survey was the latest computer tape that Smeeding could make available to us.

clude cash and in-kind transfers, to reflect the fact that in-kind transfers grew faster than cash transfers.*

Table 7 shows the actual adjusted rates for 1974 and the simulated adjusted rates for 1982 for all persons and the three demographic groups. A comparison of columns 1–3 shows how secular growth in market incomes and mean cash plus in-kind transfers affected poverty. Had mean market incomes followed the 1974–81 secular trend, poverty for all persons would have declined by 0.3 percentage points (7.1 less 6.8). Growth in cash and in-kind transfers would have reduced poverty by an additional 0.8 points, about three-quarters of the total poverty reduction. A comparison of Tables 6 and 7 shows that the inclusion of in-kind transfers and the adjustment for underreporting significantly reduce the level of poverty in any year and increase the relative importance of growth in transfer incomes in reducing poverty.

The relative importance of secular growth in cash plus in-kind transfers varies markedly for the three demographic groups. It is responsible for only 0.1 percentage point of the 0.7 point decline for prime-aged men. Because the secular trend in cash plus in-kind transfers is negative for young men, more young men would have been in poverty under the assumed scenario. As in the other tables, the elderly experience a large reduction in poverty as a result of secular growth in cash plus in-kind transfers.

TABLE 7.—ADJUSTED POVERTY RATES IN 1974 AND 1982: ACTUAL AND SIMULATED VALUES

	Actual 1974 rate	Simulated 1982 poverty rates: Market incomes grow at trend, cash and in-kind transfers at 1974 levels	Simulated 1982 poverty rates: Cash and in-kind transfers and market incomes grow at trends
	(1)	(2)	(3)
All persons	7.1	6.8	6.0
Persons in households headed by			
Young men	9.7	9.0	9.4
Prime-aged men	4.6	4.0	3.9
Elderly persons	4.9	4.9	3

Note: Market incomes are assumed to grow at 0.3, 0.4, 0.7, and 0.1 percent for the four groups. Cash and in-kind transfers are assumed to grow at [illegible] and [illegible] percent.

SUMMARY

At the outset of the War on Poverty, analysts thought that poverty could be eliminated by 1980 if the economy could be kept on a stable growth path and if additional opportunities could be made available to the poor (see Lampman, 1971). Poverty obviously has not been eliminated. Income transfers to the poor have grown more rapidly than expected, but the economy has not followed a stable growth path.

Our goal in this paper was to determine the relative importance of secular growth, cyclical conditions, and income transfers in reducing poverty. We began by questioning the ability of the regressions that are common in much of the previous literature to determine the relative importance of these three factors. However, we concluded that these regressions could be used for projecting poverty. We then reported the results derived from a model which focused on the impacts of changes in market and transfer incomes on the shape and position of the income distribution. Finally, we provided some simulations that used this framework to control for cyclical changes.

Our major findings are as follows:

Poverty is projected to remain above the 1979 rates through the mid-1980s, even if the economy grows according to official predictions.

Between 1967 and 1979, increases in mean transfers were roughly as important as increases in mean market incomes in reducing official poverty for all persons. Be-

*Data on the log of cash and cash plus in-kind transfers per household, shown in Table 1, were regressed against time and unemployment. The different growth rates in transfers for each group (see column 4 note, in Table 6) were adjusted by the ratio of the two coefficients on the time trends, which was 2.07. Since these regressions were not differentiated by demographic group, the same scaling factor was applied to all groups.

tween [illegible] and [illegible] declines in mean market incomes were only partially offset by increases in transfers.

During both periods, changes in the shape of the income distribution had a large poverty-increasing impact.

Experiences differ across demographic groups. For persons living in households headed by young and prime-aged men, the role of changes in cash and in-kind transfer income is relatively less important than changes in market incomes. For the elderly, transfers account for almost all of the decline in poverty. For all groups, however, changes in the shape of the distribution were quantitatively important.

Our review of the history of the last 20 years tells us a good deal about the prospects for economic growth to reduce poverty without increased transfer payments. Our simulation showed that it would take over a decade to reduce poverty for all persons to the 1979 level if mean market incomes grew at 3 percent per year and all other factors affecting the income distribution remained constant. The prospects for various demographic groups are also not encouraging.

The elderly experienced the largest drop in poverty of any demographic group. They were a sufficiently large group to have a substantial impact on the overall poverty rate: the very large drop in their poverty rate reduced the rate for all persons by [illegible] points. Over the 1967-82 period their poverty reduction was almost wholly attributable to increases in real Social Security and SSI transfers. Since these benefits are not expected to increase in real terms in the next decade, we do not expect very large further declines in poverty for this group.

Poverty rates for non-aged men are affected more by changes in mean market incomes than by mean transfers, suggesting that economic growth could reduce poverty without increased transfers. This optimistic assessment must, however, be tempered by the realization that poverty rates of non-aged males would already be low were it not for the current cyclical condition. A return to full employment would have a substantial impact on the poverty rates of non-aged men. However, it would not have a very substantial impact on the aggregate poverty rate because this group represents an increasingly small portion of the total poverty population and the low rates become increasingly hard to reduce.

If economic growth is unlikely to make substantial inroads into aggregate poverty by reducing the poverty rates of the elderly or non-aged men, growth can only be an effective strategy if non-aged female-headed households gain substantially from increases in market income. We remain pessimistic that economic growth per se will have a large impact on their poverty rates. Our pessimism is based on the small poverty reduction experienced by this demographic group during the high growth period of the late 1960s and early 1970s.

This demographic group, which has continued to increase in size over the 1967-82 period, comprised [illegible] percent of the poverty population in 1979, the last year of close to full employment. Therefore, if further secular declines in poverty are to be achieved, they will have to come largely as a result of decreased poverty among non-aged female-headed families.

REFERENCES

Aaron, Henry. 1967. "The Foundations of the 'War on Poverty' Reexamined." American Economic Review, 57, 1229-1240.

———. 1978. Politics and the Professors: The Great Society in Perspective. Washington, D.C.: Brookings Institution.

Anderson, W. H. Locke. 1964. "Trickle Down: The Relationship between Economic Growth and the Extent of Poverty Among American Families." Quarterly Journal of Economics, 78, 511-524.

Chiswick, Barry, and McCarthy, Michael. 1977. "A Note on Predicting the Poverty Rate." Journal of Human Resources, 12, 396-400.

Danziger, Sheldon, and Gottschalk, Peter. 1983. "The Measurement of Poverty." American Behavioral Scientist, 26, 739-756.

Dooley, Martin, and Gottschalk, Peter. 1982. "Does the Younger Male Labor Force Mean Greater Earnings Inequality?" Monthly Labor Review, (November), 42-45.

Gallaway, Lowell E. 1965. "The Foundations of the 'War on Poverty.'" American Economic Review, 5[illegible], 12[illegible]-131.

———. 1967. "The Foundations of the 'War on Poverty': Reply." American Economic Review, 57, 1241-1243.

Gottschalk, Peter. 1981. "Transfer Scenarios and Projections of Poverty into the 1980s." Journal of Human Resources, 16, 41-60.

_____ and Danziger, Sheldon 1983 "Changes in Poverty, 1967-1982 Methodological Issues and Evidence" Institute for Research on Poverty Discussion Paper #737-83.

Hirsch, Barry 1980 "Poverty and Economic Growth Has Trickle Down Petered Out?" Economic Inquiry, 18, 151-158

Kershaw, Joseph with Courant, Paul 1970 Government Against Poverty Washington, DC Brookings Institution

Lampman, Robert 1971 Ends and Means of Reducing Income Poverty Chicago Markham

Metcalf, Charles 1972 An Econometric Model of Income Distributions Chicago Rand McNally

Murray, Charles 1982 "The Two Wars Against Poverty" Public Interest (Fall), [illegible]

Paglin, Morton 1980 Poverty and Transfers In-Kind Stanford, Calif Hoover Institution Press

Smeeding, Timothy 1982a "The Antipoverty Effects of In-Kind Transfers" Policy Studies Journal 10 [illegible]

_____ 1982b "Book review of Poverty and Transfers In-Kind" Journal of Economic Literature 20, [illegible]

Thornton, James R, Agnello, Richard J, and Link, Charles R 1978 "Poverty and Economic Growth Trickle Down Peters Out" Economic Inquiry, 16, 385-394

U S Bureau of the Census 1982 Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effects on Poverty Technical Paper #50 Washington, DC U S Government Printing Office

_____ 1983 Money Income and Poverty Status of Families and Persons in the United States 1982 Series P-60, No 140 Washington, DC U S Government Printing Office

U S Council of Economic Advisers 1964 Economic Report of the President, 1964 Washington DC U S Government Printing Office

U S Office of Management and Budget, Executive Office of the President 1983a Budget of the United States Government, Fiscal Year 1984 Washington, DC U S Government Printing Office

_____ 1983b "Means-Tested Individual Benefits" In Major Themes and Additional Budget Details Fiscal Year 1984 Washington, DC U S Government Printing Office

Mr STARK Mr Smeeding, would you like to proceed?

STATEMENT OF TIMOTHY M. SMEEDING, ASSOCIATE PROFESSOR OF ECONOMICS; AND DIRECTOR, DIVISION OF SOCIAL SCIENCE RESEARCH, CENTER FOR PUBLIC AFFAIRS AND ADMINISTRATION, UNIVERSITY OF UTAH

Mr SMEEDING Thank you, sir

I am sorry that Mr Campbell and his colleagues have left. I think he should be interested in what I have to say here.

Mr STARK Unfortunately we are sometimes required to be at two or three meetings at the same time. Believe me, your testimony does get read and it has an impact. I apologize for the semblance of disinterest

I appreciate your taking the time to be here and bear with us as we get through this

Why don't you proceed in the manner that you desire.

Mr SMEEDING I have been asked to address the effect of alternative measures of income on poverty, particularly as they might bear on the recent increases in the official poverty figures in the United States

In my opinion, there are three major items which affect the level of poverty in the United States that are not taken into account in the official poverty figures In order of importance, they are:

First, failure to include the impact of benefits from in-kind or nonmoney income transfers such as food stamps, public housing, and medicaid in the incomes of the poor.

Second, failure to subtract Federal and State income and payroll taxes before comparing incomes to poverty levels.

And third, the problem of under reporting, nonreporting, and misreporting of survey income.

I did a report that most of you have seen for the Census Bureau on the effect of in-kind transfer benefits on poverty and that is summarized in my prepared statement. I would say by themselves in-kind transfers are liable to reduce poverty somewhere in the neighborhood of 25 to 30 percent below the official poverty rates.

Now, taxes are something which are more important and I think of particular importance to this committee. If we interpret the poverty line as the expenditure needs standard, then fairness and commonsense just say that you are going to have to subtract taxes before you figure out how much money people have to spend for necessary commodities.

According to some estimates I made in 1979, the poverty rate would have increased in that year by about 8 percent had we subtracted Federal and State income taxes. The effect is much bigger today, however.

As has been pointed out earlier, the Economic Recovery Act of 1981 did not adjust personal exemptions or the standard reduction to adjust for erosion by inflation. Low earners today who are near the poverty line are paying substantial amounts of tax. There is a large amount of data in my paper that attests to this.

I guess you could summarize it by saying, first of all, the social security payroll taxes are a much heavier burden on low-income earners than are income taxes. Secondly, these tax burdens are not insubstantial.

For instance, in 1982 a poverty line family of four was liable for $946 in income and payroll taxes. The average food stamp benefits to that family that year were a little less than $900, which means that once you add in food stamps and subtract out taxes, this family is $46 worse off, not better off.

The last problem is that of under reporting, which is a very difficult problem. Actually, the Census Bureau does not believe in adjusting for under reporting and you can understand why when you realize that it is very difficult to figure out who is lying about what. But I and other people, have tried. There have been some studies and other things which seem to show, I would guesstimate, that the effect of under reporting is maybe to reduce poverty by about 15 to 20 percent.

Now, how does this bear upon the recent increases in poverty that we have seen? Well, what has happened from 1979—the base year for my census report—to 1982 is that the relative numbers of female-headed families and elderly who are poor have fallen from 51 percent of the poor roughly to about 45 percent. While at the same time the relative amount of the official poor in families with husbands, wives, and children has risen from about 34 percent to about 40 percent. In fact, last year 60 percent of the increase in poverty from 1981 to 1982 was in husband-wife families.

I single out these two groups for the following reasons. If you look at these three adjustments, in-kind transfers, taxes and reporting, they have the biggest impacts in terms of reducing poverty for the elderly and for female heads.

On the other hand, these three factors have the least effect on husband-wife families. Earnings are well reported. Poor husband-wife families get many fewer in-kind benefits than poor female-headed families or poor elderly families. And poor husband-wife families pay more in taxes.

So when you put this all together, these are the people, husband-wife families, for whom you are going to find the least impact for making these three adjustments.

Now, what does this all add up to? In fact, the Census Bureau is today updating this report that I did for Congress in 1979 to include 1982 figures—and when they do that, they are only adjusting for in-kind benefits—when they do that, I think the poverty rate that you are going to see will be somewhere around 10 or 10½ percent after including only in-kind benefits. Once you also include the effect of taxes and under-reporting, I think the poverty rate in the United States is going to be somewhere around 8½ to 9 percent.

There are a lot of policy implications in these figures. They say that the administration's statements are correct, that in-kind benefits reduce poverty below the official figures. Nobody ever doubted that. But they also say that you still have 20 million poor people in America even after you made all these adjustments which were supposed to reduce poverty to zero.

It says that taxes are important and are having a much larger impact on increasing poverty today. And it also says that poverty, any way you measure it—and this corroborates the statements of Messrs. Danziger and Gottschalk—any way you measure it, poverty in the United States is increasing and increasing at a rapid rate.

Thank you.

Mr. STARK. Thank you for your testimony.

[The prepared statement follows:]

STATEMENT OF TIMOTHY M. SMEEDING, DEPARTMENT OF ECONOMICS, AND DIRECTOR, DIVISION OF SOCIAL SCIENCE RESEARCH CENTER FOR PUBLIC AFFAIRS AND ADMINISTRATION, UNIVERSITY OF UTAH

I. INTRODUCTION

Mr. Chairman and Committee Members:

I have been asked to address the effect of alternate measures of income on poverty, particularly as they might bear on the recent increases in the official proverty figures in the U.S. In my opinion, there are three major items which affect the level of poverty in the United States that are not taken into account in the offical poverty figures. In order of importance, they are:

1. Failure to include the impact of benefits from in-kind or non-money income transfers such as Food Stamps, Public Housing, and Medicaid in the incomes of the poor.

2. Failure to subtract federal and state income and payroll taxes before comparing incomes to proverty levels.

3. The problem of underreporting, non-reporting, and mis-reporting of survey income.

In this testimony I will first treat these shortcoming in this order, explaining my estimates of their individual impacts on poverty. Second, I will relate these shortcomings to the recent changes in the official poverty count. Finally, I will present estimates of the net impact of these adjustments on the extent and trend in poverty in the U.S.

II. ACCOUNTING FOR IN-KIND BENEFITS, TAXES, AND UNDERREPORTING

Having authored the recent Census Bureau report to Congress on the effect of in-kind benefits on poverty (Smeeding, 1982a) and having also written extensively on the effect of taxes and underreporting on poverty as well (Smeeding, 1975, 1977, 1982b), I am particularly pleased that you have asked me to testify before you today.

Measuring and Valuing In-Kind Transfers and Assessing Their Impact on Poverty.—My report to Congress described three different strategies for valuing in-kind transfers and develops the estimating procedures to implement them:

1. The market value is equal to the purchase price in the private market of the goods received by the recipient; e.g., the face value of food stamps; or the government cost of particular goods; e.g. the insurance value of Medicare and Medicaid.

2. The recipient or cash equivalent value is the amount of cash that would make the recipient just as well off as the in-kind transfer; it, therefore, reflects the recipient's own valuation of the benefit. The recipient of cash equivalent value is usually less than the market value. Even though cash equivalent value is the theoretically preferred measure, it is quite difficult to estimate, especially for medical care.

3. The poverty budget share value, which is tied to the poverty concept, limits the value of food, housing, or medical transfers to the proportions of income spent on these items by persons at or near the poverty line in 1960-61, when in-kind transfers were minimal. It assumes that in-kind transfers in excess of these amounts are not relevant for determining poverty status because an excess of one type of good (e.g. medical care) does not compensate for a deficiency in another good (e.g. housing).

Because of the importance of medical benefits, which constitute over 80 percent of the total market value of in-kind transfers, and because of the problematic nature of valuing these benefits, three alternative definitions of in-kind benefits to be included as income were also presented in this report. These definitions were: food and housing alone; food, housing, and medical care excluding institutional care (nursing home) benefits, and food, housing, and medical care including institutional care. In summary, the report contains nine basic alternative measures of poverty, each alternative incorporating one of the three valuation strategies and one of the three definitions of in-kind benefits to be counted in income. Each of these measures can be compared to the poverty rate based on census money income—the official measure of poverty.

Table 1 summarizes these results. It should be noted that each of these different income definitions and valuation strategies are separable. Thus it is possible to combine them in any way that policymakers deem relevant. My first preference as an economist is the cash equivalent value approach. But cash equivalents are difficult to measure. Taking into account ease of estimation and protecting against medical benefit overvaluation, I would combine a mixture of all three valuation strategies: the market value strategy for food benefits; recipient or cash equivalent value for housing benefits; and poverty budget share value for medical benefits. With no other changes, e.g. those for taxes or reporting, such a combination would have produced a poverty rate of about 8.5 percent in 1979, a reduction of 22.7 percent from the "official" money income only poverty rate of 11.1 percent, and very close to the theoretically preferred 8.7 percent obtained by the cash equivalent approach. The rationale for these choices can be explained in a few paragraphs.

TABLE 1.—ALL PERSONS: COMPARISON OF THE NUMBER OF POOR AND POVERTY RATES USING ALTERNATIVE INCOME CONCEPTS AND VALUATION TECHNIQUES, 1979

[Numbers in thousands]

Income concept	Valuation technique approach		
	Market	Recipient or cash equivalent	Poverty budget share
Money income alone:			
Number of poor	23,623	23,623	23,623
Poverty rate	11.1	11.1	11.1
Money income plus food and housing:			
Number of poor	19,933	20,218	20,743
Poverty rate	9.4	9.5	9.8

TABLE 1.—ALL PERSONS: COMPARISON OF THE NUMBER OF POOR AND POVERTY RATES USING ALTERNATIVE INCOME CONCEPTS AND VALUATION TECHNIQUES, 1979—Continued

[Numbers in thousands]

Income concept	Valuation technique approach: Market	Recipient or cash equivalent	Poverty budget share
Percent reduction[1]	15.6	14.4	12.2
Money income plus food, housing, and medical care (excluding institutional care expenditures):			
Number of poor	14,024	18,393	18,866
Poverty rate	6.6	8.7	8.9
Percent reduction[1]	40.6	22.1	20.1
Money income plus food, housing, and medical care (including institutional care expenditures):			
Number of poor	13,634	17,318	18,866
Poverty rate	6.4	8.2	8.9
Percent reduction[1]	42.3	26.7	20.1

[1] Percent reduction in the number of poor from the current poverty estimate based on money income alone.

Source: [illegible]

The recipient or cash equivalent value of food stamps (and School Lunch) subsidies is virtually identical to their market value. In other words, recipients spend at least as much on food (and school lunch) as these benefits afford. In particular, Food Stamps are virtually as good as cash. The face value of Food Stamps is already reported in the March Current Population Survey (CPS) and the market value of School Lunch subsidies are easily calculated. There is no need to move to alternative valuation strategies in this case.

The recipient or cash equivalent value of public housing subsidies averages 80 percent of their market value, and averages 60 percent of market value for the lowest income groups. Thus market value overstates the true welfare gain, as measured by the recipient value of housing subsidies, by a substantial amount. In calculating recipient value, good up-to-date information on housing expenditures among non-public housing low income families is a necessity. The Census Bureau Annual Housing Survey provides all of the data that is needed to accurately estimate these estimates of recipient value with a reasonable degree of accuracy. The Census Bureau is developing an easily replicable methodology which will allow them to carry out this task. In the case of housing benefits then, market value clearly overstates the true welfare gain of the poor, while a reasonably good estimate of recipient value is available and should be used.

Medical care is much more problematic. On average the recipient value of Medicare and Medicaid is only 47.3 percent of the market value. Clearly market value overstates true welfare gains in this case. However calculating recipient value is problematic. In addition, the problem of whether or not to include institutional care expenditures in medical benefits remains.

Because of their enormous market value, the treatment of medical benefits is the crucial element in assessing the impact of in-kind benefits on poverty. Unless one assumes that medical benefits can be used to heat homes or to feed people, there is a distinct danger of overvaluation by assigning medical benefits at their market value, particularly for the elderly. For instance, at current (1983) market values for Medicare and Medicaid benefits, there would be virtually no poverty among the elderly or in just about all of New York State based on these benefits alone. While the recipient value estimates adjust for this problem and are therefore preferable to the market value approach, they are highly speculative. The poverty budget share approach, which limits the value of medical benefits to the amount needed to fulfill an estimated fraction of the overall poverty budget, seems to be the best choice.

Let me explain why. Viewed from a different perspective, the poverty line estimates the amount of a person's basic human needs. Certain amounts are implicitly budgeted for specific needs, e.g., food and medical care. If a person needs more medical care than is budgeted, there is a problem with the poverty line needs share for medical care. Other basic needs are not met by excessive medical benefits. As such, the poverty share approach guards against the overvaluation problem and is free of the recipient value estimation vagaries. Moreover, the anti-poverty effect of medical transfers under this approach is exactly the same whether or not institutional care benefits are included. Since the poverty budget shares have already been calculated, it is a simple procedure to implement this approach on an annual basis. In summary, in terms of accuracy in measurement, fairness, and efficiency in being able to rapidly calculate the impact of in-kind benefits on an annually updated basis, this combined strategy seems the most appropriate choice.

The Treatment of Taxes.—The current poverty line is based on the ratio of food expenditures to after tax income, but Census money income does not subtract out the taxes paid by families before determining their poverty status. If we interpret the poverty line as an expenditure needs standard, fairness and common sense demand such an adjustment. You can't buy the poverty budget with tax dollars. According to my estimates, subtracting federal income and payroll taxes would have decreased the income of many borderline poor families and thus would have increased the poverty rate by about 8 percent in 1979. Earlier estimates for 1972 and 1974 indicates increases in poverty of 6 to 7 percent.[1]

Moreover, the Economic Recovery and Tax Act (ERTA) of 1981 did not adjust personal exemptions or the standard deduction (zero bracket amount) to account for their erosion by inflation. Since these were the two major progressivity features which prevented most poor families from paying federal income taxes their ignorance by ERTA, coupled with scheduled Social Security payroll tax increases, will magnify the poverty increasing impact of personal taxes in the foreseeable future. This inconsistency will grow in importance over the next few years. Based on recent trends in poverty, I estimate that the impact of subtracting state and federal income & payroll based taxes would increase the poverty count by at least 10 percent today.

While there are no recent (post 1979) estimates of the effect of income and payroll taxes on poverty to document my assertion, Tables 2 and 3 suggest the growing burden of federal income and payroll taxes on poverty families near the line.[2] In Table 2 we compare the income tax threshold (the level at which income taxes become positive, after netting out the EITC) to the poverty threshold for a four person family. Before the EITC came into effect in 1975, the tax level was generally below but close to the poverty line. Low income families with earned income as their primary means of support were thus liable for small amounts of income taxes. All earnings were also subject to payroll tax liability, but payroll taxes were relatively low (about 5 percent in 1970). When the EITC came into effect (1975), the small positive income tax liabilities were more than made up for by EITC benefits. The income level at which taxes were due as 21.7 percent above the poverty level for families with children during 1975. In fact, because of EITC refundability, income taxes were actually negative at poverty line income levels. However, as the 1970's progressed the difference between the income level where income taxes were due and the poverty line decreased constantly. The last increase in personal exemptions and the zero bracket amount took place in 1979. Since 1980, the income level at which taxes are due has changed only slightly.[3] However, inflation has driven the poverty line increasingly higher, to the point where a family of four with poverty line earnings this year, even counting the EITC, will have nearly $1,4[illegible] of federally taxable income. Next year this amount will increase to $1,830, and unless some changes are made, in 1985 the difference will be $2,318.

TABLE 2.—POVERTY LINES FOR 4 PERSON FAMILIES VERSUS THE INCOME TAX THRESHOLD FOR A 4 PERSON FAMILY, 1970–85

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	$[illegible]	$[illegible]	$[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[1] [illegible] Bureau of the Census (1982) indicates an increase in poverty of 1.2 percent among households in 1980 accounting for income taxes and the Income Tax Credit only. Payroll taxes, which are quite a bit larger at poverty line income levels than are income taxes, were not counted. No later or more complete estimates of the effect of taxation on poverty currently exist.

[2] State income taxes are not included in these calculations.

[3] These changes are due to the effect of slightly lower income tax rates and their interaction with the EITC.

TABLE [illegible] POVERTY LINES FOR 4 PERSON FAMILIES VERSUS THE INCOME TAX THRESHHOLD FOR A 4 PERSON FAMILY, 1970 85—Continued

Year	Tax threshold	Poverty line	Tax threshold minus poverty line	Tax threshold as a percent of poverty line
[illegible]	8 [illegible]	7 [illegible]	1 214	116 4
[illegible]	8 626	8 414	212	102 5
[illegible]	8 634	9 287	653	93 0
[illegible]	8 727	9 860	1 133	88 5
[illegible]	8 783	10 166	1 383	86 4
[illegible]	8 783	10 613	1 830	82 8
[illegible]	8 783	11 101	2 318	79 1

[illegible] the effect of the Earned Income Tax Credit (EITC) on Federal income tax [illegible]

[illegible]

[illegible] U.S. Bureau of the Census

Table [illegible] indicates the amount of income, payroll, and combined taxes that would be due for families of two, four, and six persons with earnings equal to the poverty [illegible] from 1979 through 1985. These figures bring out several important points. First [illegible] payroll taxes are a much heavier burden on low income earners than are [illegible] taxes. Secondly these tax burdens are not insubstantial. Even though state income taxes are ignored, a poverty line family of four was liable for $946 in income and payroll taxes in 1982. Average food stamps benefits for working families at this income level last year was less than $900. Thus for this family, the net effect of taxes and food stamps (the in-kind program which they are most likely to benefit from) was to reduce their net income by $46! Finally, we note that combined income and payroll tax rates are higher for larger families, and that they have steadily increased since 1979 for all family size groups. Clearly there are poor and near-poor people in America today who are eligible for significant amounts of tax; they can no longer be ignored.

TABLE [illegible] INCOME TAX LIABILITIES AT POVERTY LINE INCOME LEVELS, 1979 85

[illegible]	Year						
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1984	[illegible]
[illegible]							
[illegible]	$[illegible]	$[illegible]	$5 9[illegible]	$6 [illegible]	$6 475	$6 [illegible]	$7 [illegible]
[illegible]	[illegible]	8 414	9 287	9 860	10 166	10 613	11 101
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13 620	14 [illegible]	14 [illegible]
[illegible]							
[illegible]			78	106	118	150	158
[illegible]	4	134	253	85	318	365	383
[illegible]	18	16[illegible]	44[illegible]	491	507	[illegible]	599
[illegible]							
[illegible]	2[illegible]	329	393	421	434	453	499
[illegible]	454	526	628	661	681	711	783
[illegible]	[illegible]	551	828	885	915	953	1 049
[illegible]							
[illegible]	29[illegible]	329	467	527	552	603	657
[illegible]	458	660	881	946	999	1 076	1 166
[illegible]	68[illegible]	914	1 276	1 376	1 420	1 523	1 648
Combined tax as percent of poverty line							
[illegible]	6 1	6 1	7 9	8 4	8 5	8 9	9 3
[illegible]	6 2	7 8	9 5	9 6	9 8	10 1	10 5
[illegible]	6 9	8 5	10 2	10 4	10 1	10 7	11 1

[illegible] income from earnings [illegible] eligible for the EITC. Same inflation estimates as Table [illegible]
Source: Joint Committee on Taxation, Social Security Administration, U.S. Department of the Treasury, U.S. Bureau of the Census

[illegible]. The final major problem with current poverty estimates is their [illegible] to deal with survey income underreporting. The report which I prepared for the Census Bureau did not adjust for this problem because the Census Bureau does not believe that a reasonable methodology for making such adjustments is currently available. The Bureau takes a very defensible position. Still, recent experience with the Current Population Survey (CPS) upon which poverty estimates are based, indicates that only about 90 percent of the money income amounts which should have been reported are actually reported each March. Similarly in-kind benefit re[illegible] and consequently in-kind income, is underreported as well. For instance, only about [illegible] percent of all Medicaid beneficiaries and only 77 percent of food stamps recipients reported coverage in 1980. Faced with this anomaly it is fair to ask, why won't the Census Bureau make any adjustment?

First, [illegible] the issue of how to deal with money income underreporting is quite [illegible]. While on average only 9 out of every $10 is reported, this figure differs [illegible] by income type. Wage and salary income is 98 percent perfect, while [illegible] reported transfer and property income amounts are 75 percent or less of the [illegible] amount. Once specific types of income, e.g., interest or AFDC benefits, [illegible] the problem of misreporting (i.e., reporting [illegible] type of income as [illegible] type) need also be considered. For instance, one recent study (Goodreau, [illegible] and Vaughn 1982) indicates that misreporting of AFDC as general assist[illegible] support is more prevalent than either underreporting dollar amounts [illegible] AFDC or failing to report AFDC altogether. Moreover of those reporting AFDC in [illegible] percent reported the correct amount. Twenty one percent under[illegible] amount by an average of 26 percent. Nine percent overreported [illegible] by an average of 37 percent. Merely "blowing up" reported [illegible] AFDC to reach the aggregate benchmark total totally ignores both of these [illegible].

The state of the art in making such adjustments has not moved much beyond this [illegible] the Census Bureau position. However, until underreporting adjustments [illegible] are improved upon one can get a rough idea of how much difference [illegible] make by looking at the results of the several research efforts [illegible] cash and noncash underreporting and misreporting using various [illegible] including at least one study which directly matched tax and social security [illegible] records to reported survey income amounts.[3] These studies [illegible] reduction in poverty ranging from 11.5 to 26 percent from such adjust[illegible] estimates are developed I would guess that a 20 percent reduc[illegible] the poverty estimates presented in Table 1 not be too far [illegible].

[illegible] RECENT CHANGES IN POVERTY

[illegible] Census report to Congress, the official poverty rate for 1979 [illegible] percent. Since then it has risen steadily to 13.0 percent (1980), 14.0 per[illegible] percent last year. Some of this poverty increase was [illegible] persons living in younger female headed fami[illegible] feminization of poverty, yet as a group they declined from 36.8 [illegible] 1979 to [illegible] percent in 1982. (U.S. Bureau of the Census, [illegible] measured poverty among the elderly is still a problem though [illegible] than earlier believed. In 1979 [illegible] percent of the poor were over 65; [illegible] percent of the poor are elderly.

[illegible] groups out because they are the groups whose poverty status is [illegible] in-kind transfers (especially medical care benefits), least affected by [illegible] taxes (because most of their income is from transfer payments), [illegible] affected by income underreporting (because the types of income they re[illegible] subject to underreporting). Because of large in-kind and underreport[illegible] which tend to lower poverty, and a small tax effect (which tends to [illegible] are precisely the groups whose poverty status would undergo [illegible] downward change were these adjustments made. Yet they have shrunk [illegible] percent of the poor in 1979 to [illegible] percent in 1982. Who has taken [illegible]?

[3] [illegible] Smeeding and Plotnick 1979; Budd and Radner [illegible]

[illegible] percent reported in Table 1 due to changes in population [illegible] were not available when writing the report to Congress. [illegible]

I would argue that the major increases in poverty experienced during the past four years have been in persons, adults but especially children, living in traditional husband wife families. In 1979 these persons constituted about 35 percent of the poor, while today they comprise almost 40 percent of the poor. Between 1981 and 1982 alone, over half of the increase in poor persons were husbands, wives, or related children under 18 living in traditional husband-wife families. Sixty percent of the increase in poor families last year was made up of husband-wife families.

I single this group out for precisely the opposite reason. These families are least likely to be affected by in-kind benefits (because of ineligibility or low benefit amounts), most likely to pay taxes, and least likely to be affected by underreporting (both being due to the heavy reliance on heavily taxed but also well reported earned income in these families).

For instance, in 1982 42.7 percent of all poor households had at least one member who received food stamp benefits, 23.0 percent lived in public housing, and 39.2 percent benefited from Medicaid (U.S. Bureau of the Census, 1983c). In constrast, only 36.2 percent of poor husband-wife families got food stamps, only 6.3 percent lived in public housing, and only 27.0 percent were eligible for Medicaid beaefits. The point is that the increasing numbers of poor families of this type are least likely to be reduced by adjusting for in-kind income and reporting, but most likely to be increased by adjusting for taxes. Thus I would not expect much of a reduction in poverty for these families once the adjustments are made.

Moreover it is just this group of lowearners and their children who have been most adversely affected by the Reagan administration's taxation and social policies. These individuals are increasingly becoming poor because of recession induced job loss and subsequent declines in earned income; because less than 40 percent of the unemployed are covered by unemployment insurance today (as compared to over 75 percent during the 1975 recession), because the 1981 ERTA did not provide them with much, if any, overall direct tax relief (but as seen above large effective tax increases), and finally, because cutbacks in Food Stamps and other social programs have most affected precisely these low earnings people.

If you are wondering who it is that is falling through the Reagan safety net, these are the truly needy. You ought to spend some time in my old neighborhood in South Buffalo, New York where major permanent shutdowns in the steel and other heavy industry have utterly decimated the income base of the neighborhood. Once proud union steelworkers are delivering 100 newspapers a day to feed the children and save the house.

IV. A SUMMING UP

It remains to put these pieces of information together to attempt to update the net impact of in kind benefits, taxes, and income underreporting on the recent increase in poverty from the most recent (1979) estimates. I should emphasize that these 1982 estimates have not been constructed on a microdata basis. All of the figures in Table 4 other than those for 1982 are based on sophisticated income microdata modeling and imputation procedures. As I understand it, the Census Bureau is making an effort to update my report on in-kind benefits to 1982.[8] But even then the net effects of income underreporting and taxes will not be known.

Table 4 indicates that poverty in the U.S. is on the rise evern after adjustments for in-kind benefits, underreporting and taxes are carried out. I expect that the Census update of my report will show an increase from about 8.7 percent to the 10-10.5 percent range, adjusting only for in-kind benefits (measured at their cash equivalent value) and ignoring taxes and reporting problems, as was the case with my earlier report. Recent cutbacks in in-kind transfer income support systems and growing numbers of poor husband-wife families who benefit least from such programs explain this increase.

[8] This may take an Act of Congress, but instead of speculating about the impact of in-kind benefits on poverty, it would be nice if the federal government could move towards providing estimates of the effect of in-kind transfers on poverty on an annual basis.

TABLE 3 PERCENTAGE OF PERSONS WITH INCOMES BELOW THE POVERTY LINE, 1965–82

Year	Official census money income [2]	Adjusted income [3]	
		In-kind only [1]	Taxes, report and in kind
1965	17.3		12.1
1968	12.8		9.9
1970	12.6		9.3
1972	11.9		6.2
1974	11.2		7.2
1976	11.8		6.7
1979	11.6	8.7	6.1
1982	15.0	10.0–10.5	8.5–9.0

[1] This estimate adjusts census money income by adding food, medical and housing in-kind transfers at their cash-equivalent value. See Smeeding (1982a) and table 1 above.
[2] Census figures are taken from various issues of the Current Population Reports, P-60 series.
[3] Adjusted income adjusts census money income for underreporting, adds in-kind public transfers at their cash equivalent value, and subtracts federal payroll and income taxes. The data for 1965–79 are as in Smeeding (1982b).

Sources: Unless otherwise noted, the data were tabulated from the Survey of Economic Opportunity (for 1965), and various March Current Population Survey Data Tapes.

In 1979 once adjustments for taxes and income underreporting were made as well, poverty fell to about 6.1 percent. However, I estimate that taxes has a larger poverty-increasing effect in 1982 than in 1979. Thus, assuming that underreporting has as substantial an effect in reducing poverty in 1982 as in earlier studies, we still end up with a poverty rate of somewhere around 8.5–9.0 percent after all adjustments have been made.

Such a figure has far-reaching policy implications. It says that the administration statements are correct in that in-kind benefits reduce poverty below the official figures. This was obvious all along. But what the administration didn't tell us was that: a) an 8.5 to 9.0 percent poverty rate means over 20 million poor and needy Americans, even after counting these benefits, and b) that the poverty rate including in-kind benefits, taxes, and reporting adjustments is now higher than any year since 1970 and is increasing at an even faster rate than is the official poverty population. In case you ever had a doubt, America still has a serious poverty problem and, all the in-kind benefit rhetoric aside, that problem is growing very rapidly.

Thank you.

References

Budd, E. and D. Radner. 1975. "The BEA and CPS Size Distributions: Some Comparisons for 1964," in J. Smith, ed., The Personal Distribution of Income and Wealth (New York, Columbia University Press): 449–558.

Goudreau, K., H. Oberheu, and D. Vaughn. 1981. "An Assessment of the Quality of Survey Reports of Income from the AFDC Program." Proceedings of the American Statistical Association: 377–382.

Hoagland, G. W. 1980. "The Effectiveness of Current Transfer Programs in Reducing Poverty," presented at Middlebury College Conference on Economic Issues, April 19.

Paglin, M. 1979. Poverty and Transfer In-Kind. (Palo Alto: Hover Institution Press.)

Plotnick, R. and T. Smeeding. 1979. "Poverty and Income Transfers: Past Trends and Future Prospects." Public Policy, Summer.

Smeeding, T. 1975. "Measuring the Economic Welfare of Low Income Households and the Anti-Poverty Effectiveness of Cash and Noncash Transfer Programs," unpublished Ph. D. dissertation. University of Wisconsin-Madison.

———. 1977. "The Anti-Poverty Effectiveness of In-Kind Transfers," Journal of Human Resources. Summer.

———. 1982a. "Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effect on Poverty," U.S. Bureau of the Census, Technical Paper #50 (Washington, D.C.: U.S. Government Printing Office.)

——— 1982b. "The Anti-Poverty Effectiveness of In-Kind Transfers: A 'Good Idea' Gone Too Far?" Policy Studies Journal, June.

U.S. Bureau of the Census. 1983a. "Estimating After-Tax Money Income Distributions Using Data from the March CPS," Current Populations Reports, Series P-23, No. 126. August.

———. 1983b. "Money Income and Poverty Status of Families and Persons in the United States: 1982," Current Populations Reports, Series P-60, No. 140. July.

———. 1983c. "Selected Characteristics of Families and Persons Receiving Noncash Benefits: 1982," Current Population Reports, Series P-60, No. 141. September.

Mr. STARK. Could you please tell me about the project at the University of Wisconsin? Do you stick pretty much to classic economic research?

Mr. GOTTSCHALK. What we do is look at the relationships between unemployment, economic growth, transfers and poverty. We assume that relationships which held in the past will continue in the future. Basically we take Mr. Penner's chart and instead of talking our way through it, we use statistical techniques that try to uncover the relationship between poverty and the three key variables.

The results seem to be very robust. We get the same results pretty much no matter how we do the study. I am always uncomfortable making predictions, but I feel comfortable about these projections.

Mr. STARK. I don't know whether any of you three saw the series last week in the Washington Post, but a reporter posed as an out-of-work, down-at-the-heels person in a soup kitchen shelter in Washington and got picked up by a labor contractor from South Carolina in a van along with 9 or 10 other guys, and was promised $30 bucks a day for picking tomatoes. He chronicaled his experience in a four-part series.

I suggest to Mr. Campbell, and all the other members of this committee who say people don't want to work, to read the newspaper account of these men who went to South Carolina. Admittedly, one guy wanted to feed his wine habit. However, another guy wanted a better apartment to move out of the slum that he was keeping his wife and child in.

But the absolute tragedy of their being locked into this poverty system is hard to imagine for those of us who have the good fortune of backgrounds that provided education and food.

I wish we could find a way to end the cycle of poverty in this country. But as Dr. Penner said, even if we could get rid of the MX missiles and spend the $45 billion to close the gap, we don't know how to solve the long-term problem of poverty.

There is an education process of people learning how to spend money and how to waste money. Kids have to learn that with allowances. I guess people who never had money have to learn what to do when money runs out and the month still has 2 weeks to go.

I don't know; how do you learn that? I don't know if we can legislate that, but I have a hunch that we are going to wake up and expend the resources someday. I don't mean to say that $50 billion is insignificant, but between Mr. Pickle and myself, we are going to find out how to get that out of the tax cheats.

Now, if we can transfer some of that from the tax cheats to the so-called welfare cheats, we would at least make a step in the right direction.

If any of you have any suggestions, I am sure that this committee would welcome them.

How do we spend [illegible] efficiently? What do we do? I don't know where that [illegible] research is being conducted.

Mr. SMEEDING. [illegible] one thing about that. It turns out that an awful lot of the poverty in this country is concentrated, even after you [illegible] in-kind transfers in the deep South.

Mr. STARK. That is a state of mind, you are saying?

Mr. SMEEDING. That is a state of fact. It is there. If you look at the characteristics of the 13 States that have the highest poverty rates, you will find that none of them have the AFDC-UP program. None of them supplement SSI. Very low percentages of the poor there receive benefits from medicaid, food stamps, and other programs.

Mr. STARK. Highest percentage of church attendance?

Mr. SMEEDING. I would suppose so. But if you were to bring AFDC and food stamps combined to a national minimum of, let's say, two-thirds to three-quarters of the poverty line, I think that would have a big impact on those people in those areas, including the remaining elderly poor and female heads of households.

Mr. STARK. Did it ever occur to you that some of the people in those States might want to keep people dependent because it keeps domestic and family help readily available?

Mr. SMEEDING. It has occurred to me.

Mr. STARK. In California we have unions.

Mr. SMEEDING. In Utah we don't have any unions. But others have argued that exact point that you are making now.

Mr. STARK. Have you calculated any figures to separate those 13 States from the more humane States of Texas, New York, California, Pennsylvania, Illinois and Wisconsin?

Do the figures change drastically when you separate out these States?

Mr. SMEEDING. Yes; once you include in-kind benefits and separate these States out you find there is a much lesser impact of in-kind benefits in most of the Southern States.

There are some tables I have done for the Urban Institute that relate to this problem and I would be glad to supply the committee with them.

Mr. STARK. Thank you.

For the record, I would like to ask each of you if you would just submit for the record, unless you have a quick answer, of when you think the rate will get down to 11.4 percent under our present programs and practices.

Professor Gottschalk mentioned that pretransfer income is becoming much more unequal. What should our response be to that?

Mr. DANZIGER. The importance of the pretransfer issue is to show that increasing Government transfers have not been wasted. A good analogy is running harder to stay in place.

The pretransfer series shows that through 1978, when in-kind and cash transfers were increasing, the antipoverty effectiveness, as measured by the difference between pretransfer poverty and poverty after transfers was also increasing. As we have cut back transfers, the percentage of the pretransfer poor taken out of poverty has also declined. Thus, the benefits by and large are going to the poor and are having an antipoverty impact.

We projected poverty out only 2 years to 1983 and 1984 because we have detailed official projections of economic variables only for those years. You have to tell a story about sustained economic growth for a relatively long period of 5 or 6 more years and unemployment rates getting back down to 6 percent before poverty falls back to the 1978 level. But I would caution nonetheless, you still have relative to the 1960's a harder population that is left.

Mr. STARK. Can you tell me in that looking glass we just walked through of that 6-percent unemployment and sustained economic growth, how we are going to do that with ever-increasing income taxes and ever-increasing military expenditures?

Mr. DANZIGER. I don't think you are going to get there and that is why we used official projections which are there only two years out.

I don't know what spending pattern you would have to project to have that.

Mr. STARK. Thank you.

Mr. Pickle.

Mr. PICKLE. Gentlemen, we have heard from witnesses this morning pointing out that we have an increase in the poverty rate and it is obvious there is a disparity in this country. The rich are getting richer and the poor are getting poorer. You have given us some statistics that show this is the trend, and you are knowledgeable in that field.

Now, my question to you, if any of you want to respond, is, what do we do about it?

I accept your analysis, and I don't know that I am prepared to argue with any of your findings or your analyses, but the question is, what do we do about it? What does Congress do about it?

The question is, are we responsible? And if so, have we, through our policies, brought about this increased poverty? What are we going to do about it?

The poverty level now is nearly $10,000. To a lot of people in the country, that does not sound very poverty-like.

Whether it is a good figure or not, rather than just increasing it or lowering it depending on the trend, what do we do about it? If you were in Congress, what would you recommend?

Now, that may be an unfair question to you, but this is what we have to end up with here.

Mr. DANZIGER. I think you have a successful model in SSI where you have a program available to all the elderly who have income and assets below a certain line. That issue for the nonelderly poor is addressed in Dr. Penner's testimony in terms of providing a minimum level of benefits in AFDC and a mandating of AFDCUP for States.

Mr. PICKLE. And, in effect, it would increase the AFDC and SSI?

Mr. DANZIGER. It would make AFDC look more like SSI in terms of eligibility levels and benefit standards.

Mr. GOTTSCHALK. I think you can't forget the role of the business cycle and economic growth on poverty. The fact is that we won't get back to the 11- or 12-percent range unless we can get unemployment levels down.

Mr. PICKLE. Unless we do what?

Mr GOTTSCHALK. Unless you can get unemployment rates much lower, and I think that is going to take a much more serious look at training programs than we are currently doing. I think we have basically gone from low unemployment rates to high unemployment rates, and something has to be done about that.

Mr. SMEEDING. I basically would agree with that, Mr. Pickle. We have to get certain people back to work who don't have jobs who have fallen through the safety net. They don't benefit from a lot of in-kind programs.

That is part of the cyclical phenomenon, but you have to realize Mr. Danziger's point that two-thirds of the poor, maybe only 60 percent today, are people who we don't expect to make it on earned income alone. They are single parent families with pre-school children or they are aged and disabled and for those people it is going to take a greater effort in terms of spending more money on them through AFDC or SSI or food stamps or some combination of them to bring them out of poverty. That is it.

Mr. PICKLE. Well, in my part of the country, we would say thanks for nothing. I don't mean that facetiously. Of course, we would have to lower the unemployment rate and adjust the SSI and AFDC, but more fundamentally, what do we do specifically in terms of things that might cause this? That is what we have to ask ourselves. That is not your role. I accept that.

But I say to you and all the other witnesses coming up that it is helpful to analyze this, but after that, what do we do? Perhaps we ought to analyze it first, so I am not arguing the point.

Mr. SMEEDING. That is one other thing we should mention, sir, and that is something that is very particular to this committee and that is the role of the increasing burden of income taxes. We are not talking about elderly and female head of families because most of their income is in the form of nontaxable transfers. We are talking about the guy that makes $5 an hour, $10,000 a year. That guy is paying over $900 in income and payroll taxes. That is a big chunk of his income, more than he gets in food stamps. He is probably not eligible for medicaid either.

Only 25 percent of the poor husband and wife families have any eligibility for medicaid. They are not living in public housing; only 6 percent of them live in public housing. I understand the problem of high marginal tax rates in the middle income brackets, but let's close a few loopholes and let's give some tax relief to people, low earners who are near the poverty line. That is something that your committee specifically can address itself to.

Mr. PICKLE. Well, the Congress has attempted to lower the tax burden on the very low income people. In the last 10 years I know we have made very valiant efforts to do that. We still have a great disparity, and the Congress is looking for some kind of answer. That is not your responsibility.

I pose that to you and any panel that follows. I am glad to have this analysis. I am glad to walk through it and probably accept the findings, but still we have to find out what to do about it.

I thank you very much, and we appreciate your testimony.

Mr. SMEEDING. Thank you.

[illegible] Now the next panel will consist of Ms. [illegible], Ms. [illegible] Holmes and Mr. Bernard Stumbras. Will [illegible] please come up to the table.

[illegible] is director of the Georgia Division of Family and [illegible] Services. [illegible] Holmes is director of the Colorado De[illegible] and Mr. Bernard Stumbras is the ad[illegible] of the [illegible] Community Services for the Wiscon[illegible] of Health and Social Services.

We [illegible] Ms. Johnson, that you present your testimony first [illegible] statement will be made a part of the record.

STATEMENT OF E. PATRICIA JOHNSON, DIRECTOR, DIVISION OF FAMILY AND CHILDREN SERVICES, GEORGIA DEPARTMENT OF HUMAN SERVICES

[illegible] Representative Pickle. O[illegible] address this special hearing convened by [illegible] Committee on Ways and Means to [illegible] poverty and to expose causal factors.

[illegible] directly from a [illegible] summary of [illegible] available to you for your [illegible] and your con[illegible] poverty deserves [illegible] This testimony will review the nature of the [illegible] and attempt to place [illegible] experience in [illegible] are affecting all Americans.

[illegible] will be based on Federal and State sta[illegible] poor. It will also provide a [illegible] impressions [illegible] of new poverty in the [illegible]

[illegible] of Americans who live [illegible] the last [illegible] years may be understood [illegible] First, clearly the recession, which was char[illegible] inflation and record unemployment, con[illegible] The direct impacts of the recession should [illegible] causes in the rise in poverty.

[illegible] are long-term social and economic [illegible] with us for the rest of this century. There are [illegible] American family and in how we raise our [illegible] society is aging. We are on average older as [illegible] continue through the present cen[illegible]

[illegible] barriers that exist for them [illegible] employment and are severely affected by the dis[illegible] family and the problems of aging.

[illegible] may be a new poor created by structural changes [illegible] who must acquaint themselves with the problems [illegible] of society. These trends mean that women [illegible] raising their children alone, that the elderly are [illegible] limited resources, that black families, which [illegible] headed by women, face difficult odds and that [illegible] unemployment at unaccept[illegible]

Each of these groups specifically affected by these trends deserve[illegible] The first [illegible] the category, women and poverty.

[illegible] increase in the number of households [illegible] in 1970 there were approximately [illegible] headed by women. By 1980 there were 238,000 [illegible] increase [illegible] percent.

[illegible] of America's black families were [illegible] of America's black children live in [illegible]

[illegible] of these trends is what has been termed [illegible] poverty — an alarming proportion of women [illegible] headed homes live lives of want and depri[illegible] women head [illegible] percent of the families in pov[illegible] maintained households constitute only 16.6 [illegible]

[illegible] places them above the poverty [illegible] working women have low[illegible] Half of America's women have jobs [illegible] For these reasons, households headed by [illegible] lowest income reported for household types listed [illegible] census tabulations. In 1981 the median income [illegible] headed by black women was $7,510.

[illegible] poverty and the aged: the fastest growing segment [illegible] between 1970 and 1980 consisted of those [illegible] years of age. 750,000 Georgians were in this cate[illegible] increase of [illegible] percent for the decade. One in four [illegible] in poverty. Older Americans have been dam[illegible] which has made their social security and retire[illegible] inadequate for their needs. Although Americans are [illegible] they are not immune from the illness and infirmity [illegible]

[illegible] life substantially by increased longevity [illegible] medical problems. The cost of medical [illegible] faster than any other consumer cost item. Care that [illegible] now costs $[illegible]. Standard retirement insur[illegible] medicare, were designed with much more [illegible] in mind. Those aged Americans fortu[illegible] see them eroded in order to [illegible] savings do without [illegible] Georgians and aging Ameri[illegible] changing concept of the family. [illegible] three generations. Today's mob[illegible] accommodates grandparents. It is now the rule [illegible] for older people to maintain separate [illegible] their children. These independent households are [illegible] shared arrangements typical of earlier decades.

[illegible] poverty. A significant increase in poverty among [illegible] the last several years. Several factors are [illegible] almost 40 percent of black men in the civil[illegible] in the job category of operators, assembly [illegible] These occupations have been most suscepti[illegible] and structural changes in the econo[illegible]

[illegible] the increasing concentration of the poor in [illegible] black women. Seventy percent of black [illegible] poverty [illegible] headed by women and the number of households headed by women in the black community is rising dramatically.

The new poor. The concept of the new poor has received much attention of late. The idea is based on a fundamental reordering of the American economy in which the traditional manufacturing sections give way to such highly technical enterprises.

In Georgia, textile workers and those involved in the manufacturing of carpets are at risk in this way. Textiles present an excellent example. Synthetics, new processing techniques and foreign competition have led to a serious decline in the traditional textile industry. Georgia's textile firms are smalltown affairs from which the same families have supplied workers for generations. As plants close, people must relocate and retrain themselves or suffer deprivation.

The adequacy of public assistance: the Omnibus Budget Reconciliation Act of 1982 and the Tax Equity and Fiscal Responsibility Act of 1982 reduced the assistance available to poor Georgians. Within a year of the implementation of the Omnibus Reconciliation Act regulations in Georgia, 15,000 individuals lost AFDC benefits; 10,000 others received reduced benefits; 12,000 food stamp households lost benefits in the same period.

Since that time, the number of individuals receiving assistance has increased due largely to the impact of unemployment. In May 1983, the average aid to families with dependent children payment for an individual was $64.59 per month. The average family payment was $173.87 per month.

Effective July 1983, the maximum monthly benefit for a mother with one child is $169 per month. A mother with two children, $202 per month, and a mother with three children, $238 per month. These payments may be supplemented with food stamps and medicaid.

The person making maximum use of these programs will not be able to provide an adequate living for herself and her children. A family of three receiving maximum aid to families with dependent children benefits and a maximum food stamp allotment will receive in cash and benefits 78.2 percent of the Bureau of Labor Statistics' lower level budget for a family of three.

The inadequacy of this assistance is magnified by the scarcity of housing subsidies. Fewer than one in four of Georgia's AFDC recipients live in subsidized housing.

And, finally, the increase in poverty that has characterized the past 5 years is only in part a result of recession. It is also due to social and economic trends that show every sign of continuing.

Women, children, blacks, and the aged are very vulnerable to the trends that we have discussed. Decisions made regarding public assistance programs and others which impact on these groups should be made with a full understanding of the nature of poverty today and in the future.

Thank you very much.

Chairman RANGEL. Thank you, Ms. Johnson.

[The prepared statement follows:]

STATEMENT OF [illegible] PH. D., DIRECTOR, DIVISION OF FAMILY AND [illegible] SERVICES, GEORGIA DEPARTMENT OF HUMAN RESOURCES

INTRODUCTION

[illegible] Rangel and Congressman Ford, it is an honor to address this special [illegible] to the House of Representatives' Committee on Ways and Means [illegible] the increase in poverty and to explore causal factors. Such a subject de[illegible] thought. This testimony will review the nature [illegible] poverty in Georgia and attempt to place this experience within the [illegible] which are affecting all Americans. Some of this presentation will be based on Federal and State statistical profiles of the poor. It will also provide a [illegible] portrait of what may emerge as the new face of poverty in the United States.

POVERTY ON THE RISE—AGAIN

After steadily declining for years, poverty reached its lowest point during the [illegible] and then gradually began to increase and increased significantly during [illegible]. According to the 1980 census, [illegible] percent of Georgia families were [illegible]. Between the 1980 census and the present, thousands of Georgia workers [illegible] lost their jobs, particularly in the farming, textile, and carpet industries. [illegible] national trend appears to hold true for our State and we must conclude that [illegible] like the nation, is fast approaching the level of poverty which we experi[illegible] before the first anti-poverty programs began.

[illegible] alarming trend is the disproportionate increase of poverty among [illegible] black families, particularly among the young and the aged and dis[illegible]. The discrimination against the poor and racial minority groups in the labor [illegible] has more than casually contributed to the fact that those groups are dispro[illegible] concentrated among the poor.

With the advent of government social programs such as Aid to Families with Dependent Children (AFDC), Medicare and Medicaid, Supplemental Security Income [illegible] Food Stamps, some of the poor are better able to meet the basic need of [illegible]. Unfortunately, these programs do not reach all of the poor nor are they suffi[illegible] comprehensive to meet all of the basic needs of those fortunate enough to [illegible] due to changes brought about as a result of Federal regulations, [illegible] have been removed from the rolls of entitlement programs [illegible] and Food Stamps, leaving many families without any cash [illegible] assistance. Most of them were the marginally employed whose earn[illegible] qualified for aid prior to the new regulations. They were [illegible] who were closest to finding their way out of poverty before [illegible] of the system after losing all assistance.

While the reasons are varied, one thing is certain—the ashen faces of poverty in [illegible] are growing at an alarming rate. [illegible] paper will identify the significant [illegible] and conditions that have confined certain groups of our society to the poverty [illegible] and will address the underlying reasons for the increase in the number of fam[illegible] now classified as impoverished.

[illegible]

It is tempting to suggest that the alarming increase in the number of poor persons that has occurred in the last [illegible] years is simply due to the recession. It is important, however, to understand exactly what the effects of the economic downturn were and what economic trends may continue beyond the long hoped for economic recovery.

The recession which was foretold by the rising unemployment rates of 1979 and which [illegible] into a full-blown economic crisis in 1981, shared some features of previous recessions in its impact on the poor. As in most recessions, America's most vulnerable citizens suffered disproportionately in the crisis. America's blacks, women, children and the aged who in the best of times fare poorly due to long-term patterns of discrimination and neglect [illegible] were singled out for special hardships during the recession. In 1980 32.2 percent of America's blacks were below the poverty level and in 1982 the poverty rate for blacks had risen to 35.6 percent—a [illegible] increase that brought over 1.1 million more blacks into poverty. In 1982, there were [illegible] hundred thousand more families headed by women below the pov[illegible] than there were in 1980 and there were two million more poor children under 18 over these two difficult years. In percentage terms the older Americans fared better given the fact that unemployment does not impact retired persons and due to the easing of inflation in 1982, but growth in the number of retired Ameri [illegible] a large number of Americans [illegible] [illegible] [illegible] despair of [illegible]

The impact of the recession in Georgia differed from the national pattern in several important respects. Unemployment in Georgia was not quite as severe as it was nationally. For example, Georgia's unemployment rate never exceeded [illegible] percent [illegible] percent in January of [illegible]. However, the pattern of unemployment was [illegible] for our State. Between [illegible] and the present thousands of [illegible] [illegible] traditional manufacturing industries, notably textile workers and those employed by Georgia's carpet industry. These traditional industries are in long term decline due to changing manufacturing techniques, the use of [illegible]. Since the manufacturing centers for these industries [illegible] communities, these workers face the necessity of relocation and retraining. Together with those who can no longer make a living in farming, these [illegible] [illegible] trend in the recession years which showed recession [illegible] the severest in [illegible] areas.

[illegible] recession must not divert attention away from several long [illegible] which will be with us well past economic recovery [illegible] change in America's economic structure that [illegible] away from traditional manufacturing and toward high tech [illegible] is the aging of the American population due to changing [illegible]

[illegible] changes in [illegible] patterns which is seen in an increase [illegible] and in the number of elderly Americans living alone [illegible] extended family or spouse. Finally, the fact that the [illegible] [illegible] population is increasing suggests that the discrimination [illegible] high projections of black and hispanic Americans [illegible] with [illegible] like to now address the special [illegible] face such a difficult future.

[illegible]

[illegible] the United States have witnessed tremendous change [illegible] rate of divorce has caused more concern than any trend [illegible]. After remaining stable in the 1950s, the divorce rate took off [illegible] and increased very sharply through the mid seventies. [illegible] has moderated somewhat, but we may now only be beginning to [illegible] change in American life. About half the marriages begun [illegible] end in divorce. Of all the people who married in [illegible], [illegible] were divorced by [illegible] and a third were divorced [illegible]. The [illegible] Americans has been considerably higher in recent years than [illegible]. The divorce rate for black women was [illegible] to 1,000 in [illegible]. For white [illegible] per 1,000.

[illegible] out of wedlock [illegible]. The rates of out of wedlock [illegible] increased sharply in the 1940s and 1950s. After [illegible] the rate [illegible] continued to rise for whites but began to decline for [illegible]. Since [illegible] the rate has been declining for all [illegible] [illegible] white [illegible]

[illegible] there has been a great increase [illegible] the number of female [illegible] there were [illegible] families headed by [illegible] [illegible] families, an increase of fifty eight percent. [illegible] [illegible] Americans [illegible] million black families were [illegible]. Twelve percent of white families were headed by women in the same period. It is estimated about two thirds of the increase in female headed families [illegible] has been caused by the increase in divorces and separation, and one [illegible] of the increase in never married mothers.

A consequence of these trends, of course, is that many more children are living in single parent families. It is estimated that about one third of all white children and about [illegible] black children born between 1970 and [illegible] have or will experience [illegible] of their families before they reach the age of sixteen. Some children [illegible] only a period of living in a single parent household, about [illegible] within three years and about two thirds [illegible] [illegible] stay in a single parent family [illegible] children. About four fifths of the black children who see their parents [illegible] will remain in a family headed by one parent for five years or more while one half can expect to live in a single parent family until they reach the age of eighteen.

[illegible] will find that their skills are not [illegible] to growth industries.

[illegible] plant closings in the textile industries have become all [illegible] familiar [illegible] and foreign produced goods have severely damaged this traditional Georgia [illegible]. Textile firms in Georgia have been located in rural communities, some [illegible] where no other opportunities exist.

[illegible] the existence of the "new poor" is sketchy. The poverty figures [illegible] period suggest its existence in that new types of households were [illegible] below the poverty line. Between 1981 and 1982 for example, there was a substantial increase in married couple families and [illegible] only households [illegible] poverty. The increase for the latter group was forty percent for the year. Many of these households were headed by individuals with a substantial work history. Part of this increase was due to temporary recession based effects and is [illegible] in the environment of ten percent unemployment. Part of the increase [illegible] the [illegible] change indicated by the term "new poor."

[illegible]

[illegible] the increase in poverty which characterized the 1970s [illegible] budgetary cuts which reduced the assistance available to [illegible] families.

[illegible] affecting AFDC, the Food Stamp Program, and [illegible] Medicaid were contained in the Omnibus Budget Reconciliation Act of 1981 (OBRA) and the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA).

[illegible] AFDC [illegible] the major OBRA and TEFRA provisions were as follows:

OBRA

a. Work [illegible] Options: Georgia implemented the Community Work Experience Program [illegible] counties on a pilot basis in August 1982. Georgia expects [illegible] Fiscal Year 1984 following models developed through evaluation [illegible] year's experience, with statewide implementation scheduled for [illegible] Fiscal Year [illegible]. CWEP pilot implementation was mandated by the Georgia General Assembly, 1982 Session. However, no additional funding was provided to [illegible] this activity.

b. Setting a total income of 150 percent of Georgia's need standard.

c. Standardizing and changing the sequence of the earned income disregards by [illegible] a standard $75 deduction, actual child attendant care costs up to $160 per [illegible] then $30 and one-third of the remainder. The $30 and one-third disregard [illegible] only to the first four consecutive months in which they occurred.

d. [illegible] the income of a stepparent, after appropriate disregards, to determine the need of stepchildren with whom he or she is living.

e. Assuming on an ongoing basis receipt of the advance earned income credit [illegible] for those eligible to receive it.

f. Counting nonrecurring income (lump sum payments) in excess of Georgia's need standard as available to meet future needs.

g. Treating resources, excluding the home, a reasonably valued car and basic [illegible] to day to day living, in excess of $1000 equity value as available to [illegible] thereby resulting in ineligibility.

[illegible] accounting and monthly reporting.

i. Recovery of all overpayments and paying all underpayments to current recipients.

j. [illegible] of payments to those eligible for amounts less that $10.

TEFRA

a. Prohibiting payments when absence of a parent is due solely to active duty in the military.

b. Providing that assistance payments are not made for any period prior to the date of application.

All OBRA changes were implemented in Georgia effective October and November [illegible] except monthly reporting and retrospective budgeting, which were implemented [illegible]. The [illegible] result for the AFDC program were large numbers of [illegible] closures and benefit reduction. Through 1982 the major OBRA changes resulted in [illegible] cases closed, 15,119 individuals lost benefits, 4,008 grants reduced, 10,194 individuals receiving decreased benefits, $1,008,163 decrease in AFDC payments per month.

Table [illegible] presents the caseload impact of the revised regulations for this period.

The Food Stamp Program in Georgia was also altered by OBRA and TEFRA regulations. The major statutory changes of OBRA were implemented in Georgia effective October 1, 1981 are as follows:

FOOD STAMP CHANGES

1. Gross Income Limit: set a ceiling on gross income at 130% of non farm income [illegible] (except for households with an elderly or disabled member receiving SSI or Social Security benefits).
2. Disallowed separate household status for parents and children living together unless one parent is 60 years of age or older.
3. Decreased earned income deduction from 20 to 18 percent of gross earned income.
4. Restricted eligibility of households with strikers to those who were eligible or would have been eligible prior to the strike and basing benefit level on their income prior to the strike.
5. Proration of the initial month's benefits from the date of application.
6. Maintenance of the standard deduction and the shelter deduction at the 1981 level until June 30, 1983 and the Thrifty Food plan at the 1981 level until April, 1982 (later delayed until October, 1982).

Between July 1981 and June 1982, the Food Stamp caseload in Georgia decreased by [illegible] households. The benefits declined by $2,382,344 per month. Between March and June of 1982, the Food Stamp level of benefits issued climbed despite the fact that the number of households declined. This can be attributed to the loss of [illegible] income of participating families due to unemployment. Table 2 shows Food Stamp caseload impacts.

OBRA and TEFRA had largely indirect impacts on Medicaid. Families losing eligibility for AFDC also lost eligibility for Medicaid. Even for those families which lost AFDC benefits due to excessive income, medical costs were beyond their reach. The high cost of medical care no doubt led to neglected health needs.

Effective October, 1981 through December, 1982, 7,[illegible] AFDC families were denied benefits due to OBRA regulations. This represents a total of [illegible] individuals. In addition to these families, elimination of the 18-21 year old optional coverage group resulted in approximately 4000 more individuals being removed from the Medicaid rolls.

In all the OBRA and TEFRA regulations had a considerable impact on the poor in Georgia. First of all it virtually eliminated all of the "working poor" from the AFDC rolls. Today only 4 percent of Georgia's AFDC recipients have any sort of earned income. A second important effect has been to eliminate Medicaid coverage for thousands of poor Georgians.

Assistance programs and poverty

There were 251,126 persons receiving AFDC in Georgia in May, 1983. Sixty-nine percent of these persons were children. This average monthly caseload represents the largest month for Fiscal Year 1983—an increase of almost 25,000 recipients over July of 1982. This increase in average caseload size was attributable to economic pressures stemming from the recession. A special study conducted of cases opened in this period revealed that two of the major causes for the case being reopened were (1) the AFDC mother becoming unemployed, and (2) abandonment by the father. Male abandonment of families is often related to financial pressure.

In May of 1983, the average AFDC grant for an individual was $64.59. The average family payment was $173.87. AFDC payments are based on a standard of need. With implementation in October 1981 of federally mandated CAP on income in determining AFDC eligibility, Georgia's standard of need, based on 1969 prices, was increased by ninety percent. This increase should be understood in terms of the 175 percent rise in consumer prices for the same period. A four percent increase in benefits was appropriated for Fiscal Year 1984 which will provide payments at 55.12 percent of the need standard. Effective July 1983, the maximum monthly benefit for a mother and one child is $169, a mother with two children, $202, and a mother with three children $238.

In spite of the increase in benefits over the last few years, gains have been slight. During the budgetary planning process, input regarding needs related to the AFDC program is received from staff at all levels, community forums, public hearings and decisions made regarding the Department's budgetary request. The Board of Human Resources makes the final decision regarding the [illegible] of the budgetary request which is presented to the Governor's Office of Planning and Budget. Finally, the recommendation of the Governor is acted on by the General Assembly regarding the extent to which assistance to the poor will be increased.

AFDC benefits will be supplemented for many Georgia families with assistance from other programs. Food Stamps, of course, are a major source of additional support. The estimated monthly value of food stamps available for families of two, three and four recipients receiving maximum AFDC benefits are $113, $163, and $207 respectively. Housing assistance is more difficult to come by. Federal cutbacks for subsidized and public housing are particularly responsible for the fact that fewer [illegible] one in four AFDC families can qualify for subsidized housing. Programs such as [illegible] Women's, Infants, and Children (WIC) Supplemental Food Program have been [illegible] as well. In Fiscal Year [illegible] Georgia received [illegible] million dollars in federal funds for WIC, an amount that permits service to only twenty-nine percent of the Georgians eligible for the program. Finally, Medicaid provides free health service to many poor Georgians. AFDC [illegible] comprised 57.8 percent of the total number of [illegible] Medicaid cases, [illegible] their benefits accounted for only 24 percent of total Medicaid expenditures.

A person making maximum use of these programs will not be able to provide an adequate living for herself and her children. A family of three receiving maximum AFDC benefits, average Medicaid benefits, and a maximum Food Stamp allotment will receive in cash and benefits only [illegible] percent of the Bureau of Labor Statistics lower level budget for a family of three. Many Georgians with low paying jobs or [illegible] unemployment and who live within poverty cannot qualify for these programs at all.

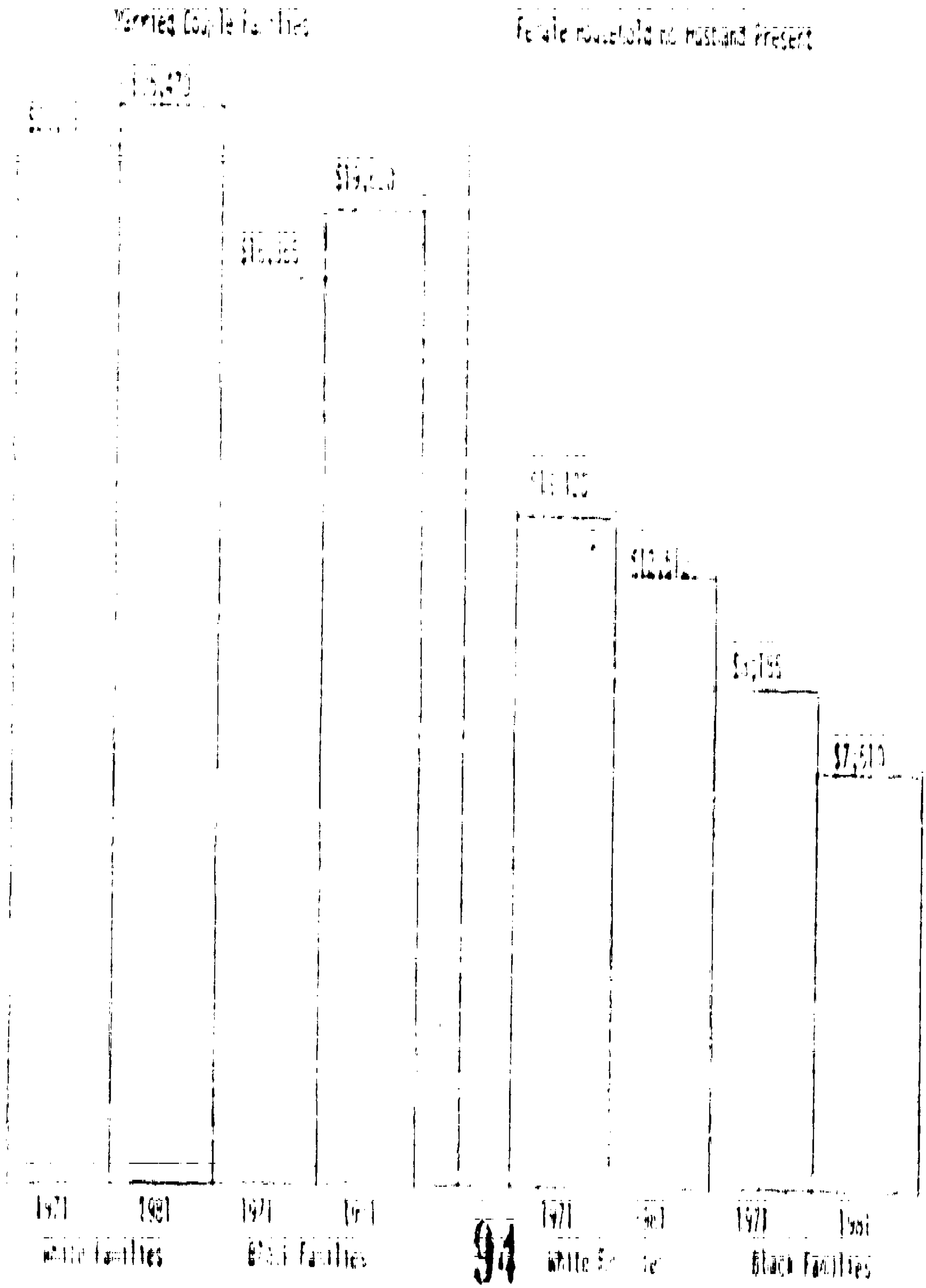
Conclusion

There are strong indications that the trends that have led to an increase in the number of Americans who live in poverty in the last five years are long-term trends. The changes in the American family and in living arrangements show no signs of abating.

Large numbers of women will be heading households and caring for their children on limited resources. American as a society is aging. We are "on average" older as a population and that trend will continue for decades. Black Americans have not overcome barriers that exist for them in education and employment. Blacks also are severely affected by the disintegration of the family and the problems of aging. There may well exist a "new poor" who must acquaint themselves with the problems of living at the margins of society. All of these changes indicate that although the face of poverty is changing, poverty is not going away. At the state and federal level policymakers and officials must deal with this harsh fact.

Figure 11

Median Family Income by Type of Family
and Race of Householder: 1971 and 1981 (1981 dollars)



Source: United States Department of Commerce, Bureau of the Census

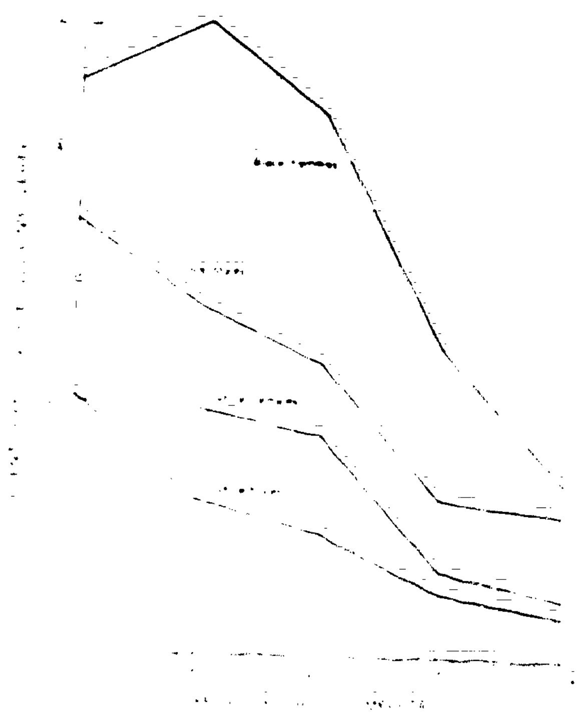


TABLE [illegible].—AFDC CASES CLOSED

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

TABLE [illegible].—FOOD STAMP CASELOAD

[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

Chairman RANGEL. From the Colorado Department of Social Services, Ms. Holmes.

STATEMENT OF CECILIA HOLMES, DEPUTY DIRECTOR, COLORADO DEPARTMENT OF SOCIAL SERVICES

Ms. HOLMES. First I want to thank Chairman Ford and Chairman Rangel for inviting me to give testimony on an extremely important trend in our society today—the trend of growing poverty in [illegible].

To avoid the possibility of repeating earlier or subsequent testimony, I will attempt to limit my remarks to trends we are seeing in the State of Colorado, specifically in relation to single-parent households receiving aid to families with dependent children, and second, in relation to anomalies created by current Federal policy upon State policy in Colorado.

The situation in my State seems to be a microcosm of the trends reflected in a recent Congressional Budget Office report that indicates the poor are being asked to absorb a greater percentage of cutbacks in Federal benefits than the middleclass and the rich. In other words, those of us in State and local human service agencies are witnessing an inverse principle of logic at work.

That principle is: Those with the fewest resources are being asked to bear the greatest burden in Federal cutbacks. Logic would dictate just the opposite should be true especially during times of revenue shortfall, such as we are now experiencing in Colorado. That is, when tax revenues fall, society as a whole has a responsibility to see that resources go to those most in need. Precisely the opposite seems to be happening.

For example, I have included in my written testimony a table that shows AFDC grants to a family of three (one adult and two children) have seriously lagged behind increases in inflation. Using 1970 as a base year in which the AFDC grant met 100 percent of the need standard set by the State and the Federal Government, the actual grant totaled $199. During the 13 years since 1970, the Consumer Price Index has increased a total of 98.35 percent based on U.S. Department of Labor reports compiled July to July of each year.

[The table referred to follows:]

EXHIBIT 1 — COMPARISON OF ACTUAL AFDC GRANT STANDARDS FOR A FAMILY OF 3 AND WHAT THE GRANT STANDARDS SHOULD BE, BASED ON CPI INCREASES

	CPI percentage increase	Actual grant standard family of 3	Based on CPI increases grant standard should be
Fiscal year ending June			
1970	[1] 100	$199	$199
1971	4.37	199	208
1972	3.04	199	215
1973	5.74	199	227
1974	11.76	209	254
1975	9.44	209	278
1976	5.42	223	293
1977	6.72	233	313
1978	7.72	245	337
1979	11.29	259	375
1980	13.20	278	425
1981	10.73	299	471
1982	6.49	313	502
1983	2.43	320	514

[1] Base year.

Note: 1970 is utilized as the base year because Colorado affirmed to the Federal Government that the grant standards in 1970 fulfilled 100 percent of the need of Colorado AFDC families.

Ms. HOLMES. Simultaneously, AFDC grants to a family of three have increased only 62 percent. In dollars, the grant has increased from $[illegible] in [illegible] to $320 in June, 1983. If the grants had simply kept up with inflation, the basic AFDC grant, including a winter utility allowance, for a family of three in Colorado would have increased from $[illegible] in 1970 to $514 in 1983. Without even considering the impact of Federal and State budget cuts upon AFDC recipients, they have lost [illegible] cents on each dollar received to inflation alone.

But inflation is not the worst enemy of the poor. The double standard we apply to the poor through legislation such as the 1981 Omnibus Budget Reconciliation Act is much more devastating to the poor.

One double standard we apply is a message for the poor to pull themselves up by their own bootstraps, while punishing them for doing so. A report compiled by the Colorado Commission on Children and Their Families in April 1982, documented the startling fact that a woman with two children in Colorado who climbs from an $11,000-a-year job to one paying $13,000 actually had less money to spend each month because of reduced day-care benefits.

In other words, society at large blames the poor for being wards of the State, and then we pass laws that punish the poor for working. As the report asks, "Can one really expect families to work—or work harder—for little or no gain, or even a loss?"

The report also raises what is, in my mind, the question those of us who administer social service and income support programs must ask ourselves regularly: "Where should we place our priorities?"

I think the priorities are clear. First, provide a complete and effective safety net for those most in need. National statistics compiled by the U.S. Bureau of Census entitled, "Money Income and Poverty Status of Families and Persons in the United States: 1982" indicate that poverty has climbed steadily since 1978.

A report by the National Governor's Association's Committee on Human Resources—"America's Children, Powerless and in Need of Powerful Friends"—supports these findings. It documents alarming trends specifically in regard to women and children and the homeless—11.4 million American children lived in poverty in 1980, nearly 1 child in 5. Given the rise in numbers of poverty-stricken women and children since 1980, the figure is now closer to 1 child in every 4 presently living in poverty nationwide.

In conjunction with maintaining the safety net for those now finding themselves below the poverty level, our second priority should be to develop a system that provides incentives for people to become self-sufficient. Using the contradictions created by OBRA as an example of disincentives for the working poor, I think it is imperative that Federal, State, and local governments develop a model for predetermining the effect of legislative and policy changes upon the poor.

We no longer have the luxury of creating policy in a vacuum. A vacuum that eliminates job programs and cuts income support at the same time. A vacuum that raises AFDC payments, but lowers food stamps allowances so there is a net reduction in benefits. A vacuum that reduces day-care benefits as income increases enough to move off AFDC roles into the work force. I want to emphasize that OBRA is not the only culprit in sending poor people a mixed message. Those of us at the State and local levels of government share in the responsibility for perpetuating the double standard.

If one views poverty among the young, the single parent, and the homeless as a mushrooming waste of human potential, then the task with which we are all faced is very certain: apply the same ruler across the board. We provide tax incentives for business. We provide tax shelters for the rich. It is, in my view, essential that we make the same positive reinforcements available to those segments of our population now classified as the working poor and the new poor.

First provide the safety net. Then provide incentives for people who are able to stop using it.

Thank you.

Chairman RANGEL. Thank you. Before we go forward with Mr. Stumbras' testimony, we have a vote, so we will take a recess until 12:20, and then come back for Mr. Stumbras' testimony.

[Recess.]

Mr. STARK [presiding]. I apologize to the witnesses for the interruption. Would the next witness begin?

STATEMENT OF BERNARD J. STUMBRAS, ASSISTANT ADMINISTRATOR, DIVISION OF COMMUNITY SERVICES, WISCONSIN DEPARTMENT OF HEALTH AND SOCIAL SERVICES

Mr. STUMBRAS. Thank you very much, Mr. Chairman.

I am Bernard Stumbras from Wisconsin Department of Health and Social Services.

Mr. STARK. If I could interrupt, it would be helpful if you could get closer to the mike.

Thank you very much.

Mr. STUMBRAS. The earlier testimony clearly identified that we have reduced the aged from the poverty level dramatically nationwide. I think what was not brought up was the administrative part that we did it without stigmatizing people. I think that is very important. We indexed the SSI program and we made it very comparable to SSA. We cashed food stamps for those States that wanted to do it. I think that is important to know.

The other data that has already been given to us is that clearly there are more people who are eligible for marriage but they are marrying far less than they were in previous years. We are having dramatic increases in divorce, in mothers keeping children born out of wedlock. We know all of that, but we come to the conclusion that the problem is the feminization of poverty of female head of households.

That is not the problem. Those are the victims of a whole series of problems, but they are not the problem.

Welfare we have known for at least 150 years is the easiest and the cheapest way to deal with these victims, but that is a problem in and of itself. Welfare is not a satisfactory answer.

One major problem that has not been identified is the perverse and severe discrimination in setting salary levels for women. We hear about it and read about it, but it is abundantly clear if you are a bus driver, if you are a janitor, you earn far more than a schoolteacher, than a nurse, far more than the people in jobs that we males have assigned females in our society. If you want to save $100,000 on a vice president in a corporation, call her a personal secretary and she will earn $100,000 less.

Maturity, the supervisory and organizational skills needed to raise children are systematically ignored, if not laughed at in job interviews. Divorce laws are disfunctional and inhumane, and we must destroy the premise that an emotional battle coached by lawyers is the norm for divorces in this country.

We have started to change. We have no-fault divorce, we have marital property reform. We have even an occasional glimmer that children have a right to a meaningful relationship with both parents. We have not been serious that children have a right to a legitimate percentage of their parents' income.

I know this committee is working on improved child support legislation. It is critical. But it is also heavily intertwined with divorce change. States need the flexibility to pursue these two together. We do need Federal laws to resolve custody issues and to resolve child support enforcement that transcends State lines, and those are giving us a lot of problems today.

Even our income tax laws discriminate against the children. If you pay alimony, it is tax deductible. If you pay child support, it is not tax deductible. So there is a perverse incentive to really go with alimony and most of our attorneys that deal in divorces right now are primarily tax attorneys and are not concerned about the human consequences of what is happening.

But if we are going to get serious about absent parents' responsiblity to share income, we had better be equally serious about the children's rights to have a meaningful relationship with both parents. If we don't do that, we are going to fail in this effort of improving child support.

We will now address quickly the matter of how we deal with the patchwork that we call welfare systems today.

Our current system was federally inspired. It is court designed and State administered. The laws designed to safeguard individual client rights have one major drawback because courts carry the intent to outlandish conclusions. As an example, our notices to clients about the OBRA changes were just absolute garbage is the only way to describe them. No intelligent person could or would waste their time trying to read what we were doing to people with the OBRA changes.

It did meet the most important criteria, however. It met every court decision that we knew of in the United States at the time. We dared not send out, and I literally mean we dared not send out a simple, clear, concise explanation of what was going to happen to people because of the OBRA changes because we knew from previous bad experiences that the court would rule, having sent that out, we confused people because they now would not understand the one that had to be sent out in the legal language that only attorneys could understand.

In 1975, we made a decision to stop treating people according to any differential needs because of all the litigation we were having, and we went to a single flat grant.

In the last 6 years, our AFDC payments have not kept pace with the poverty index nor the inflation rates.

The OBRA changes that we had were really the only major impact in our regular AFDC program. In 3 months, they reduced 12,000 AFDC households—mostly step-parent cases and women who are earning more than $843. We had asked for 3 years for waivers from the Federal Government to be able to do that on our own, and the OBRA changes were very beneficial. They should have saved us $32 million a year. Unfortunately we went a little bit too far.

The treatment of earned income tax credit and the removal of the incentive for work after the fourth month dramatically reduced our AFDC earned income. I can now identify on my data base 6,000 AFDC mothers who worked 4 months who are no longer working. My AFDC earned income dropped dramatically, and we estimate that today if we had the incentive continuing beyond 4 months, we would save the State and Federal taxpayers $24 million a year in addition to our OBRA savings and that AFDC children and mothers would have another $16 million in wages that they could keep to reduce their own poverty.

Our primary reason we could not keep pace with inflation for AFDC in the last 4 years was unemployment in our State. Our AFDC unemployed program, where you heard people testify maybe we should do this nationally. I think we should, but we went up sixfold in 8 years in terms of the number of people on AFDC for the unemployed. We went up threefold just in the last 3 years.

We were having reduced revenues from State taxes. We were in a deficit in our State for the first time ever. We had Federal reductions. We had to increase our State taxes. We cut our service programs and laid off 25 percent of our staff. We had to do that just to deal with the caseload increase.

It didn't leave us any money to do much in the way of increase of payments per household. We were trying to keep some equity relationship between SSI and AFDC, and we have lost that battle. The indexing that was done in the SSI program and the SSA program for the last 4 years dramatically brought them away from our AFDC payments.

In 1973, we paid AFDC and SSI the same payment in our State. In 1974, it became a federalized program called SSI. Today our AFDC payment for one is $241 a month. Our SSI payment is $404 a month. That is an 87-percent variation over a 9-year period.

Interestingly it is really not a Federal program if you look at SSI. The State of Wisconsin today pays a higher percentage of the cost of the SSI program than we pay of AFDC or medical assistance, and yet we call it the federalized program. By law, we are not allowed to reduce our supplementation to the SSI program; that is largely why we couldn't keep any equity between the two.

We were the lousiest State in the United States in terms of use of food stamps for years, and I got chided very severely by many people for that. We made a conscious effort that we were going to try to improve food stamps. We looked at it. We found the major problems were our workers, our clients and our systems were very resistant to the food stamp program. The workers did not like the rigid paper compliance mentality of it; we had separate eligibility tests and workers for the programs.

After a client spent 2 days waiting in a room to be interviewed to find out whether they had AFDC and MA, they were not about to take another application forn , and get back in the end of the line and start all over again for food stamps.

The removal of the purchase requirement was an assistance to us in terms of the client resistance to the program. We added 17,000 households in 2 months when the purchase requirement was eliminated. We combined the AFDC medical assistance and food stamp application process in one application, one worker, one visit.

At the same time the low-income energy assistance program was coming in 1981, we required that to be eligible for low-income energy assistance you had to be found eligible for food stamps. The combination of those two increased our food stamp households by 15,600 in 3 months.

The net effect today is the State of Wisconsin is one of the leaders in the country in the use of the food stamp program, and we have broken down much of the resistance to the program.

Now the major problems that we are facing in the administration is that Federal policy ignores reality. It always comes too late, and it has to be implemented too soon. It deals with programs like they are going to different people. Hundreds of rule writers sit in cubbyholes writing rules without seeing what the other rule writers are writing.

When the Federal Government looks at Wisconsin, they say "By God, they have 600,000 households who are receiving AFDC, medical assistance, low-income energy assistance, food stamps, SSI." That is not true. That is not even close. We have 285,000 households who are receiving a combination of those benefits, not 600,000, and of those 285,000, only 62,000 get one program and half of those 62,000 are aged people in nursing homes.

You have these large groups of heavily overlapping programs between low-income energy assistance, AFDC, food stamps, and medical assistance. They don't stay that way. Every month 20,000 of those cases change. They were food stamp only last month. They are food stamp/AFDC/medical assistance this month. They lose some income and become food stamp eligible. There is a continual changing every month.

Now, a brief word on administrative costs because I consider them the biggest ripoff to the taxpaying public that we have in our system today.

Now I can make that smug statement because we are probably the lowest administrative State in the Nation. We are at about 40 percent of the national average. But if I were to spend just the national average in Wisconsin, I would have to spend $90 million more on administrative costs.

Now, I am being chided again for my low administrative costs because of my error rates. Quality control. It is our current golden idol of administrative perfection. When Moses came off the mountain his followers were worshiping a golden calf. When I looked at my Bible, I couldn't figure out whether the calf was male or female; but I believe it was male in that this golden idol which we are now worshiping is as much bull as that idol was.

We could save far more money in cleaning up the conflicts in the overlapping regulations between these programs by having cost allocation programs that are simple and don't require an army of auditors and accountants to deal with them before and after the fact.

In Wisconsin I would have to spend over half a billion dollars more, $500 million more, a year in administrative costs to equal the administrative costs in the State that has the lowest error rate State in the Nation. A half billion more just in the State of Wisconsin.

Mr. STARK. Which State has the lowest?

Mr. STUMBRAS. Nevada is the lowest error rate State. They also have the lowest percentage of people using the program in the Nation. It is very tough to get on the program in Nevada. You have to go through a whole bevy of people.

But let's assume that I spent $90 million more just to get to the national average or I spent $500 million more to get up to the Nevada level and that that got me to zero error rate, I didn't make a single error in any program in the State of Wisconsin. What would I save? $21 million. That is the real dollar loss in the AFDC, food stamp, and medical assistance program in the State of Wisconsin. That is three one-hundredths of 1 percent of the $1.4 billion we allocate each year, and yet I am facing a food stamp and AFDC sanction for quality control.

In summary, low-income people are worse off today than they were 15 years ago. The big difference is they are much younger than they were 15 years ago. Welfare is not the answer. If it is the only interim thing, then don't hassle single mothers who are already carrying a very heavy load. Give the States the option to drop the EITC nonsense that we are working with now, and put back an incentive to work after 4 months and let us save money.

A major change in female salary pricing is one answer, and it needs a push from all of us each day.

Child support and revamped methods of custody are major answers, but they must occur together, or they will not work for kids.

Administrative direction of all IM programs would save us real billions of dollars, and quality control sanctions today cost us dollars and do not measure reality.

Thank you.

[The prepared statement follows:]

STATEMENT OF BERNARD J. STUMBRAS, ASSISTANT ADMINISTRATOR, DIVISION OF COMMUNITY SERVICES, WISCONSIN DEPARTMENT OF HEALTH AND SOCIAL SERVICES

Wisconsin has a long tradition of paying one of the top six AFDC levels in the United States. We find no comfort in our relative status because we know our efforts are inadequate to remove the daily suffering of over 200,000 children.

In 1975, we were paying 91.4 percent of the poverty line in AFDC payments. By 1981, the last year of the old poverty index, we were paying 80 percent of the poverty line.

We would like to believe we are at least offering some help to all who are in need. If 1980 census data is accurate, we may be helping more families than exist below the proverty line.

The 1980 census data (collected in 1979) identified 34,075 families with children under 18 and a single female head of household, with an income below poverty. (I will call these female poverty families for the rest of this paper.)

In November of 1979 I can identify a minimum of 38,540 female poverty families on AFDC with no other income. Another 16,500 had earned income, but would need at least $1,000/year income to be on AFDC and above the poverty line. If 75 percent of these women were earning at that level there would be another 4,125 female poverty families on AFDC. That totals 8,590 more female poverty families on AFDC each month than the census found for the whole state.

Taking into account that census data is full year income and I am looking at 1 months AFDC caseload, it appears the census numbers are low. Over 52 percent of our AFDC population has been on AFDC over 12 months. We closed over 31,000 AFDC cases in 1979 and at least 7,130 of those were on AFDC over 12 months.

It is unlikely none of the 23,870 other closed AFDC cases were not below poverty in 1979. There must be some female poverty families who have not applied for AFDC. I think we may have a serious underreporting in the census data, and we will try to get a better understanding of this in the next few months.

This underreporting can seriously color our reality perceptions. Our Wisconsin divorce rate is up 250 percent in the past 15 years. The number of children born to unmarried parents and kept by the mother is up 32 percent without inflating for massive underreporting. The feminization of poverty is severe and growing worse. Fathers economically abandoning children is epidemic (see Chart 7).

The following pages will address a few of the program growth and policy issues in our state.

Wisconsin is the state which has the most even distribution of income among its families before any welfare payments are made. This means we have few wealthy families and a smaller percentage of families below poverty. (In 1980, 8.1 percent of all households with children in Wisconsin were in poverty vs. 15.5 percent nationwide.) As a state we are as poor as the average state (Pretransfer income per household in 1980 $17,575 Wisconsin vs. 17,425 nationwide average).

LIEAP

Equity is a major concern in Wisconsin. The energy assistance program for the past 2 years has treated everyone alike (except 33,000 SSI recipients mostly aged individuals) having to file a separate application form even through eligible for other income tested programs.

Our payment levels of approximately $258/year give low income families who applied about a 4-6 percent annual increase in government transfers. This program is impossible to plan well because of the lateness of federal decisions in the budgeting process. It is now October 18 and Wisconsin has had a number of nights below the freezing level. The Department of Energy Weatherization Grants, the LIEAP Community Services Title XX Block Grants, and Oil Overcharge Funds are not yet established. All of these funding sources combine to produce the Wisconsin Weatherization and LIEAP programs.

Today we have no 1983-84 LIEAP and Weatherization programs; we cannot get a final signoff on the expenditures in this program until our legislature knows the federal funding levels. Once our legislature signs off on a program we must still program the computer and train local staff before giving grants. This is not the first but the fourth consecutive year we have experienced this problem.

We tried to carry some money over in the block grants so that we could at least do emergency energy assistance while awaiting a federal funding level. This has led to allegations we get more money than we need and an attempt to change the funding formula.

It is difficult to keep up an annual attempt to make rationale policy decisions in a program funded after it should start.

AFDC—REGULAR

Our AFDC regular program has had a long slow growth from 1975 through 1981 with a drop in January through March of 1982 produced by implementation of OBRA. That reduction was primarily 5,316 step-parent cases, and 4,307 higher wage earners; potentially saving the taxpayers $32 million/year. However, 84 percent of those savings were lost as a result of massive reduction in earned income by those AFDC recipients whose cases were not closed. If the $30⅓ on net income had continued after four months and the EITC harassment were not enforced, we believe the taxpayers could save another $24 million/year in Wisconsin. These savings would accrue through reduced AFDC grants, reduced food stamps, and increased income and social security taxes, paid by AFDC mothers returning to pre-OBRA earnings. (See my 12 14 82 testimony before the Task Force on Entitlements, Uncontrollables, and Indexing of the House Ways and Means Committee 1 full copy attached Executive Summaries on the 100 additional copies.)

From March 1982 to the present, the AFDC regular program has continued its slow steady climb (see Chart 1) but our percentage of AFDC mothers working remains stagnated at the immediate post OBRA level of 13 percent.

MEDICAL ASSISTANCE

Our Medical Assistance program growth is very comparable to our AFDC regular and SSI programs (see Chart 2). The abnormal blip in 1977 is the result of a change in data process and represents a transfer and clean up of duplicated cases rather than a true increase.

AFDC-U

Our AFDC-unemployed caseload shows the results of Wisconsin exceeding the national unemployment levels for the past three years. (See Chart 3.)

This growth has been the single major cause of our not giving more adequate grant increases to all AFDC cases. Our budget targets have been consumed by projected AFDC-U caseload increases.

Program costs for AFDC-U went from: $14 million in 1975, $29 million in 1980, and $80 million in 1983, doubling in five years then almost tripling in the next three years. We have become gun shy of our projections while believing the trend has got to reverse. We cannot trust we have stabilized at 18,000 cases although the dip we see in 1983 is consistent with a normal seasonal variation we experienced pre-1979.

FOOD STAMPS

The food stamp caseload is an interesting study. Unlike AFDC regular and M.A. this program shows remarkable responses to various changes (see Chart 4). You will notice all four charts contain points 1, 2, 3, 4, but only food stamps response to 1 through 5, and responses in reverse to AFDC regular at point 4.

Point 1 is the removal of the purchase requirement for food stamps. We went from 43,633 in December of 1978 to 59,780 in January of 1979 for an increase of 37 percent.

Food stamps in Wisconsin was always an unpopular program with clients and front line worker staff. We cashed out the food stamp program in SSI in 1974 for $10 SSI individual largely because only 15 percent of our SSI populations were participating in food stamps. The value of food stamps has increased 66 percent since 1975, but the cash out value remains at $10.

We had the lowest participation rate for food stamps in the country for many years. The end of the purchase requirement removed a major fiscal impediment to low income families. Yet even after the 37 percent increase of households following the purchase requirement removal we were still one of the lowest participation level states. We made major inroads in the worker resistance to helping eligible people get food stamps by installing a computer eligibility and grant calculation system in all counties from January 1979 through October 1980. During this time our food stamp participation went from 59,780 to 86,337 or another 44 percent increase. In November of 1980 to overcome client resistance to food stamp, we required that to receive energy assistance you had to be eligible for food stamps. By March of 1981, we were at 103,121 or another 19.4 percent increase in participation in the five month period of the energy program. Our severe recession had set in by this time and participation went from 103,121 in March 1981 to 131,785 in March of 1983 for another 28 percent increase. Wisconsin is now participating in the food stamp program on a equal level with other states although our average amount of food stamp dollars/household is lower because of the relatively high AFDC payments to the 53 percent of our food stamp households who also receive AFDC.

The food stamp program showed a significant instability while the AFDC OBRA changes were being discussed in the local agencies. There was actually an unexpected reduction in November and December 1981 and a correction in January 1982 and unlike AFDC a quick jump back to a significant increase in February of 1982.

FLAT GRANTS

In 1975, we made our AFDC payment a flat grant eliminating special needs and separate shelter and utilities components. When the legislature set the standard there was a slight variation of the October 1973 BLS lower income level. The payment level was set at 85 percent of the standard. For an AFDC family with no other income who received AFDC and FS they would have an income very close to the poverty level. However, our low participation rate in 1975 meant many AFDC household did not receive food stamps. In July of 1975, we had 55,147 AFDC households but only 46,131 total AFDC and non-AFDC food stamp households. In July of 1983 we have 89,455 AFDC households and 126,303 FS households with 77,014 of the FS households also receiving AFDC.

UPDATING BENEFIT LEVELS

In keeping up with the inflation factor, we could use a variety of guides such as the CPI or the poverty factor. Both are somewhat higher than the average wage increase per family, and we believe the average wage increase is a better measurement of the real world. (See Chart 5.)

Our AFDC payment level has increased 43.2 percent from 1975 to 1982. The food stamp benefit levels have increased by 60.1 percent and the average wages have increased by 70.8 percent. In 1982 Wisconsin AFDC recipients averaged about $1,388 less per year in relative purchase power to families with earned income compared to a base of 1975. They also received $108 fewer food stamps than they would have had the food stamp program been indexed to average family salaries.

The SSI program was influenced by the AFDC program from 1974 through 1979. In 1973, the average AFDC and pre-SSI recipient received the same payment level. However, the 1974 SSI program would have allowed Wisconsin with no additional state dollars to pay $271/month for one SSI person in 1975 when we were only paying $167 for a size 1 AFDC family.

	1975	1976	1977	1978	1979	1980	1981	1982	1983
1 AFDC size 1	167	169	178	184	198	213	226	232	241
2 SSI size 1	214	244	254	276	294	338	364	384	404
3 SSI percent higher (%)	28	44	42	50	48	59	61	66	68
4 Savings to Feds (millions)	$41	19.4	22.2						

We kept the payments below the $271 level for three years savings the federal government a minimum of $72.6 million and in return they phased out our hold harmless guarantee from 1981 through 1984, and we are now paying a higher percentage of the payments to the old age, blind, and disabled under the "federal" SSI program than we pay for the state/federal AFDC and MA programs.

We did not feel it was proper to spend money in 1975 through 1977 just because it was federal money and tried to hold some kind of equity between the programs. The rapid CPI increases in SSI from 1979 through 1983 have further distorted the payment standards. They would have been worse had not Wisconsin refused to give comparable increases to our state supplements to SSI recipients. By federal law we are barred from reducing our supplements to try to keep AFDC and SSI compatible.

POLICY PLANNING

Our next major step in putting some rational policy into the present system is to recognize the problems are: divorce; inadequate income for female headed households; and inadequate child support.

AFDC and FS are inappropriate tools to deal with these problems and we need better systems.

We have begun a major effort to alter how divorce is done in our state. To reduce, if not eliminate, the legal bickering and go with straight simple expectations of people who want to end their marriage.

1. Stop divorce reconciliation procedures and instead train people on how to handle the new role of absent parent, single custodial parent, how to deal with the child's fears of divorce, etc.
2. To recognize joint custody as the right of the children.
3. To require economic stability for the children by withholding from wages of both parents a standard percentage of income which will be used for the children.
4. Treating all divorces alike not defining child support as AFDC and non-AFDC.
5. When the child support from wage withholding does not equal a state established minimum to supplement the child support to the minimum level.

We are beginning with our pilot counties now and expect this to be a hard fight for the next three years to change society's response to these problems.

We know we are on the right track and will succeed. We are confident that this system can and will reduce AFDC by 40 percent in the first year and 75 percent by the end of the second year. The supplemental payments will be less than the savings from AFDC and ancillary savings in FS and MA will be added incentives for those who see this mostly as a cost saving rather than a more humane way to treat children and parents.

The primary federal influence on state policy in the AFDC, MA, and FS programs, is the continual inability of congress, HHS, and USDA to deal with these three programs as an integrated delivery of resources to low income people.

Of 86,306 AFDC households, 72,632 also receive food stamps and 86,283 receive MA. (See Chart 6.)

Of the 115,366 food stamp cases 72,632 receive AFDC, 10,563 receive FS and MA and over 15,000 receive general relief and FS leaving only 17,171 true FS only cases or 15 percent.

Of the 133,559 MA households, 32,240 are in nursing homes leaving 101,319, of which 86,283 are AFDC (72,614 also receiving FS) and 10,563 receive FS and MA leaving 4,473 Medical Assistance only cases.

When each committee and federal agency talks about their program, it sounds like Wisconsin has 335,231 households receiving AFDC, MA, and FS. Actually we have 165,753 households (49 percent of the duplicated total) and 32,240 of those are single people in nursing homes. There are five receiving AFDC only, 17,171 FS only, and 4,473 MA only out of the remaining 133,513 households. Each month over 20,000 of these families are closed or opened for one or more of the programs they did or did not receive the previous month. That is, they were FS only in September, but FS/MA in October or AFDC/MA in September, but AFDC/MA/FS in October, etc.

Having different automobile policies, different definition of earned income, different disregards of earned income, different assets tests, different treatment of EITC, etc. is insane. The primary fraud waste and abuse in these programs can only be conjured up by mirrors using ever changing, never compatible definitions in these programs.

The Quality Control statistics which are the current golden idol of administrative perfection are statistically invalid and factually fraudulent in reporting the amount of dollars being misspent.

In this administrative nightmare, it is much easier to have four separate sets of staff dealing with AFDC, MA, FS, and General Relief. In that way they will not be confused by the constant changes and inconsistencies to the programs. This can keep error rates low, increase administrative costs 3 to 5 fold, and hopelessly harass the recipient who must deal with four people (none of whom is concerned about the program conflicts).

We have rejected that concept and use one set of integrated staff to plan, deliver, monitor, and audit all IM programs. This keeps our administrative costs at 40 percent of the National Average which saves federal and state government over $90 million year below the nationwide average of administration. Our real dollar savings if we could eliminate every error in these programs would be $24 million out of a $1.4 billion year expenditure (three-one-hundredths of 1 percent). Yet we face sanctions in FS and AFDC for failure to meet the congressional quality control standards. It is the savings in administration that have allowed us to give some increases in benefits during these hard economic times.

We have eliminated our errors to random human error caused by constant change and failure to standardize policies at the federal and congressional level.

The only hope for the future for most states to reduce administrative costs is major computerization. That is significantly thwarted by federal policies that change and conflict, and cost allocation policies that are byzantine. To build a good data system requires at least three years of minimal change so programming and debugging can be done in an orderly fashion.

CHART LABELS FOR CHARTS 1-4

1. Purchase requirement for food stamps eliminated.
2. Eligibility for Low Income Energy dependent upon Food Stamp eligibility.
3. All counties added to the integrated computerized eligibility determination system.
4. OBRA closings.

Chart 1

WISCONSIN AFDC REGULAR CASES

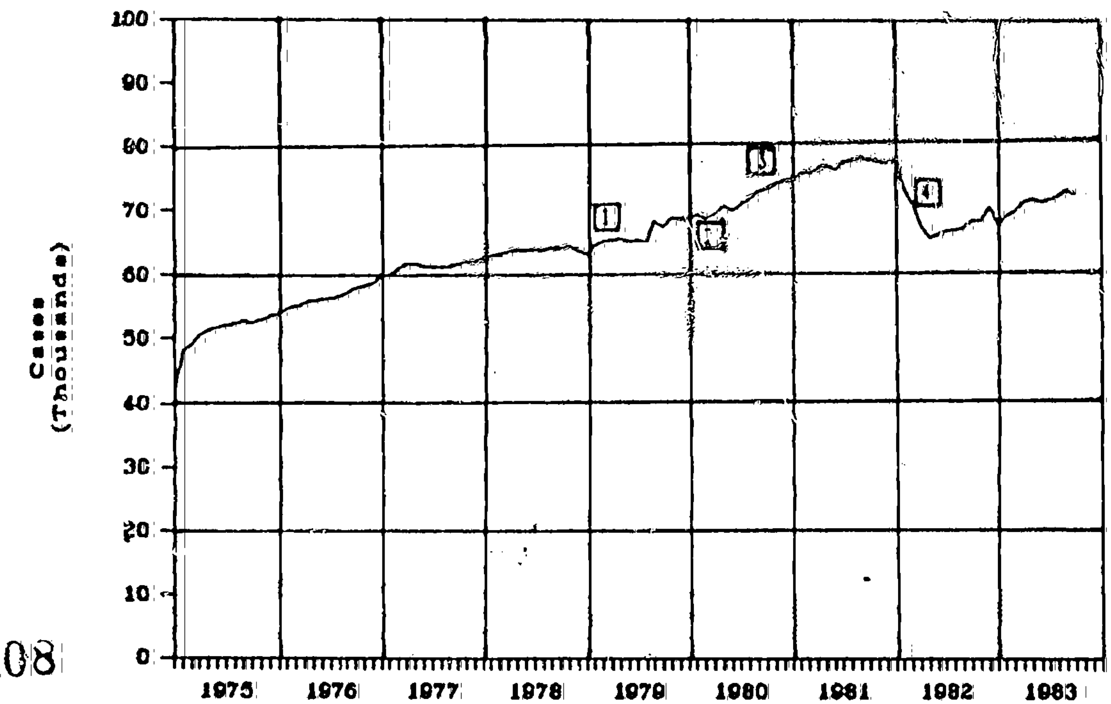
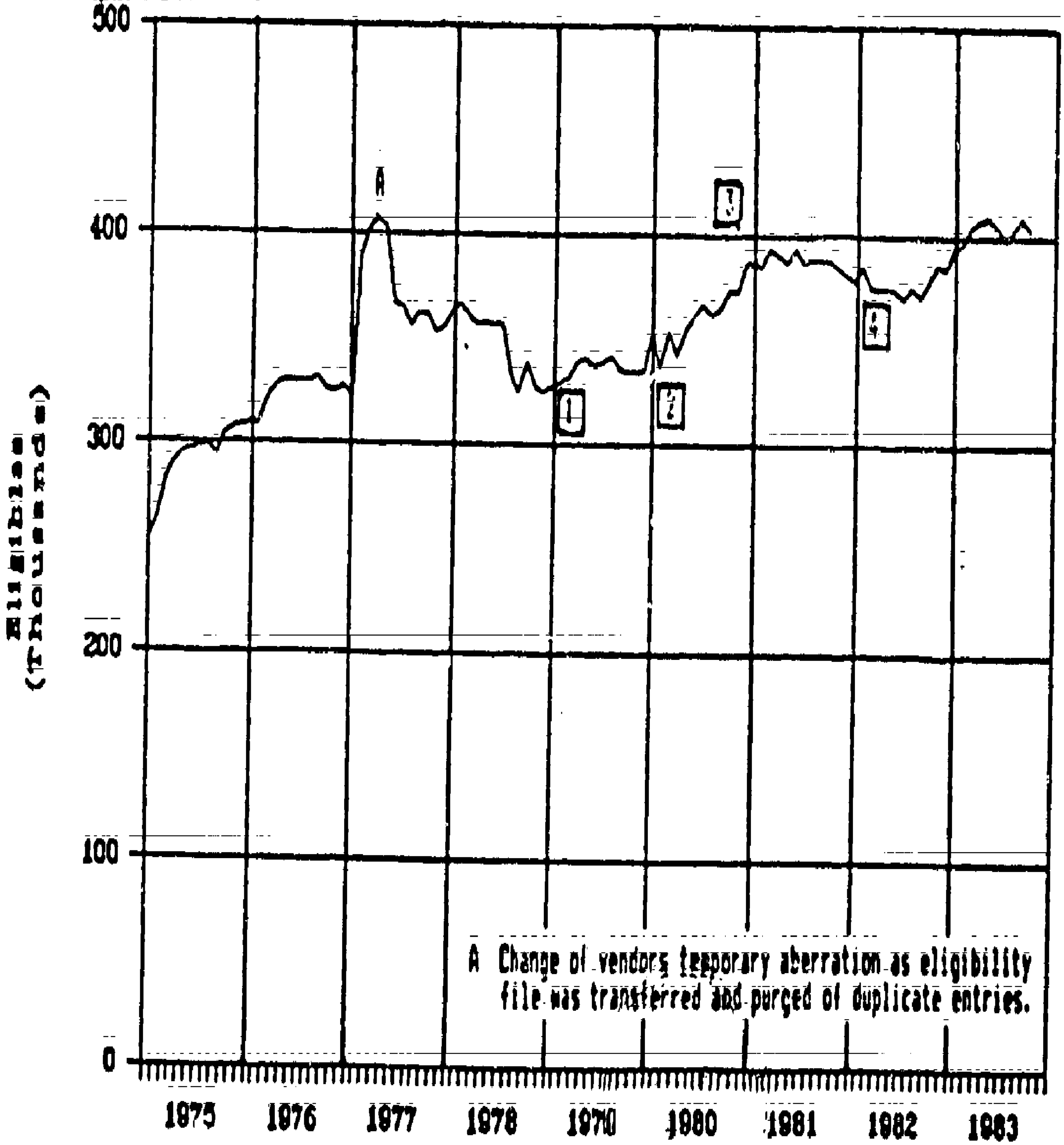


Chart 2

WISCONSIN MEDICAL ASSISTANCE ELIGIBLES



105

Chart 3

WISCONSIN AFDC UNEMPLOYED CASES

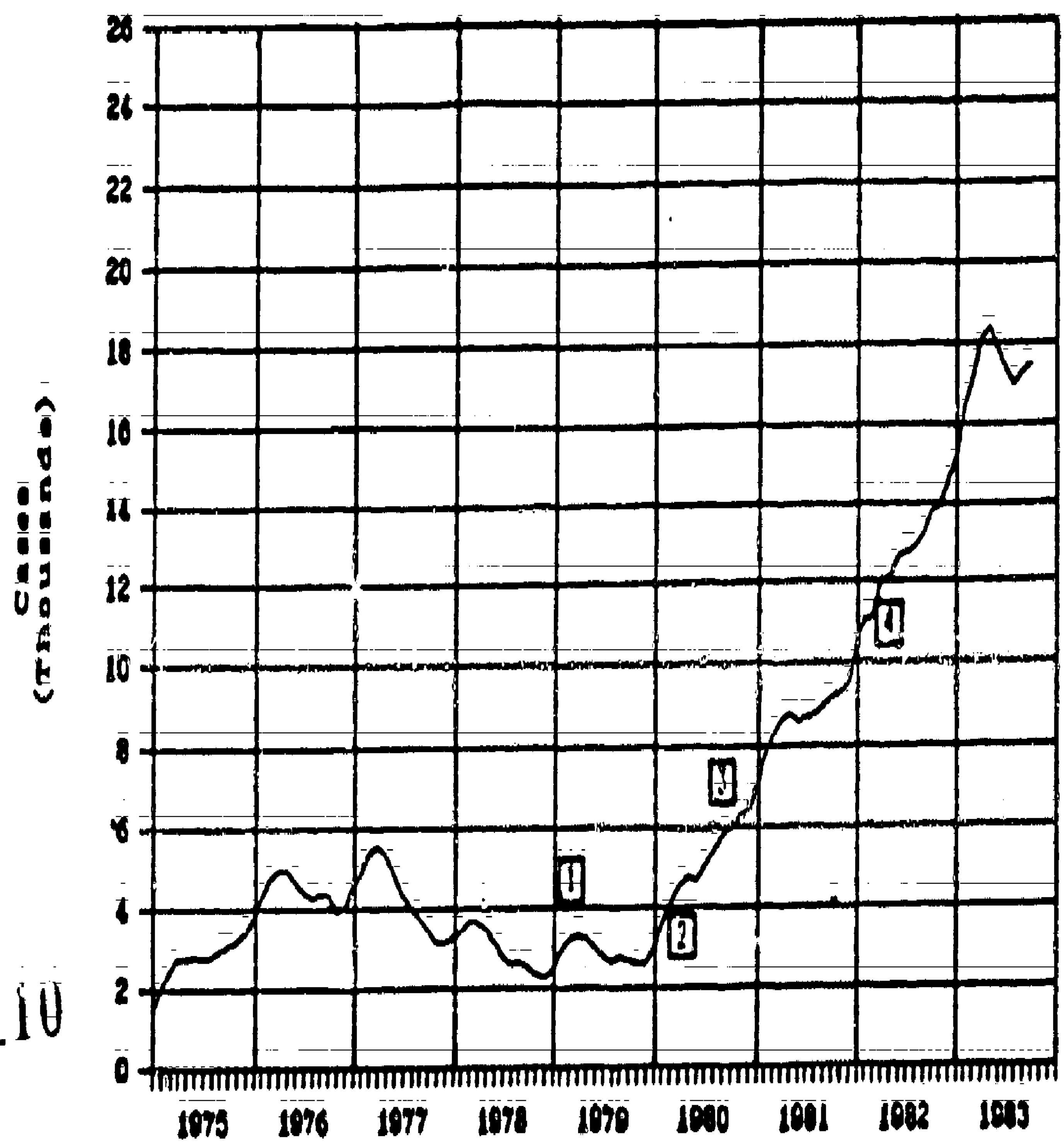


Chart 4

WISCONSIN FOOD STAMP HOUSEHOLDS

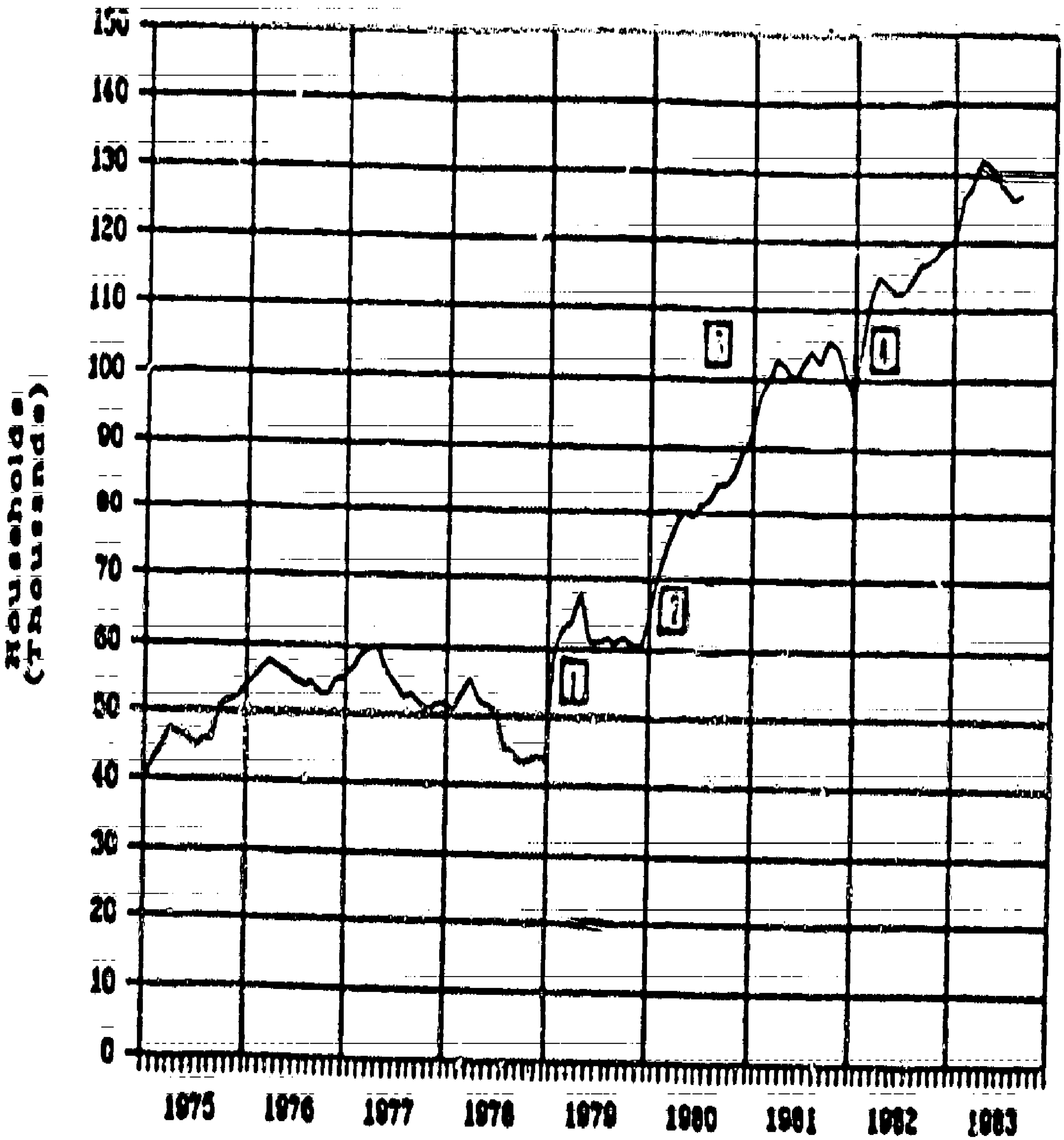


Chart 5

AFDC Family Payments Family of Four Compared to Average Salary Increases by Families 1975 - 1982

Year	(a) Gross Median Wage	(b) AFDC Payment Level	Gross Median % Increase	AFDC Payment Level % Increase	AFDC Payment If Indexed By Wages	Short Fall
1975	13,719	5,028	100%	-	-	
1976	14,958	5,088	109.03%	101.2%	5,482	-$ 394
1977	16,009	5,304	116.70%	105.5%	5,868	-$ 564
1978	17,640	5,496	128.58%	109.31%	6,465	-$ 969
1979	19,587	5,904	142.77%	117.42%	7,178	-$1,274
1980	21,023	6,348	153.24%	126.25%	7,705	-$1,357
1981	22,388	6,756	163.19%	134.36%	8,205	-$1,449
1982	23,433	7,200	170.81%	143.2%	8,588	-$1,388

(a) Current Population Reports P-60 140 based upon national sample of families including single female wage earners.

(b) July 1 family payments for AFDC size four in Area I Wisconsin.

Chart 6

WISCONSIN INCOME MAINTENANCE SUMMARY DATA FOR MONTH OF SEP 1983 ENDMONTH RUNDATE: 10/01/83 PAGE: 78

INCOME MAINT. PROGRAMS	TOTAL CASES	TOTAL RECIP	ADULT RECIP	CHILD RECIP	AFDC-PAYMENTS	AFDC REFUNDS	AFDC GRANTS	FOOD STAMPS	EARNED-INCOME CASES	EARNED-INCOME DOLLARS	MONTH REDET
TOTAL AFDC	86206	262405	99124	163344	39737019	194516	40177944	7281001	12159	2733776	11165
AFDC REGULAR	69984	192890	67148	125742	30950077	112090	31319465	5325817	8096	2468175	9165
AFDC-R,MA,FS	58617	162024	55705	107219	25493472	100994	26006239	5214823	6585	1957453	7409
AFDC-R,MA	10283	24009	9640	14368	4304410	10140	4194407		1353	460267	1256
AFDC-R,FS	8	23	6	17	3422	35	3457	721			2
AFDC-R,ONLY	2	4	2	2	725		725				
WRTSHR,MA,FS	648	649	649		190683	130	146161	33094	56	9858	48
WRTSHR,MA	516	516	516		152403	64	115941		54	9725	54
WRTSHR,FS	4	4	4		1444	21	983	132			
WRTSHR,ONLY											
NLRS,MA,FS	915	1876	543	1333	331688	1268	340730	80600	32	7198	111
NLRR,MA	2069	2781	83	2698	569400	501	565894		16	3806	214
NLRR,FS	2	2		2	456		453	92			
NLRR,ONLY	2	2		2	470		470				
AFDC UNEMPLOY	16602	69978	31970	37602	8786941	40418	8798074	1951944	4093	1265655	2040
AFDC-U,MA,FS	15626	66613	30480	36133	8389493	45268	8404063	1951724	3878	1213705	1959
AFDC-U,MA	801	2547	1456	1461	395165	1133	386732		212	70923	61
AFDC-U,FS	4	14	8	6	1871		1871	264	2	660	
AFDC-U,ONLY	1	4	[illegible]	2	413		413		1	367	
AFDC-U,PEND	1277	4936	[illegible]	2630	624659	3117	621148	128200	397	133459	136
TOTAL FS	138366	331468	155034	176424	34412533	147679	34910957	10414560	26060	10828441	16227
FS,AFDC,MA	72616	246476	97083	149893	34405335	147623	34904193	7280467	12177	3848830	9573
FS,AFDC	16	65	30	35	7198	56	6764	1214	1	4125	2
FS,MA	10563	31722	16783	14939				2214748	4714	2437086	1343
FS,ONLY	22171	52205	41163	11562				2418121	9957	4488821	5256
FS,AGED	6686	8760	7672	888	129460	666	130193	267496	462	108295	263
FS,INCAP	4990	6727	5797	930	77869	346	80795	162784	177	27941	620
TOTAL MA	132559	325751	143195	182566	35729213	159460	40169172	6495265	7335	3730715	15155
MA,AFDC,FS	72616	234050	88468	146602	34405395	147623	34904193	7280467	740	453529	9573
MA,AFDC	13669	30620	11822	18798	5322870	11837	5264979		396	414974	1610
MA,FS	10563	21880	7168	14718				1214796	4653	2413988	1343
MA,ONLY	36713	38195	35747	2448					1940	448225	2579
NURSING HM	32240	32239	32115	126					575	45702	2262
GRAND TOTAL	165753	385090	192797	192293	39737019	194516	40177944	10014560	26405	11107662	20416

THIS REPORT INCLUDES ALL CASES WITH A DECISION CODE OF "ELIGIBLE" WHICH WERE IN CRN IMMEDIATELY FOLLOWING THE LAST WORKING DAY OF THE REPORT MONTH. IT DOES NOT INCLUDE CASES THAT WERE OPEN DURING THE REPORT MONTH AND CLOSED AT THE END OF THE REPORT MONTH. ALSO, IT DOES NOT INCLUDE CASES OPEN DURING THE REPORT MONTH THAT ARE CURRENTLY SCHEDULED TO BE CLOSED THE FOLLOWING MONTH. CURRENT ESTIMATES INDICATE THAT THE CASE AND RECIPIENT COUNTS IN THIS REPORT ARE 92.93% OF THE TOTALS SERVED DURING THE MONTH.

THE DATA FOR "AFDC PAYMENTS" AND "FOOD STAMPS" REPRESENT THE DOLLAR VALUE OF BENEFITS TO BE ISSUED IN THE FOLLOWING MONTH FOR CASES INCLUDED IN THE REPORT. THESE DATA DO NOT INCLUDE BENEFITS ISSUED TO CASES CURRENTLY SCHEDULED TO BE CLOSED THE FOLLOWING MONTH, NOR DO THE DATA INCLUDE BENEFITS FOR CASES OPENING IN THE FOLLOWING MONTH.

THE DATA "MONTH REDET" SHOW CASES SCHEDULED FOR REDETERMINATION IN THE FOLLOWING MONTH.

THE DATA "(AFDC-U,FEM)" SHOW CASES RECEIVING AFDC BENEFITS BECAUSE OF THE UNEMPLOYMENT OF THE FEMALE CLIENT, AND THE DATA "(FS, AGED)" AND "(FS, INCAP)" SHOW CASES IN WHICH THE HEAD OF HOUSEHOLD IS 60 YEARS OF AGE OR OLDER, OR IS INCAPACITATED.

109

WISCONSIN AFDC CASES

Chart 7

REGULAR

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTALS	AVERAGES
1975	48,127	49,167	50,663	51,401	51,826	52,131	52,344	52,741	52,497	52,884	53,512	53,996	621,399	51,782
1976	54,629	55,115	55,621	56,042	56,262	56,482	56,658	57,200	57,851	58,308	58,717	60,125	682,981	56,915
1977	60,106	61,021	61,733	61,674	61,434	61,406	61,362	61,440	61,792	62,158	62,066	62,562	738,732	61,561
1978	63,069	63,359	63,942	64,068	64,136	64,067	64,160	64,337	64,467	64,655	63,999	63,371	767,430	63,969
1979	64,907	65,398	65,692	65,806	65,374	65,632	65,599	68,636	67,655	68,990	69,018	68,823	801,326	66,777
1980	69,541	69,063	69,718	70,878	70,171	71,196	72,210	73,324	73,927	74,636	74,953	75,103	864,723	72,060
1981	76,220	76,385	76,986	77,235	76,796	77,913	78,005	78,449	78,505	77,896	77,710	78,251	930,141	77,512
1982	73,907	72,106	67,628	66,075	66,379	67,067	67,155	67,603	68,591	68,757	70,739	68,026	823,011	68,584
1983	69,219	69,917	71,502	72,180	71,558	71,977	72,426	73,406	72,991				645,110	71,679

UNEMPLOYED

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTALS	AVERAGES
1975	2,031	2,431	2,740	2,740	2,787	2,742	2,703	2,942	3,035	3,196	3,372	3,758	34,557	2,880
1976	4,259	4,754	4,957	4,952	4,644	4,400	4,264	4,358	4,336	3,878	4,009	4,523	53,339	4,445
1977	4,870	5,361	5,531	5,269	4,770	4,274	3,936	3,743	3,428	3,156	3,161	3,228	50,707	4,225
1978	3,421	3,636	3,671	3,524	3,141	2,804	2,582	2,629	2,545	2,340	2,255	2,423	34,965	2,914
1979	2,890	3,214	3,315	3,237	3,012	2,802	2,632	2,738	2,711	2,597	2,607	2,964	34,719	2,893
1980	3,543	4,046	4,483	4,724	4,653	4,969	5,359	5,739	6,003	6,222	6,382	6,944	63,067	5,256
1981	7,725	8,206	8,598	8,775	8,519	8,686	8,739	8,960	9,165	9,255	9,557	10,429	106,674	8,890
1982	11,084	11,151	12,047	12,130	12,609	12,705	12,858	13,101	13,703	13,975	14,599	15,226	155,268	12,939
1983	16,395	17,098	18,092	18,386	17,611	17,419	17,029	17,331	17,532				157,093	17,455

TOTAL AFDC

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTALS	AVERAGES
1975	50,158	51,598	53,403	54,221	54,613	54,873	55,147	55,683	55,532	56,080	56,884	57,754	655,946	54,662
1976	58,859	59,869	60,578	60,999	60,906	60,892	60,922	61,558	62,187	62,186	62,726	64,648	736,320	61,360
1977	64,976	66,382	67,264	66,943	66,174	65,690	65,298	65,191	65,229	65,314	65,207	65,790	789,439	65,787
1978	66,490	66,989	67,613	67,592	67,277	66,871	66,742	66,966	67,012	66,995	66,254	65,794	802,595	66,883
1979	67,797	68,612	69,007	69,043	68,386	68,434	68,031	71,372	70,366	71,587	71,625	71,785	836,045	69,670
1980	73,084	73,109	74,201	75,602	74,824	76,168	77,569	79,063	79,930	80,858	81,335	82,047	927,790	77,316
1981	83,945	84,591	85,584	86,010	85,315	86,599	86,744	87,409	87,470	87,141	87,267	88,745	1,036,815	86,401
1982	85,031	82,257	79,675	78,205	78,988	79,712	80,013	80,784	82,294	82,730	85,338	83,252	978,279	81,523
1983	85,614	87,015	89,594	90,508	89,369	89,396	89,455	90,737	90,523				802,203	89,134

Charles Ness OMI, BCS, DHSS

WISCONSIN MEDICAL ASSISTANCE COSTS

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTALS	AVERAGES
1975	263,856	292,124	290,249	295,349	297,216	297,937	298,757	298,063	305,464	307,805	309,113	309,938	3,552,866	296,072
1976	306,426	322,170	328,006	330,011	330,144	329,969	329,386	331,698	326,251	324,585	328,480	322,516	3,911,650	325,971
1977	382,584	402,617	411,818	423,628	367,222	365,279	356,505	362,334	362,647	354,013	356,101	363,893	4,490,501	374,208
1978	362,186	362,446	358,265	358,765	357,918	357,228	332,626	325,146	339,865	326,595	325,916	328,154	4,140,030	345,003
1979	329,725	331,233	339,360	341,470	337,570	339,029	342,338	337,425	334,627	334,596	335,783	353,055	4,056,739	338,062
1980	337,651	353,825	343,090	354,784	362,753	367,583	362,257	365,129	374,348	373,226	387,620	386,690	4,368,914	364,076
1981	385,779	394,074	391,540	387,855	393,727	387,753	389,067	399,278	389,494	365,516	392,073	376,025	4,654,774	387,898
1982	385,044	375,853	375,200	376,277	373,797	370,008	375,903	371,759	379,331	384,165	384,681	395,446	4,549,532	379,128
1983	396,322	404,398	409,144	409,589	404,665	395,965	404,211	409,759	403,772				3,640,745	404,527

WISCONSIN FOOD STAMP HOUSEHOLDS

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTALS	AVERAGE
1975	42,940	44,903	47,438	46,882	46,369	44,983	46,135	46,209	50,912	51,886	52,120	53,678	574,468	47,872
1976	54,971	56,482	57,578	56,687	55,732	54,816	54,217	54,556	52,888	52,815	54,921	55,571	661,234	55,103
1977	56,775	58,799	59,621	59,612	56,225	54,364	52,362	53,206	51,640	50,978	51,066	51,756	657,204	54,767
1978	51,089	53,054	55,373	53,302	51,463	50,920	45,357	45,206	43,595	43,746	44,384	43,643	580,332	48,361
1979	59,780	62,788	63,666	66,022	61,076	60,953	61,324	60,795	61,602	60,575	60,083	64,206	744,770	62,064
1980	70,064	73,899	77,718	80,339	75,575	81,622	82,032	84,528	84,612	86,337	89,670	92,644	983,040	81,920
1981	97,592	99,848	103,121	101,582	99,967	101,723	104,280	102,550	105,555	104,668	100,254	97,418	1,218,558	101,547
1982	104,785	111,920	104,908	113,528	112,574	112,875	114,455	116,791	117,089	118,474	119,781	120,141	1,377,291	114,774
1983	126,228	128,182	131,785	131,168	129,146	128,187	126,303	127,093					1,028,092	128,512

Chart 6

TABLE I

Selected Wisconsin Statistics

		1966	1976	1981
1.	Persons of Child-bearing Age	724,000	1,032,000 (143%)	1,200,056 (166%)
2.	Marriages	28,437	36,024 (126%)	41,114 (144%)
	% line 2/line 1	3.9%	3.49%	3.43%
3.	Divorces	5,293	14,579 (275%)	18,459 (349%)
	% line 3/line 1	.73%	1.4%	1.54%
4.	Live Births out of Wedlock	4,538	6,999 (154%)	9,961 (219%)
5.	Kept by Mother	2,904	6,453 (268%)	9,486 (327%)

50% of children born today will live with a single parent sometime before age 18.

57% of children living in a household without their father get no financial support from their father.

29% get the court ordered amount of child support.

14% get less than court ordered amount.

Of the 41% who got support, the support equalled 20% of their total income:

Own mother income $595+$150 child support = $745 150/745 = 20%

Assuming the mother kept 50% of her wages for herself, she paid $298 of her income for child support and got $150 from the father.

TABLE II

Measurement	Mediation	vs.	Litigation
Satisfied w/custody arrangement	94%		86%
Satisfied w/money and property settlement	100%		49%
Satisfied w/decision to get the divorce	53%		15%

TABLE III

Change In Poverty Households In Wisconsin 1970 To 1980

	Below Poverty				Change	
	1970	%	1980	%	#	%
Male Headed	56,117	5.7	41,369	3.8	-14,397	-26
Male w/child under 18 (sub)	26,060	4.6	26,720	4.7	+ 660	+2.5
Female Headed	23,566	26	36,288	28	+12,722	+54
Female w/child under 18 (sub)	19,319	38	34,075	38	+14,756	+76
Female w/child under 6 (sub)	10,877	54	20,677	61	+ 9,800	+90
Over Age 65 Household	24,463	14.8	6,924	3.7	-17,539	-253
	Total Households In Wisconsin					
	1970	%	1980	%	#	%
In Poverty	79,683	100	77,657	100	- 2,026	-2.5
In Wisconsin	1,077,475	100	1,210,640	100	+133,165	+12.4
Female Headed	89,960	100	130,783	100	+ 40,823	+45
Male Headed	987,515	100	1,079.857	100	+ 92,342	+9.4
Over Age 65	164,854	100	188,906	100	+ 24,052	+14.6

Executive Summary of OBRA Impacts

Wisconsin's regular AFDC case load was quite stable prior to implementation of OBRA. We closed about 3,525 AFDC cases/month and added about the same number in approved new applications or by opening an AFDC case for a family already on food stamps or Medical Assistance the previous month.

From October 1 through March 31, 1982, we closed substantially more AFDC cases. If we assume October through December were normal months for closure we closed 7,537 cases/month in January, February, and March of 1982. The first three months of OBRA. That is a total of 12,036 additional closings of AFDC cases attributable to OBRA. (See Appendix 6)

The cases closed and effective in reducing costs were 5,316 stepparent cases at an average savings of $316/case/month or $20.22 million/year.

Another 4,307 relatively high wage earners were permanently eliminated from AFDC at an average savings of $138/month or $7.1 million/year.

The 816 cases permanently closed for excess assets and/or excess auto equity averaged $335/month or $3.28 million/year savings.

An additional $1 million per year was reduced by changing the eligibility date of pregnant women from verification of pregnancy to the seventh month of pregnancy. (See Appendix 3A)

The removal of the incentive after the fourth month of continuous income theoretically should have saved money by reducing grants for those 11,374 cases who remained eligible after February 1, 1982.

The first month February showed 12.75 percent with no reduction; 62.6 percent with a reduction; and 24.6 percent with a grant increase. This was "AFDC" net savings of $273,775.

By March, 34.6 percent had grant increases and the "AFDC" net savings dropped to $70,601.

By April, 1982, 41.3 percent had grant increases and the "AFDC" net savings was $10,558.

We stopped following this group after April but assuming continued net savings at the April level the annualize "AFDC" net savings were $450,000. (See Appendix 7)

This totals a net AFDC savings of $31.95 million dollars. (See Appendix 3A.) However, earned income reduced as a result of the loss of incentives (or work penalty) after the fourth month of continuous employment.

Income earned by AFDC households dropped $87.6 million per year as a result of OBRA. A maximum of $45.6 million can be attributed to the high wage earners.

Therefore at least $42 million in earning was lost because of the fifth month removal of incentives. The increase in grants because of loss of income was $13.5 million per year, and the loss in taxes paid was another $6 million/year, for those cases remaining eligible. (See Appendix 4)

The remaining eligible AFDC households loss of incentive dollars ($24.36 million) increased food stamps by $7.3 million.

Therefore, the offsets to the $31.95 million in savings is increased grants of $13.5 million, added food stamps of $7.3 million, and lost taxes of $6 million/year for a net OBRA savings of $5.15 million. ($31.95 million - $26.8 million = $5.15 million) (See Appendix 3B&C.)

THE TREND CAN STILL BE REVERSED BY RETURNING THE INCENTIVE AFTER THE FOURTH MONTH

Consistently Wisconsin has 24 percent to 28 percent of their AFDC households with earned income. Today we are averaging 13 percent. If the reinstitution of the incentive got Wisconsin back to 24 percent with the same current low average wages of $315 we would recoup $11.74 million of this $26.8 million loss, and the AFDC recipients would have $11.93 million more to spend. (See Appendix 5)

If the Wisconsin AFDC household went back to their previous average earnings $516/month the savings would be $50.4 million for the Government. The AFDC household would have $20.74 million more to spend. (See Appendix 5A)

A less optimistic expectation would be government savings of $24 to $28 million with the AFDC household having $15 million to $17.4 million more to spend.

Our recommendation is obvious we want a WIN-WIN not a LOSE-LOSE situation.

The EITC and the requirement to do a prospective test of eligibility on the 150 percent of the standard show no evidence of savings.

If either of these requirements worked we should have seen a change in length of time on AFDC. As Appendix 6 shows there has been no change.

They are costly to administrate and will produce more errors in the useful parts of the requirements because new staff will confuse retrospective rules with prospective rules. We recommend these features be eliminated.

Mr. STARK. Mr. Campbell.

Mr. CAMPBELL. Thank you.

Let me ask you one question on child support.

I am interested in what you are doing. As you know, we are marking up a bill this week on child support in my subcommittee. Do you have any withholding of State income tax refunds in your program?

Mr. STUMBRAS. Yes, we do, Mr. Campbell. We withhold both AFDC and non-AFDC child support cases from our State income tax, and we have a relatively high State income tax. We go up to about 11.4-percent maximum, but you get there very early in your income level.

Mr. CAMPBELL. Now, when you hold them, that is only when there is an arrearage to withhold on State income tax?

Mr. STUMBRAS. An arrearage in excess of $150.

Mr. CAMPBELL. The percentage that you are withholding from both working parents, how has that worked out for you? Does it encourage them both to work or one not to work? What has been your experience with that?

Mr. STUMBRAS. We are really just beginning with that.

Mr. CAMPBELL. I notice you are setting up your test program. I didn't know whether you had any or not.

Mr. STUMBRAS. We are saying that we are going to do mandatory wage withholding immediately upon the filing of a separation or a divorce. We are going to do it on a standard payment level, 17 percent for the first child going on up from there.

We anticipated and have now finally received the concern from the absent fathers that in fact they are not going to have much to say about this, that society is changing its attitude and saying, "Hey, you have to pay for the children." It is their right to this.

We are trying to deal with them at this point on the other side of this equation that says yes, and you as a parent have an equal right to a meaningful relationship with that child, so we are also having to work with the judges and the attorneys on the whole question of custody and how do absent fathers deal with children?

You don't deal with them on 2-hours every other Sunday. The children have to live with the father, have to live with them for 2 or 3 or 4 days at a time. I can't have a 10-minute meaningful relationship with my five children. I can't get them to sit still long enough for a 10-minute meaningful relationship with the five of them together, let alone to have 3 hours on a Sunday taken out of their time. They would learn to hate me very quickly if I did that within my family.

Mr. CAMPBELL. Let me go back to the other. I appreciate the relationship, and I don't think there is any question that that is a tough issue and it is well left to people in the States. We can't decide who is a fit parent and who is not and who is really a parent and who is not. That is up to the States themselves to do that.

But we are interested in looking at the withholding of wages. You state the withholding of wages from both parents. Explain that to me. If you have a husband that has gone, you withhold from his wages and it is paid, and who is it paid to; No. 1, directly, and, No. 2, if the wife has the children and she is working, you are not withholding from her wages too even though she is keeping the children, are you?

Mr. STUMBRAS. The withholding from the custodial parent is not in place yet, and probably will not be for at least 2 years in Wisconsin. But what we are planning——

Mr. CAMPBELL. Are you planning to withhold from the custodial parent?

Mr. STUMBRAS. As well, yes. That will not occur for 2 years. At this point we are going for mandatory withholding from the absent parent on a standard percentage of gross income that will be withheld from that salary immediately.

At a point in time, 2, 2½ years from now, when we go into a payment minimum that says if a man has $20,000 and we are withholding 17 percent of that, that is $3,400. If he has a child, we are saying there is a $3,500 minimum level. We would supplement that by $100 with State dollars.

Now if the mother is working, we would take half of 17 percent of her income or 8½ percent of her gross income and withhold that also.

Mr. CAMPBELL. Would that only offset against the supplement?

Mr. STUMBRAS. That would offset against the supplement if she had any kind of earnings that went more than $100, there would be no supplement. So if you get into the larger family sizes, sizes two and three, the custodial parents' income would offset the subsidies, but in fact larger families would probably still have a subsidy.

Mr. CAMPBELL. My time is almost up, but let me ask you this final question.

You are convinced that strict enforcement of support payments, the responsibility of the parents for their children regardless of the circumstance, is one of the key factors that we have in trying to reduce poverty if we will implement this support mechanism?

Mr. STUMBRAS. There is no question in my mind that that can have a very significant impact on poverty. We actually anticipate when we put the minimum benefit level in 2 years from now that we will reduce the first year our AFDC population 40 percent without changing the population and have reduced 75 percent of it by the second year.

Mr. CAMPBELL. Thank you.

Chairman RANGEL. Do you believe it would have any significant impact if we did provide assistance, as we do in some States, for families where both parents are in the home rather than just preclude them because the father is there?

Mr. STUMBRAS. Yes. I think we probably should do it for both parents, and we have in the State of Wisconsin.

Chairman RANGEL. You believe there should be minimum Federal levels of assistance for aid to families with dependent children?

Mr. STUMBRAS. Yes, sir, I do.

Chairman RANGEL. Well, I want to apologize to this panel and to the next panel. The Unemployment Compensation Committee is in conference right now with the Senate and so many of the members have to go over to the Senate side. There would be a number of questions that we would like to ask the panels. But as those of you that were here earlier know, the full committee is soon to be marking up an industrial development bond bill.

The record will remain open. So, if there are any things that you would like to add to your testimony, I want you to feel free to send it.

Yes, Madam?

Ms. JOHNSON. I have one driving concern and it has to do with Bernie Stumbras' very strong statement about child support recovery.

I do not entirely disagree with that but I would be very concerned that you take under consideration the high rate of black male unemployment in this country as you consider the circumstances around child support recovery activity.

Coming from a low benefit State and also a State where blacks continue to work in those jobs that are low salary, low skill, last hired, first fired, these are issues that must be a part of this deliberation as you look at child support recovery.

We still have considerable work going on in Georgia where salaries are below minimum wage in the turpentine industry and the like, that represent the opportunities for work for black men.

Chairman RANGEL. Well, where would you have a problem? If, in fact, there was no income, then of course there could be no recovery.

Many of my colleagues in the Senate have tried to have me to believe that the runaway pappy bills, as they call it over there, could do a lot to alleviate poverty. The problem is, just with teenage pregnancy, that if you catch the runaway pappy and he is a kid too, there is not much recovery.

I think we ought to stick, Ms. Johnson, with these conservative-sounding principles that we have to make certain that the fraud and the mismanagement and the recovery and those people that don't want to fulfill their responsibilities. But if you are broke, if you are untrained, if you are unskilled, if you are teenaged, if you are black and if you come from a State that is going through a recession, then all you are doing is helping the lawyers and the judges to run through cases which they can't recover in.

I am certain that Mr. Campbell and I agree that we want all fathers and in some cases mothers to know that they have a moral and a legal responsibility, and we want our administrators to make certain that they are enforcing existing law.

The problem is that you find one person that somehow has been intelligent enough and moral enough to manipulate the system, and they become the symbol. But I know of nobody, especially the social workers, that don't feel more strongly about being severe in the enforcement of those people that feel they have no responsibility to their families.

Mr. Campbell.

Mr. CAMPBELL. I would just like to agree with the chairman's statement in closing. Our effort essentially is that within their means, the parents have a responsibility for the children they bring into this world.

We have been working for a long time with some people who have not felt they had that responsibility and we recognize all the circumstances, but that is the bottom line.

Chairman RANGEL. Now, I have a problem as to what pressures are on fathers where there is no assistance given to the families by

State law where the father is in the home. And to me it seems a silly thing to do, to almost encourage a parent to leave a household where clearly they are asking for a little assistance. Even where there is mandatory work laws, I would support that. But it just seems to me that you should not have laws that would encourage people to leave somebody alone in order to be eligible for services.

So again, I say on behalf of the committee, I apologize for what is happening.

I am glad that the cochairman of this panel, Chairman Ford, is here. He has had a terrific setback in health and is recuperating nicely, which shows that even young people can have heart problems. But he is responding a lot quicker, thank God, than some of the older members. We welcome him here and hope that he takes good care of himself.

Thank you very much.

We have another panel. The Brookings Institution, Washington, D.C., Gary Burtless, senior fellow; American Enterprise Institute, Jack Meyer, resident fellow, director of health policy; from the Joint Center for Political Studies, William P. O'Hare, senior research associate.

We thank you for your patience. We want to advise you that your full statements will be made a part of the record and we hope that you could summarize your statements since we will be working on the 5-minute rule. We thank you for coming.

Mr. Burtless.

STATEMENT OF GARY BURTLESS, SENIOR FELLOW, THE BROOKINGS INSTITUTION

Mr. BURTLESS. I am honored by the invitation to testify before this committee.

In the past year, the Nation's unemployment has risen to new postwar highs, but the number of unemployed workers collecting jobless benefits has remained surprisingly low. If we compare the recent recession with the recession in 1974 to 1976, the contrast is especially striking.

During fiscal year 1976, when unemployment and real spending on jobless benefits peaked, there was an average of 7.6 million unemployed workers each month. About 5.6 million of those workers were covered by unemployment compensation and the Nation spent nearly $31 billion—1982 dollars—on all unemployment insurance programs.

In fiscal year 1982, unemployment averaged 10 million but only 4.2 million workers were covered by jobless benefits. The total amount spent on benefits was less than $24 billion.

In other words, the amount spent on unemployment insurance was down one-fourth even though the number of unemployed workers was higher by one-third. The Nation spent about 40 percent less in unemployment benefits for each unemployed worker.

There are several reasons for the decline in benefits. This past recession was more severe than any other in the postwar period. Workers applying for benefits were more likely to experience multiple spells of unemployment and perhaps then be ineligible for unemployment benefits when they applied.

But a more important reason for the overall decline in unemployment is a change in law and regulation that has occurred in the mid-1970's. State and Federal authorities have tightened up on the requirements to receive regular UI benefits. For example, it is now tougher to collect benefits if you are receiving a public or private pension.

By my estimate, claims for regular benefits are running about one-quarter lower than expected. In amendments to social security passed last April, Congress provided new incentives for States to tighten up on benefits. For that reason, I do not expect a reversal of recent trends in the regular UI program.

Other changes in law regulation have occurred in the extended benefit or EB program. Changes in the EB trigger enacted in 1981 have made it more difficult for States to qualify for the program.

The effect of these reforms was compounded by the decline in the insured unemployment rate [IUR] relative to the total unemployment rate that started in 1980. The IUR is used to trigger EB payments, but because of declines in the regular UI program, the IUR dropped sharply in comparison to the total unemployment rate. The EB program has been virtually wiped out.

Finally, the Federal supplemental compensation or FSC program is far less generous to the long-term unemployed than the equivalent program enacted in the 1974-76 recession. A worker becoming unemployed today is eligible for a maximum of about 36 weeks benefits under all UI programs. That is about 30 weeks less benefits than was available in 1975 and 1976.

In summary, the main reason that the number of jobless collecting unemployment benefits has been low is that the President, Congress, and State governments has decided to tolerate comparatively low insured unemployment levels.

By tightening eligibility requirements for the regular UI program: substantially tightening the trigger mechanism in the EB program and failing to enact the supplemental program until quite late in the recession, Federal and State authorities reduced countercyclical stimulus in the midst of the worst recession since the 1930's.

What impact have these changes had on poverty? Since unemployment insurance is not primarily an antipoverty program, it should not be surprising if the impact on poverty has been slight.

The main goals of unemployment insurance are twofold. First, the program provides short-term income protection to workers suffering from temporary unemployment. And second, it provides the national economy with countercyclical stimulus to help maintain aggregate consumption during recessions.

Since beneficiaries of the program are by definition experienced workers, most of them are not poor at the time they become unemployed. Tabulations by Mathematica Policy Research show that only 18 percent of beneficiaries are poor prior to becoming unemployed. However, after their earnings stop because of unemployment, 61 percent would be poor in the absence of UI payments. This is just a little misleading because most unemployed workers quickly become reemployed and leave poverty.

However, if workers are unemployed for longer periods of time, as they are during recessions, many will have incomes below the poverty line over the course of a year. Hence, unemployment insurance is especially effective in keeping families out of poverty if the breadwinner suffers long spells of joblessness.

Table 4 in my written testimony shows how effective the program was in keeping families out of poverty in 1975. If you look at families where the head or spouse suffered at least 13 weeks' unemployment, one-third of husband-wife families which would otherwise be poor were kept out of poverty by unemployment payments. Forty percent of families suffering at least 26 weeks of unemployment were kept out of poverty by UI payments.

Because of the program cutbacks I mentioned earlier, unemployment insurance was less effective in keeping families out of poverty in 1982 than in 1975. Evidence for that is in table 5 of my written testimony.

Once again, consider two-parent families where either the head or spouse suffered 13 weeks' unemployment. Among families which would otherwise have been poor, 34 percent were raised above the poverty line by unemployment benefits in 1975, but only 21 percent were raised above the poverty line in 1982.

By my estimate, about three quarters of a million individuals were kept below the poverty line in 1982 because unemployment benefits were less generous than in 1975. Most of these individuals were members of two-parent families where the head of the family or spouse suffered long spells of unemployment.

Although this number may seem large, it is only about 2 percent of the number of poor people in 1982. The rising poverty rate from 1979 to 1982 is primarily due to factors other than the cut in unemployment benefits. Even though the cut in UI was not the main cause of the rise in poverty, this caused hardship for many families suffering from long spells of unemployment.

The President and Congress could improve this situation by making a permanent change in the trigger mechanism for extended benefits. At the moment, only one State and Puerto Rico are eligible for payments under the extended benefit program, although the total unemployment rate still exceeds 9 percent. This level of coverage is ridiculously low in view of the current state of the economy.

We should stop our exclusive reliance on State insured unemployment rates to trigger the EB program. In my opinion, the national job loser rate as measured in the CPS would be a superior trigger for the program. As the national job loser rate rises above some minimum threshold level, the average number of potential weeks of EB payments should rise about zero with a fixed number of added weeks' benefits for each percentage point rise in the job loser rate.

Potential benefit duration should not rise uniformly throughout the country, but should be determined on the basis of State-level insured unemployment rates or State UI exhaustion rates.

In order to improve the income protection available to the long-term jobless and to restore the countercyclical character of the unemployment insurance program I hope you will consider changes in the extended benefit program in the very near future.

Thank you.

Chairman RANGEL. Thank you.

[The prepared statement follows:]

STATEMENT OF GARY BURTLESS, SENIOR FELLOW, THE BROOKINGS INSTITUTION*

UNEMPLOYMENT INSURANCE AND POVERTY

The nation's unemployment has risen to unprecedented levels in the past year, but the number of jobless workers collecting unemployment insurance has remained unexpectedly low over that period.

Because of changes in federal and state law and administrative priactice, and possibly because fewer unemployed workers were willing to apply for available benefits, the fraction of jobless workers receiving all types of unemployment benefits was lower in 1981-82 than in any other postwar recession. The contrast with experience in the 1974-76 recession is especially striking. In fiscal year 1976 about three quarters of the unemployed were covered by unemployment compensation. In fiscal 1982 only 42 percent were covered by compensation.

The countercyclical stimulus provided by unemployment insurance was also much lower in the more recent recession, as shown in Table 1. In fiscal year 1976, when only 7.6 million were unemployed, the nation spend almost $31 billion (1982 dollars) on all unemployment insurance programs. Last fiscal year, when unemployment averaged 10 million a month, less than $24 billion was spent on those programs. The amount of countercyclical stimulus dropped by nearly one-fourth though the number of unemployed workers was higher by one-third. The real compensation per unemployed worker fell by over 40 percent.

TABLE 1.—UNEMPLOYMENT INSURANCE OUTLAYS AND BENEFICIARIES IN SELECTED FISCAL YEARS, 1975-82

	1975	1976	1980	1981	1982
Federal outlays on all unemployment insurance programs (billions of 1982 dollars)[1]	$22.57	$30.78	$20.98	$20.95	$23.76
Total unemployment rate (percent)	7.3	8.0	6.8	7.4	9.1
Insured unemployment rate (percent)[2]	5.0	4.9	3.7	3.4	4.3
Average civilian unemployment (millions)	6.81	7.60	7.25	8.02	10.02
Average weekly insured unemployment—regular state programs (millions)[2]	3.46	3.35	3.19	3.03	3.80
Average weekly insured unemployment—all programs (millions)[3]	4.01	4.28	3.51	3.53	4.24
FSB and SUA recipients, weekly average (millions)	[4] .37	1.32			
Total covered by UI (millions)	4.38	5.60	3.51	3.53	4.24
Fraction of unemployed covered by UI programs (percent)[5]	64.3	73.7	48.4	44.0	42.3

[1] Figures deflated using payments for individuals deflator as published in the 1984 budget.
[2] Except fiscal year 1975, the numbers are the annual average of seasonally adjusted monthly statistics.
[3] Includes covered unemployed under regular state programs (50 States plus the District of Columbia and Puerto Rico), UCX, UCFE, and railroad retirement. Also includes Federal and State extended benefits (EB) programs, but excludes FSB and SUA recipients.
[4] Author's estimate.
[5] Ratio of "total covered by UI" to "average civilian unemployment."

Sources: Budget of the United States Government for fiscal years 1977, 1978, 1982, 1983, and 1984; U.S. Department of Labor, Employment and Earnings (various issues); and Economic Indicators (various issues).

These developments have caused hardship for many families with unemployed workers and have contributed modestly to the recent rise in the nation's poverty rate. In my testimony today I will address two separate issues related to this development. First, based upon my own research findings, I will try to explain why the number of jobless workers collecting unemployment compensation has remained so low.[1] Second, basing my conclusions in part on the research findings of others, I will

*The views expressed here are solely those of the author and not necessarily those of the Brookings Institution, its Trustees, or any other Brookings staff members.

Christine de Fontenay of Brookings and Deborah S. Laren of the University of Michigan provided valuable assistance in the preparation of this testimony.

[1] Gary Burtless, "Why Is Insured Unemployment So Low?" Brookings Papers on Economic Activity, 1983:1, pp. 225-253.

attempt to describe how the federal-state unemployment insurance system serves anti-poverty objectives, and how recent changes in the system may have affected its anti-poverty effectiveness.

The Relative Drop in Insured Unemployment

Since 1980 the number of persons receiving unemployment compensation benefits has been unusually low relative to the total number of workers losing their jobs. Three programs are involved in this development: the basic federal-state program (regular UI), the federal-state extended benefit program (EB), and the federal supplemental compensation program (FSC). The regular UI program pays benefits to eligible unemployed and underemployed workers for up to 26 weeks. The EB program pays benefits for an additional 13 weeks to workers who have exhausted their regular benefits and who reside in states where the insured unemployment rate is above the required trigger level. The FSC program pays benefits for an additional 8 to 14 weeks to workers who have exhausted both regular and extended benefits, with the duration of FSC benefits depending on the level of a state's insured unemployment rate.

The number of recipients of regular UI has been surprisingly low since about the middle of 1980. I estimate that over the past year and a half the number of regular unemployment beneficiaries has been about one-quarter less than expected, given the number of unemployed job losers. This implies that about one million fewer workers have received benefits in a typical week than we could expect on the basis of the nation's prior experience with the unemployment compensation program.

The relative drop in the number of regular UI beneficiaries occurred for a variety of reasons. The severity and duration of the recession meant that many workers suffered multiple spells of joblessness. Over the period 1981-82, for example, a growing fraction of initial claimants for UI benefits had recently received benefits at the time they filed their applications. If these workers were found to be eligible for UI benefits, they ordinarily were eligible to receive fewer weeks of benefits than initial claimants without a recent spell of joblessness. Hence, the typical initial claimant in 1981-82 could expect to receive fewer weeks' regular benefits than the average initial claimant in earlier recessions.

My research has also shown that the number of initial UI claimants is off by 16 to 18 percent in the last two years. This relative drop in applications for benefits suggests either that fewer new job losers are eligible for benefits or that fewer eligible job losers are bothering to apply for UI. I am very skeptical that there has been a sudden drop in the willingness of otherwise eligible workers to apply for benefits. Even if there has been such a drop, I do not believe it provides a major explanation for the drop in initial and continued UI claims.

We can also reject the hypothesis that unemployed workers in the past recession were somehow different than unemployed workers in previous recessions, and that those differences meant that fewer workers were eligible for benefits. Some job losers are known to have lower eligibility rates for UI. For example, job losers who are young, female, or work in service industries are less often eligible for benefits. But there is no evidence that a higher proportion of the unemployed had characteristics associated with low eligibility rates in this past recession. We also know that job losers with little work experience will have difficulty qualifying for UI benefits, because unemployed workers need a minimum level of base period wages to receive compensation. But my evidence indicates that job losers in the past recession actually had somewhat more work experience than job losers in the 1974-76 period, when the application rate for benefits was significantly higher.

A major reason for the drop in initial UI claims is the change in UI law and regulation that has occurred since 1976. In my view, this in probably the main reason that new applications for benefits have dropped. Some legal changes have occurred at the federal level, but many changes were instituted at the state level as state governments responded to the recent fiscal crunch. Among the major UI changes since the last recession in 1974-75 have been the following: the imposition of a high implicit tax on pensions and old age insurance; the imposition of federal taxation on UI benefits for higher income families; the imposition of interest charges on federal loans to debtor state UI programs; the tightening of eligibility requirements on workers who voluntarily leave a job or who are discharged for cause; tougher job search requirements for UI claimants; and restrictions on benefits to school employees who do not work during school holidays. Individually, each of these changes may have a convincing rationale; collectively, the changes have tended to drive down the application rate for UI benefits or to reduce the amount of earnings replacement available to jobless workers. I regret that I cannot estimate precisely what effect each reform has had on applications and benefits paid; that task is beyond my resources.

The relative drop in the number of regular UI recipients has directly affected the insured unemployment rate (IUR), which serves as the basis for triggering extended UI benefits. If I am correct that the number of regular UI beneficiaries is down by one-quarter, then the IUR is also about one-quarter too low. As a result, fewer states have had a high enough IUR to qualify for EB payments, and states qualifying for the EB program have typically offered benefits for a shorter period than they would have in previous recessions.

The EB program has also shrunk because of significant changes in federal law. Until 1981 the EB trigger rate was computed by including recipients of both regular and extended benefits in the count of insured unemployed.[7] Recipients under the EB program are now excluded in computing the trigger rate, effectively raising the level of unemployment required to trigger on the program. Also, before 1981 the EB program had a national trigger that permitted all states to offer extened benefits when the national trigger exceeded 4.5 percent. The national trigger was eliminated in 1981. Beginning in October 1982 extended benefits have been available only in states in which the IUR exceeds 5 percent and is at least 120 percent of the comparable level in the two previous years. States may also provide benefits when the IUR reaches 6 percent, regardless of the rate in previous years. Before October 1982, the EB trigger rates were one percentage point lower.

As a consequence of the EB reforms enacted in 1981 and the relative decline in the IUR beginning in 1980, a smaller number of states offered extended benefits in the past recession than was the case during the recession in the mid-1970s. For example, at the end of 1982, when the civilian unemployment rate was 10.8 percent, only fourteen states with particularly high insured rates were offering extended benefits. If the pre-1981 law had been in effect, all fifty states would have been participating, as they were during much of the 1975–76 period. Over the seven quarters from January 1981 through September 1982, a weekly average of only 330,000 workers was covered by extended benefits. In 1975–76, when the number of long-term jobless was 5 percent lower, the number of workers receiving extended benefits was more than 60 percent higher—averaging 535,000 recipients per week. I expect that the relative drop in EB recipients has become even more severe since September of last year because the 1981 reforms in the EB program only became fully effective after that month. Currently, only two states plus Puerto Rico offer extended benefits, though the unemployment rate still exceeds 9 percent. It is thus clear that the EB program no longer serves its primary function as an automatic stabilizer during spells of severe and prolonged joblessness.

Until October 1982, the nation's unemployment insurance system offered no income protection beyond thirty-nine weeks in those states qualifying for extended benefits and beyond twenty-six weeks in states not qualifying for those benefits. This was in marked contrast to experience in 1975–76 when federal supplemental benefits (FSB) were available. The FSB program began in January 1975 only a few months after unemployment began its rapid rise in 1974. The program extended the potential duration of unemployment benefits in all states by twenty-six weeks to a total of about sixty-five weeks. During 1975 and 1976, a weekly average of 1.1 million recipients were covered by FSB, or about 14 percent of the average number of unemployed. The federal supplemental compensation (FSC) program, which took effect in October 1982, is similar in many respects to the earlier FSB program, except that the benefits are of much shorter duration and vary in duration according to each state's insured unemployment rate.

In summary, the main reason that the number of jobless collecting unemployment benefits was low during the 1981–82 recession was that the President, Congress, and state governments have decided to tolerate comparatively low insured unemployment levels. By tightening eligibility requirements for the regular UI programs, substantially tightening the trigger mechanism in the EB program, and failing to enact a supplemental program similar to the one available in 1975–77 until quite late in the recession, federal and state authorities essentially denied jobless benefits to a large fraction of workers who would have been eligible to receive benefits during the 1970s. Many of the specific reforms were sensible. But the overall effect and timing of the reforms were quite unfortunate. The nation significantly reduced the amount of income protection and countercyclical stimulus available from unemployment compensation in the midst of the worst economic downturn since the Great Depression.

[7] Thus, the trigger rate used before 1981 was not identical to the published IUR, which excluded recipients of extended benefits from the numerator.

Unemployment Insurance and Recent Poverty Trends

The drop in the fraction of unemployed workers receiving jobless benefits raises serious questions about the effectiveness of unemployment insurance in protecting family incomes during severe recessions. Before considering the anti-poverty impact of the unemployment insurance system, it is worthwhile reflecting upon a few basic characteristics of the program.

Unemployment insurance is not primarily an anti-poverty program, nor should it be solely evaluated as such. The two principal goals of the program are to insure experienced workers against temporary earnings losses arising from unemployment and to provide the national economy with effective countercyclical stimulus to help maintain consumption during recessions. Benefits under the program are not means tested because the aim of the program has always been to offer social insurance. As with other insurance programs, there is no requirement that applicants show themselves to be destitute before receiving benefits.

Notwithstanding these caveats, many of the benefits of unemployment insurance programs go to families which are poor or near poor, or which would be poor in the absence of unemployment benefits. One way to see this is to examine the distribution of benefits among families of different income levels. In Table 2 families are divided into four family types—(a) husband-wife families with two or more earners; (b) husband-wife families with one or fewer earners; (c) single-parent families; and (d) single individuals without dependents. For each family type I divided families into six income classes, using the ratio of family income (excluding unemployment benefits) over the poverty level. The table shows the average level of unemployment compensation received in 1982 by families in each class. For each family type except single-parent families the poorest families clearly receive a disproportionate share of unemployment benefits. In the case of two-parent, two-earner households, for example, families in the poorest income class receive nearly five times the annual benefits ($921) received by families in the highest income class ($192). The table shows that unemployment compensation is particularly redistributive for families with both a husband and wife present. It is less redistributive for single-parent families and single-person households because potential breadwinners in these families are often less attached to the labor market and hence less likely to become insured under the UI program. Moreover, single-parent families are more likely to be poor as a result of reasons other than unemployment than are husband-wife families.[3] For that reason, insurance against unemployment does not help as much in bringing them out of poverty.

TABLE 2.—AVERAGE ANNUAL UNEMPLOYMENT BENEFITS PAID TO FAMILIES BY INCOME CLASS, 1982

Income as a ratio of poverty level income[1]	0-1	1-1.5	1.5-2	2-3	3-4	4+	All income classes
Family type							
Husband-wife families with 2 or more earners in March 1983	$921	$836	$690	$537	$370	$192	$405
Husband-wife families with 1 or fewer earners in March 1983	569	280	220	129	91	23	188
Single parent families	173	265	272	205	179	140	199
Single individuals without dependents	146	99	113	102	100	40	102
All family types	303	288	310	270	223	123	236

[1] Income classes are defined as ratios of 1982 poverty levels. For example, families counted under the category 1-1.5 had incomes, excluding unemployment insurance benefits, between 1.0 times the poverty line and 1.5 times the poverty line. Note that table entries represent average unemployment benefits paid to all families in an income class, including recipients and nonrecipients of UI. For a small number of families, unemployment compensation cannot be distinguished from workmen's compensation and veteran's insurance payments. Entries in the table may consequently overstate the amount of unemployment insurance reported by about 5 percent. However, this overstatement is more than offset by the substantial underreporting of unemployment compensation on the Current Population Survey.

Source: Author's tabulations using the March 1983 Current Population Survey.

[3] For example, mothers in single-parent families may be prevented from working or be forced to work short hours in order to care for their children. Other single parents may be poor because of low wage rates rather than spells of unemployment.

The effect of unemployment on the poverty rate has been the subject of careful study.[1] Most analysts agree that cyclical unemployment has a greater impact on the incidence of poverty for some demographic groups than for others. Families headed by non-aged males, who are the most strongly oriented toward the labor market, tend to be more affected than other families by high unemployment. High cyclical unemployment has a smaller impact on women maintaining families on their own and the elderly, who have relatively low labor force participation rates. Indeed, the poverty rate for persons age 65 and older declined from 15.1 percent in 1979 to 14.6 percent in 1982 even though there was a substantial rise in unemployment and the overall poverty rate rose from 11.6 percent to 15.0 percent.

Undoubtedly the rise in unemployment between 1979 and 1982 was the major cause for the rise in poverty rates between those two years. I will leave it for others to estimate precisely how much of the rise is due to the recession and how much to the reductions in anti-poverty programs enacted over the same period. The issue I wish to consider is the effectiveness of the unemployment insurance program in reducing poverty when there is high cyclical unemployment. There are two ways of viewing this question. First, we can ask how well jobless benefits are targeted to reduce poverty during periods when workers are both unemployed and receiving benefits. Second, we can take a longer view and ask how effective the program is keeping families out of poverty over the course of a year, during which time family breadwinners may spend time both employed and unemployed.

Recent research by Walter Corson of Mathematica Policy Research sheds light on the first question. Corson used data from the 14-state Continuous Wage and Benefit History (CWBH) to ascertain the income distribution of recipients of three types of UI benefits: regular UI, extended benefits, and federal supplemental compensation. The fourteen states covered by the data are not necessarily representative of the nation as a whole, though they appear to be approximately representative. The income reports of the CWBH respondents are probably not completely reliable, but they currently provide the best data at our disposal. Corson computed the income distribution of UI recipients in two ways. First he computed the income distribution of families during the period the wage earner was employed, and then he computed the distribution after these earnings ceased, excluding unemployment benefits received. The results of his tabulations are reported in Table 3.

TABLE 3. HOUSEHOLD INCOME DISTRIBUTION INCLUDING AND EXCLUDING RECIPIENT'S PRE-UI EARNINGS

(In percent)

	UI recipients earnings		EB recipients earnings		FSC recipients earnings		FSB recipients earnings	
	With	Excluding	With	Excluding	With	Excluding	With	Excluding
Income [illegible] poverty level income								
[illegible]	9.4	49.8	10.7	49.6	11.6	55.8	4.0	NA
[illegible]	8.1	11.2	7.6	11.8	10.1	10.4	12.2	NA
[illegible]	18.8	18.4	18.2	9.5	10.3	7.9	13.8	NA
[illegible]	14.2	10.5	13.8	9.3	16.9	7.9	15.2	NA
[illegible]	22.0	10.7	20.2	10.0	20.6	9.6	23.9	NA
[illegible]	15.9	5.2	15.5	5.7	13.5	4.8	15.3	NA
4.0+	21.6	4.2	24.4	5.1	19.0	3.6	15.6	NA
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

Source: U.S. Department of Labor, Unemployment Insurance Service, "Income and Other Data on the FSC and Regular UI Program" (mimeo) [illegible] Summary of tabulations compiled for DOL by Mathematica Policy Research, Princeton, N.J., and supplied to the Committee on Ways and Means, House of Representatives.

Figures in Table 3 provide strong evidence that UI is an important anti-poverty program for eligible unemployed workers during periods when they are unemployed. Although only 18 percent of regular UI recipients are below the poverty level before they become unemployed, the percentage in poverty rises to 61 percent once earnings cease. Of course, many unemployed workers are without work for

[1] See Edward Gramlich, "The Distributional Effects of Higher Unemployment," Brookings Papers on Economic Activity, 1974:2, and papers cited in Elise Bruml, An Analysis of the U.S. Poverty Population (mimeo), Assistant Secretary for Policy, Evaluation and Research, U.S. Department of Labor, 1982, pp. 95-102.

short periods. If their incomes were measured over the course of a year rather than only a week, the breadwinners' earnings might put many families well above the annual poverty line. Thus, for workers who experience only short spells of unemployment, unemployment compensation is unlikely to make the difference between living in and out of poverty over the course of a year.

Table 3 shows that UI could provide crucial help in keeping families out of poverty for breadwinners who suffer long spells of unemployment. As the fraction of a year spent without a job increases, the probability that a breadwinner's family will end the year below the poverty line rises substantially. Consequently, workers experiencing long spells of unemployment are the ones most likely to be kept out of poverty by UI.

Table 4 shows the relationship between the length of unemployment and the effectiveness of UI in raising families above the poverty line. The first column in the table gives the number of families of different family types whose annual incomes were raised above the poverty line by UI payments in 1975. (I have once again divided families into the four family types described above.) The next column shows the percentage of families with pre-UI incomes below the poverty level who are raised above poverty by the UI payments they receive. This may be thought of as the "anti-poverty effectiveness" of UI payments. Successive columns contain the same two *numbers*, but for families whose breadwinners suffered increasingly lengthy spells of unemployment. For example, a total of 152,000 husband-wife two-earner familes were raised above the poverty line by the UI benefits they received. Of that total, 123,000 families contained a head or a spouse who suffered at least 13 weeks of unemployment, and 106,000 contained a head or spouse who suffered at least 26 weeks of unemployment.

TABLE 4.—FAMILIES BROUGHT ABOVE POVERTY LINE BY UI PAYMENTS, 1975

[In thousands]

	All families		Spouse or head unemployed 13 or more weeks		Spouse or head unemployed 26 or more weeks	
	Number [1]	Percent [2]	Number [1]	Percent [2]	Number [1]	Percent [2]
Family type						
Husband-wife families with 2+ earners	152	15	123	33	106	42
Husband-wife families with 0-1 earners	263	11	212	34	179	38
Single parent families	79	[illegible]	49	15	41	18
Single individuals	198	4	155	23	127	27
All family types	693	[illegible]	539	27	454	32

[1] Number of families with incomes below the poverty line in the absence of UI whose incomes are raised above poverty line by UI payments.
[2] Number of families brought above the poverty line by UI divided by number of families whose incomes, exclusive of UI, are below poverty line times 100.

Source: Author's tabulations using the March 1976 Current Population Survey.

The percentages in Table 4 showing "anti-poverty effectiveness" of UI confirm that the program is relatively more effective in combatting poverty among breadwinners who experienced long term unemployment than among breadwinners with short spells of joblessness. The figures also show that UI is more effective for husband-wife families than for families with a single head. In all, about 700,000 families containing 2.1 million individuals lived in households brought above the poverty line because they received unemployment compensation. This is about 6 percent of the families and individuals who would have been poor in the absence of UI.

In light of the relative drop in the number of UI recipients in recent years, it is worthwhile considering whether jobless benefits remain as effective in combatting poverty as they once were. To examine this question I have compared the "anti-poverty effectiveness" of UI in 1975 and in 1982, the most recent period for which we have income data. The results of this comparison are presented in Table 5. Statistics in this table show the number of families within each category which were raised above the poverty level as a result of UI payments. By comparing the figures for 1975 and 1982 it is apparent that UI is now less effective in raising families above the poverty line. The drop in effectiveness is especially pronounced in the case of husband-wife families and families with breadwinners who suffered long spells of unemployment. For example, in 1975 about 34 percent of one-earner husband-wife families with pre-UI incomes below the poverty line were raised above poverty by their UI payments. In 1982 only 20 percent of these families were raised above poverty by UI payments. The relative drop in effectiveness was even larger for families suffering 26 or more weeks of unemployment (figures not shown in table).

I should emphasize that these estimates are based on CPS income reports which are subject to underreporting bias. Families received more UI in 1975 and 1982 than was reported on the CPS. However, it appears that the underreporting problem was more severe in 1975 than in 1982 (that is, a higher fraction of UI payments was reported in the latter year). This implies that, correcting for underreporting bias, the discrepancy between anti-poverty effectiveness in 1975 and 1982 was probably even larger than implied by the figures reported in Table 5.

TABLE 5. ANTIPOVERTY EFFECTIVENESS OF UI IN 1975 AND 1982: NUMBER OF FAMILIES RAISED ABOVE POVERTY LINE

[In thousands]

	All families				Spouse or head unemployed [illegible] or more weeks			
	1975		1982		1975		1982	
	Number[1]	Percent[2]	Number[1]	Percent[2]	Number[1]	Percent[2]	Number[1]	Percent[2]
Family type:								
[illegible]	[illegible]	15	171	13	[illegible]	33	141	24
[illegible]	263	11	202	7	212	34	160	20
Single parent families	79	3	91	2	149	15	63	8
Single individuals	198	4	194	3	155	23	160	14
All family types	[illegible]	6	656	4	535	27	524	16

[1] Number of families with income below the poverty line in the absence of UI whose income are raised above poverty line by UI payments.
[2] Number of families brought above the poverty line by UI divided by Number of families whose incomes, exclusive of UI, are below poverty [illegible].

Source: Author's tabulation using the March 1976 and March 1983 Current Population Survey.

To confirm that the anti-poverty impact of UI has declined between 1975 and the early 1980's, I performed tabulations using a data source less subject to underreporting bias than the CPS, the Panel Survey of Income Dynamics (PSID).[5] Comparing 1975 with 1981, which is the most recent year for which PSID data exist, I found that the fraction of poor families receiving UI benefits dropped sharply. Among nonaged, poor, male-headed families, the fraction of unemployed breadwinners receiving any UI benefits at all dropped from 51 to 29 percent between the two years. Among nonaged, poor, female-headed families, the fraction dropped from 29 to 16 percent. Moreover, the PSID tabulations showed that even among families receiving UI benefits the anti poverty effectiveness dropped. A small fraction of UI recipients below the poverty level was brought above the poverty line by their UI benefits in 1981 than in 1975.[6]

The tabulations from the CPS and PSID confirm that the decline in unemployment insurance from the mid-1970's to the present has had an impact on the number of families living in poverty. The impact has been greatest on husband-wife families, because those are the families which in ordinary times benefit most from UI. The impact has been especially pronounced in the case of families headed by members who have suffered very long spells of joblessness. The reason for this may be that the maximum duration of an insured spell of joblessness has been far lower in recent years than it was in 1975-76 though the number of long/term jobless has been higher. If the anti-poverty effectiveness of UI had remained unchanged between 1975 and 1982, the number of individuals living in poverty in the latter year might have been 700,000 to 750,000 less, or about two percent of the 1982 poverty population. Obviously, then, the cutbacks in unemployment insurance do not explain the main part of the rise in poverty rates in recent years, although the cuts

[5] Deborah Laren, of the University of Michigan's Institute for Public Policy Studies kindly performed the computations for me.

[6] For male-headed families, the percentage was 49 percent in 1975 versus only 37 percent in 1981, for female-headed families the percentage was 62 percent in 1975 versus 16 percent in 1981. The PSID sample is relatively small, so although the figures are less subject to underreporting bias than those from the CPS, they are statistically very imprecise.

have contributed to the rise, especially among families whose members suffered long periods of unemployment.

Conclusions

If the major objective of public transfer policies is to reduce the number of families living in poverty, there are better methods of accomplishing this goal than restoring the cuts in unemployment insurance that have occured since the mid-1970s. The objective could be attained at far lower cost by targeting benefits on low-income families rather than boosting payments to temporarily unemployed, experienced workers, the group served by UI.

I believe, however, that there are important goals of transfer policy in addition to reducing measured poverty rates. Two of the most important of these are served by unemployment insurance. The program offers short-term income protection for breadwinners during temporary spells of joblessness, and it provides an important countercyclical stimulus during periods of high national unemployment. Both goals of UI are worthy, but they are accomplished at some cost to economic efficiency. Insured unemployed workers are encouraged by UI payments to spend more time between jobs or on layoff than they would in the absence of payments. These efficiency losses are for the most part unavoidable if we wish to insure family incomes during spells of unemployment.

Neither of the main goals of unemployment insurance was achieved as well during the past recession as during the recession in 1974-76. In the first part of my testimony I tried to explain why this occurred. The relative decline in the effectiveness of unemployment insurance will continue unless changes are made in the program. Claims for regular UI benefits will remain low in comparison to the number of job losers until state governments liberalize their programs. There is no sign this will occur in the near future. The Social Security amendments passed in April 1983 provide inducements for states to continue to tighten up their UI programs.

The situation of the extended benefit program is even more serious. Because of the sharp drop in the insured unemployment rate relative to the total unemployment rate and the significant tightening of the trigger mechanism for the EB program, it is now much less likely that states will offer extended benefits during periods of high national unemployment. In my opinion the present EB trigger should be replaced by a trigger that is more closely related to actual conditions in the labor market. This means that the trigger must be based in part on national-level civilian unemployment figures rather than solely on state-level insured unemployment statistics.

The job loser rate as measured in the monthly Current Population Survey should be the basis for extending UI benefits beyond the twenty-six weeks offered under the regular UI program. (The job loser rate is superior to the total unemployment rate because the latter measure covers new labor market entrants, reentrants, and voluntary job leavers as well as job losers. It is mainly the last group that the UI program is supposed to insure.) As the job loser rate rises above some minimum trigger rate, the averge number of potential weeks of EB payments should rise above zero, with a fixed number of added weeks benefits for each percentage-point rise in the job loser rate. Potential benefit durations should not rise uniformly throughout the country, but should be determined on the basis of state-level insured unemployment rates or UI exhaustion rates. The main advantage of this proposal is that it would prevent a recurrence of our experience in 1981-83, when the EB program declined in relative importance even as joblessness—especially long-term joblessness—continued to rise.

A vital task for policymaking in the next few years is to restore the ability of the nation's unemployment insurance system to deal with severe recession. The President and Congress could make a good start by shoring up the programs that help workers who face long-term joblessness. Since these programs are only triggered when the nation faces high levels of unemployment, their improvement would not add to our structural deficit. More important, this step could improve the income protection available to families hard-hit by recession and provide a valuable macroeconomic stimulus when it is crucially needed.

Chairman RANGEL. Mr. Meyer.

STATEMENT OF JACK A. MEYER, RESIDENT FELLOW IN ECONOMICS AND DIRECTOR, CENTER FOR HEALTH POLICY RESEARCH, AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH

Mr. MEYER. Thank you, Mr. Chairman. I too will try to summarize my remarks briefly and submit the full testimony for the record.

I think the fundamental problem contributing to poverty in recent years has been the sorry state of our economy. I think that a sluggish economy is fed by our lack of fiscal control.

One of the things that concerns me is that recent efforts to achieve fiscal control have disproportionately burdened low-income people. This presents two problems.

First of all, it jeopardizes the needed austerity to get our economy under control by eliciting demands for a return to policies of the past that have not worked.

Second, it is just plain unfair and increases the poverty and hardship associated with any given budget control process.

I have done some work recently in which I have tried to aggregate programs that are means tested and programs that are not. I looked at the burden placed on those affected by recent budget cuts, and at some projections into the late 1980's. What I have found is that if you aggregate the means-tested programs, they are scheduled to fall from about 13.3 percent of the Federal budget, where they were in 1980, to about 9 percent in 1988. That is a drop of about a third in the share of our budget going to low-income households.

By contrast, nonmeans-tested programs, those available to all households regardless of income, were about 40½ percent in 1980 and, lo and behold, they are scheduled under current projections to be 40½ percent in 1988.

What has happened is that in the early 1980's we left tax subsidies and other entitlement programs going largely to middle and upper income families intact while defense spending increased sharply, and we instituted relatively large cuts in low-income programs.

The result of all this has been that deficits have been the safety valve, if you want to call that a safety valve. There is not much safety there.

I think this is regrettable. These deficits put the Federal Reserve in the position of choosing between higher interest rates on the one hand and a reacceleration of inflation on the other, and that is not a very favorable choice.

So I see bringing the deficit under control as a key to unlocking the continued increase in poverty in this country, and beginning to get a handle on it. If we don't, these economic policies will ultimately lead to lower productivity growth and lower standards of living. This means more poverty, as deficits use up most of the pool of private savings, limiting capital investment and modernization that would have generated jobs and helped reduce poverty.

Now, I think, Mr. Chairman, that the working poor have gotten the short end of the stick in our budget control policies. In fairness, it must be said that the Reagan administration did not invent the bias against the working poor in our social policies, but in my opinion, their policies have certainly exacerbated that bias.

The administration's recommendations, which have been enacted by the Congress, have had the effect of drawing a net around the dependent poor and adopting a relatively business-as-usual attitude toward those deemed dependent, and a rather callused approach for those deemed independent and able to fend for themselves.

It is very difficult to fend for yourself, however, if you are working at $3.35 an hour and raising three or four children, which many people are. And we now find that such people are told that the $30 or $40 or $50 a month in welfare benefits they were getting are no longer available to them after 4 months of work. We know that that triggers a loss of medicaid benefits for many of them.

They also are told that they are ineligible for job training in most cases under the new JTPA Act if they are not on AFDC. We heard in Dr. Penner's testimony and Dr. Smeeding's testimony about the taxes that face these people and some proposals have been offered to alleviate that, on which I will comment later.

So benefits to the working poor are taken away, taxes are still imposed, and it is very difficult for them to make ends meet.

The administration counters that increased Federal assistance to this group would create a permanent subsidy to the working poor, and is that what we want to do after they are established in a job?

Well, I can only say that in terms of the fairness issue, Mr. Chairman, we have permanent subsidies going to all of us in this country. I get a permanent subsidy each month on my house from the interest deducted. I would get that even if I were a millionaire, which I am not. We have permanent subsidies going to business, a whole variety of them.

If we adopt the attitude that these subsidies are off limits as far as budget control, but that we are going to tighten up on the permanent subsidies going to the working poor, I think we make people cynical about how we are sharing this necessary budget control.

Now, let me just close in the next 2 minutes with two examples in ADFC and Medicaid of the need to stop arguing about the behavioral responses of recent policy changes and their efficiency effects (as important as those might be), and start arguing about their fairness effects.

We could argue about whether restoring a work incentive for welfare mothers is going to cause them to go back to work. The evidence is very mixed on that and I review it in my testimony. I raise the question: how fair is it to tax our lowest income citizens at 100 percent?

The Administration points to a study which I think they have embellished somewhat, showing that you can take people's benefits away and, lo and behold, most of them continue to work. Well, that is true but you don't have to lose many of them falling back on benefits to make that a very unfavorable cost/benefit ratio. I simply think that we need to consider more than these behavioral response effects.

In the area of health care, we have a microcosm of the whole problem. We have a Medicare program that is in serious financial trouble, a program that Congress has only begun to reform. We have tax subsidies going mostly to middle and upper income workers that have not been touched at all.

At the same time, we have been making major cuts in medicaid, which goes to our lowest income people. Millions of people are ineligible for medicaid when, in fact, the Federal subsidy through the tax system is one-and-a-half times as big as the entire Federal share of medicaid.

So I think that in considering how to finance broader health insurance coverage, which I favor doing, we should look at those subsidies we are giving out to middle- and upper-income people and see how we could restore the balance.

Let me close by making these kinds of recommendations.

I think we need a concept of total budget control and I would call for a target, just as an example, of a Federal deficit down to 2 percent of GNP by 1986. The deficit is currently three times that figure as a share of GNP. And I think that would be a useful interim target without necessarily trying to balance the budget overnight.

I think we need policies that address medicare, defense and tax subsidies and civil service retirement—the real big areas—and that stop trying to take another billion out of these small programs which might represent 10 or 20 percent of the program budget.

On the tax side, I would favor some of the options raised this morning about liberalizing the EITC, perhaps the child care credit, to have more incentive for low-income people to continue working and be hired.

On the benefit side, I would advocate restoring the modest work incentive under AFDC, avoiding further cuts in food stamps, and consider actually making them more generous. That is the one program, as Dr. Penner pointed out, that is not tied to family characteristics, and the last area I want to impose a work test or make further cuts in is food stamps.

I would suggest in modifying a bill passed by the House on health insurance for the unemployed, we means-test the Government assistance, making it available to the poor on the basis of lowest income first, whether they are unemployed, out of the labor force, or working.

Finally, I think we could broaden coverage for health insurance if we would address the tax subsidy issue, place a cap on that subsidy, and use the proceeds to help those who have no help whatsoever.

Thank you.

Chairman RANGEL. Thank you.

[The prepared statement follows:]

STATEMENT OF JACK A. MEYER, RESIDENT FELLOW IN ECONOMICS AND DIRECTOR, CENTER FOR HEALTH POLICY RESEARCH, AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH

Mr. Chairman. Thank you very much for the opportunity to appear before this committee. The recent increase in poverty in the United States is the result of a combination of forces, including the protracted recession in the early 1980's, changes in federal budget outlays, and tightened federal program eligibility criteria. I shall not attempt to assess the relative contribution of these factors, as other witnesses, including Professor Sheldon Danzinger and his colleagues at the University of Wisconsin, can provide the committee with their research findings on this question. I would like to examine recent changes in federal social programs, and the effects of these changes.

The fiscal year 1982 and 1983 budgets were characterized by significant cuts in means-tested programs such as Food Stamps, AFDC, and Medicaid. In contrast, non-means tested programs, such as Social Security and Medicare, which account for four-fifths of all federal social spending, remained essentially intact over this period. Thus, a disproportionate share of the budget-cutting burden was placed on low-income households.

Moreover, the central force driving federal expenditures upward—the built-in cost escalation of the much larger non-means tested program—remains largely unaddressed. If we are to realize substantial budgetary savings, and a meaningful reform of the distribution of benefits, we must go beyond such currently popular measures as program decentralization and improved program management practices to achieve a significant reduction in the growth of benefits which flow to those in the upper and middle-income households.

In the past year the Reagan administration and the Congress have taken steps to remedy the inequities in earlier budgetary cut-backs. Fundamental changes in such non-means tested programs as Medicare and Social Security are being implemented, while the reduction in federal outlays for low-income programs has eased somewhat. Although this is encouraging, the $200 billion deficit that looms before us, and the increased level of proverty in this country, indicates that we still have a long way to go. In short, Mr. Chairman, we need *more* budget control, but with *less* burden on those who can afford it least.

I would now like to turn to some of the specific changes Congress has made in our welfare programs. A generation ago, welfare recipients who took a job lost their benefits on a dollar-for-dollar basis. In effect, the "tax rate" on earned income was 100 percent. In the late 1960s, Congress put into effect a new rule called "$30-plus-a-third," which lowered this effective tax rate to about two-thirds for recipients of Aid to Families with Dependent Children. In addition, AFDC beneficiaries were allowed to deduct a certain amount of work expense from earned income. This deduction further lowered the effective tax rate on earnings.

The $30-plus-a-third incentive was effectively repealed in 1981. At the urging of the administration, Congress placed a time limit on the work incentive bonus, and a dollar limit on the work expense deduction. The $30-plus-a-third rule may now be applied to only the first four months of employment. After four months, every dollar of net earnings is subtracted from welfare benefits. The work expense deduction was limited to $160 per month per child for day-care expenses and $75 per month for other work-related expenses.

Eligibility standards were also tightened, denying AFDC assistance (and often Medicaid benefits) to many working poor families. States were authorized to institute workfare programs requiring welfare recipients to take jobs.

In the last fifteen years, the relatively small incentive to work provided by the $30-plus-a-third rule has apparently not produced significant results, as roughly the same proportion of welfare mothers have earnings now as when the change was initiated. It must be noted, however, the other factors may have intervened, including the broadening of benefits under other, overlapping programs such as Food Stamps, as well as sluggish economic conditions over much of the past decade. The factors in today's welfare environment may make the situation different from periods in which prior studies or experiments were conducted.[1] Thus, it would be over-simplified and misleading to conclude from the constancy of the fraction of recipients who are working that the small incentive provided by Congress in 1967 had no positive effect. It may have helped to prevent the proportion of people working from falling.

Nonetheless, it must be admitted that there is little evidence of any strong positive effect on labor supply of a lowering of the effective tax rate over this range. Moreover, some studies suggest that the offsetting effects on labor supply of families with somewhat higher incomes who are newly-qualified by lower tax rates more than cancel any positive effect on the labor supply of poor women.[2] Thus, even though there is research evidence suggesting a significant relationship between

[1] For analysis of experimental studies, see Robert A. Moffit, "The Effect of a Negative Income Tax on Work Effort: A Summary of the Experimental Results," in Paul M. Somers, ed., "Welfare Reform in America: Perspectives and Prospects" (Boston: Kluwer-Nijhoff Publishing, 1982).

[2] See, for example, Frank Levy, "The Labor Supply of Female Household Heads, or AFDC Work Incentives Don't Work Too Well," Journal of Human Resources, Vol. 1 No. 1 (Winter 1979).

earnings and tax rates for welfare mothers,[3] it is difficult to detect such a relationship in the experience to date.

The weight of the research evidence still suggests that a significant increase in work incentives would provide some positive stimulus to the work effort of AFDC beneficiaries even though it may well provide no net increase (and possibly a slight decline) in total labor supply as a result of offsetting effects. In my view, this possible offset effect does not mean we should discard the incentives approach. Even if such effects "cancel" the positive stimulus to work among recipients, society could experience a net gain because of a possible break in the cycle of dependency plaguing the welfare class. Moreover, basic fairness should be taken into consideration here. Our society should assure people that when they work they will have higher incomes than when they do not.

Federal welfare programs pose a dilemma found in other social programs as well: the efficiency improvements associated with anticipated labor supply effects may prove elusive when *net* or total labor supply responses are measured. Yet, the equity implications—in short, the fairness—of effective tax rates equaling 100 percent or more are too easily discounted or ignored.

The Reagan administration's alternative to lower effective tax rates on earnings is to mandate that AFDC applicants seek work during and after the application stages, and if this fails, able-bodied recipients would be required to participate in a Community Work Experience Program. States would be allowed to develop job programs reflecting both their own needs and the needs of program participants.

The problem with this approach is not so much one of *intent* as one of *achievement* of the objectives. We need to be wary of the phenomenon of "regulatory failure" here. There is a history of laudable goals and limited accomplishments with regard to both "workfare" in particular [4] and work tests in social programs in general (programs like WIN, UI, etc.). Of course, some workfare programs have had some success in reducing welfare outlays. But, in my view, workfare conflicts with the administration's prudent preference for incentives approaches to social policy over rigid regulatory schemes.

The changes adopted by Congress seem to be unfair to the working poor and to worsen adverse work incentives facing our lowest-income households. The targeting of benefits resulting form these changes is to the *dependent* poor, while others who have the ability to work and are deemed *independent* get no help, even if their means are about the same. Low-income households have been somewhat arbitrarily divided into discrete categories—working and nonworking—with a rather calloused approach toward the former and a "business as usual" approach toward the latter.

The administration contends that it would be a waste of society's scarce public dollars to give "permanent" help to the working, low-income households. Yet, it has made little effort to withdraw the wide array of special tax breaks and other equally permanent subsidies flowing to middle- and upper-income households. The rather unique treatment of the working poor is a major souce of unfairness in current policy.

Public assistance recipients are not the only federal beneficiaries to face stiff work disincentives, and in several other program areas the Reagan administration has worked—often successfully—to reduce adverse work incentives. The strong penalty on earnings above $6,600 per year for Social Security recipients discourages work among the elderly who can work and wish to work. The Reagan administration had an effective plan for phasing out this earnings ceiling in its 1981 Social Security reform plan, but this prudent phase-out was a casualty of the fat, of the overall 1981 Reagen Social Security proposal. The 1983 Social Security Amendments, however, did lower the benefit withholding rate under the retirement earnings test from one-half to one-third, beginning in 1990.

Another example of the dilemma between equity and efficiency effects involves proposals to cap the open-ended tax subsidy associated with the exclusion from em-

---

[3] See, for example, Irwin Garfinkel and Larry Orr, "Welfare Policy and Employment Rate of AFDC Mothers," National Tax Journal, June 1974 24(2), pp. 275–84; Robert Williams, "Public Assistance and Work Effort," Princeton, NJ: Industrial Relations Section, Princeton University, 1974; and Daniel H. Saks, "Public Assistance for Mothers in an Urban Labor Market," Princeton, NJ Industrial Relations Section, Princeton, 1975. For a thorough review of the literature on this subject, see Sheldon Danzinger, Robert Haveman, and Robert Plotnick, "How Income Transfer Programs Affect Work, Savings, and the Income Distribution," Journal of Economic Literature, vol. XIX (September 1981), pp. 975–1028.

[4] See, for example, Leonard Hausman, et al., "An Evaluation of the Massachusetts Work Experience Program," Brandeis University, October 1980. The authors concluded that "neither of the two treatments tried in the Massachusetts Work Experience Program lead to a reduction in welfare payments among the men in the experimental groups." p. 153.

ployee income of the full amount of employer contributions to health insurance. I favor this proposal, and I believe that it would foster a more efficient health insurance market by encouraging greater choice of health plans and by giving consumers an incentive to steer away from plans exercising little cost control, and toward more cost-conscious health plans. I see this incentives approach as a preferable alternative to more controls on the providers of health care. Others are skeptical of the cost savings likely to emerge from strategy, and cite possible adverse side effects.

As in the case of welfare, this debate over whether the anticipated savings from improved incentives will actually occur has diverted us from another, and in my view, a larger issue—the fairness of our subsidies. Market impact aside, how fair is it to continue an open-ended subsidy to well paid workers and executives while cutting people (mainly, the working poor) from Medicaid? We should not insulate our most fortunate citizens from the austerity needed to bring about meaningful budget control.

The House has passed a bill providing health insurance for the unemployed, and the Senate is considering a similar measure. In the interest of fairness, such insurance assistance should be provided to the poorest first, regardless of present labor force attachment, and funded in a progressive manner (such as through a tax subsidy cap or a change in the federal income tax affecting upper- and middle-income households). It should not simply be an add-on to the deficit.

In summary, while there is considerable debate over the economic efficiency issues surrounding welfare, health, and other areas, it seems clear to me that recent policy changes exacerbate the long-standing bias in our welfare system, a bias that injures the working poor, as well as non-elderly single individuals without dependent children and some intact families with unemployed household heads.

This fairness issue, illustrated here through welfare, runs through government policy. We've left huge tax subsidies intact (going to middle- and upper-income people), and only begun to change the structure of government benefits flowing to the same groups.

Both to foster sustainable economic growth through sound fiscal policies, and to meet the basic standard of fairness, we need to change this bias in our public policy.

Chairman RANGEL. Mr. O'Hare.

STATEMENT OF WILLIAM P. O'HARE, SENIOR RESEARCH ASSOCIATE, JOINT CENTER FOR POLITICAL STUDIES, INC.

Mr. O'HARE. Thank you.

I am William O'Hare, senior research associate with the Joint Center for Political Studies in Washington, D.C. The Joint Center for Political Studies is a public policy research organization that focuses on issues of special concern to minorities and the poor.

I would like to thank the members of the subcommittees for this opportunity to present my views on the recent increase in poverty in the United States. I think the recent poverty figures are alarming and I commend the members of the subcommittees for taking the time to examine them more closely.

I have provided some written comments which I would like to have placed in the record. My remarks here will simply highlight some points from my written testimony. My comments focus on how poverty is defined by the Government and how the poverty index might be improved.

At the start, let me say that developing a widely accepted definition of who is poor is a difficult and complex task. Nonetheless, it is important that we understand the weaknesses and limitations of the current poverty index in order to properly evaluate the official statistics on the number of poor.

As I see it, there are three major problems with the poverty definition currently being used by the Government.

First, it is based on information that is outdated. The current poverty definition, formulated in 1964, is based on the cost of a

1961 economy food plan and a 1955 consumer expenditure survey. The costs of purchasing the economy food plan was multiplied by three based on evidence from the expenditure survey that most families spent about one-third of their income on food.

Recent consumer expenditure surveys indicate that people now spend about one-fifth of their income on food, and therefore the cost of food should be multiplied by five to formulate a poverty threshold. Recent studies show that if current data on nutritional needs and expenditure patterns were used to update the poverty definition, the income threshold for determining who is poor would be substantially higher than it is now.

Second, as the poverty definition now stands, the Government makes no attempt to determine the actual costs of a market basket of goods and services needed for a decent standard of living.

Calculations by the Bureau of Labor Statistics and others using the actual costs of a market basket of goods and services necessary for a decent standard of living indicate that the Government poverty threshold is too low.

Third, the current poverty definition is inconsistent with both public opinion and standards of need used in Government means-tested assistance programs.

A recent Gallup public opinion poll indicates that Americans believe families need an income nearly 50 percent higher than the poverty threshold in order to get along. The American people understand that someone trying to support a spouse and two children on an income of $175 a week is poor, even though the Government poverty scale says they are not.

In addition, Government means-tested assistance programs regularly provide aid to families and individuals determined to be in need, even though they have incomes above the poverty line.

A recent Census Bureau report indicates that 38 percent of households receiving food stamps have incomes above the poverty line; 46 percent of households with members receiving a free or reduced-price school lunch are not officially poor; 48 percent of those in publicly owned or subsidized housing have incomes above the poverty level; and 41 percent of households where one or more members are covered by medicaid are not below the official poverty line.

If a new poverty definition were devised to correct these three problems, approximately 45 to 50 million people would be classified as poor rather than 34 million as indicated using the current official definition of poverty.

Another major concern is the widespread attention given to the idea of counting noncash Government benefits as income in defining who is poor. I am afraid that the attention given this issue has diverted attention from other equally important issues regarding the measurement of poverty and has misled many people into believing that the number of poor is really much lower than the official figure.

While I am not opposed to counting noncash benefits in principle, I have some reservations about how this might be put into practice. If we only count the noncash benefits received by the poor, and ignored those received by the middle class and the rich, this would not only be unfair, it would provide a misleading impression of the well-being of the population.

Furthermore, assigning a dollar value to all of the noncash benefits received by individuals is fraught with technical difficulties.

Several other factors, such as the Census undercount, the use of pretax income to determine poverty status and the lack of any geographic variation in the poverty threshold, also suggest that official Government poverty figures underestimate the true number of poor.

To develop a new, more realistic measure of poverty, I recommend that the Federal Government reestablish a statistical policy and coordination branch in the Office of Management and Budget and assign this branch the task of coordinating Government efforts to revise the poverty definition.

This concludes my remarks. I would be happy to answer any questions.

Thank you.

[The prepared statement follows:]

STATEMENT OF DR. WILLIAM O'HARE, SENIOR RESEARCH ASSOCIATE, JOINT CENTER FOR POLITICAL STUDIES, INC.

I would like to thank the members of the Subcommittees for the opportunity to present my views on the recent increase in the poverty rate in the U.S. This is a matter that should concern all of us and the members of the Subcommittees are to be commended for looking into this issue.

As the Subcommittees have noted, the official poverty rate increased from 11.4 percent in 1978 to 15.0 percent in 1982, and the member of people with income below the poverty threshold increased from 24.5 million to 34.4 million during the period. However, there is good deal of debate about the meaning of these figures. Are the figures accurate? Are today's figures comparable to those of 20, 10 or even 5 years ago?

While others have discussed the causes and consequences of changes in poverty I would like to focus my comments on how poverty is measured. Interpretation of the figures is important. In order to understand the magnitude of the problem it is necessary to understand the significance of the figures and in order to understand the significance of the figures it is important to examine the way they are compiled. I should point out here that although the Census Bureau compiles and reports the poverty figures, the Office of Management and Budget determines the definition of poverty which must be used by the Census Bureau and other government agencies.

Some observers dismiss the Census Bureau's current poverty figures as meaningless because they fail to consider the noncash benefits that some poor people receive through government assistance programs. Consequently, these critics would have us believe that the number of poor is really much smaller than the official figure. Some even contend that the war on poverty has been won.

I too believe the current poverty figures are misleading. But I believe flaws in the way poverty is measured mean the *true* number of poor is probably higher rather than lower than the number estimated by the Census Bureau. Furthermore, I think counting of noncash benefits as income under the poverty definition is only one of many issues that must be addressed if we are to arrive at a more realistic definition of poverty.

I have organized the rest of my comments around three themes. First, I would like to discuss some approaches which would yield a new and more realistic measure of poverty. Second, I have a few specific comments about the issue of including noncash benefits in the calculation of poverty. Third, I would like to briefly mention a few factors which are seldom recognized or discussed, but nonetheless affect the poverty figures. A summary and conclusion section describes where we are and where I think we should be headed on the issue of measuring poverty.

While I don't envision an overhauling of the poverty definition soon, I hope that one-sided adjustments to the poverty definition, such as inclusion on noncash benefits as income, will not be permitted. This would artificially lower the official poverty rate and present a misleading picture of the country's needs.

CREATING A NEW POVERTY MEASURE

Whether to count noncash benefits as income in determining poverty is not the question we should be asking. We should be asking ourselves how we can improve the measurement of poverty. In this context, noncash benefits are only a small part of the overall issue.

What is wrong with the current poverty definition? It is based on outdated information; does not gauge the actual costs of purchasing a set of goods and services necessary for a decent standard of living; and it reflects neither public opinion nor common government practices regarding who is needy.

As I see it, there are three possible approaches we could use to create a new poverty index. The first of these involves revising the old index to reflect more recent information. This approach can be labeled the revised Orshansky method, after Mollie Orshansky who was instrumental in creating the poverty definition we now use. The second possibility is a market-basket approach in which the costs for goods and services necessary for a decent standard of living are actually calculated. The third approach uses public opinion and common government practices on what income level reflects need. Interestingly each of these three approaches yield nearly the same results.

If we were to construct a new poverty measure using any of the approaches outlined above this new poverty threshold would be much higher than the one we currently use. A poverty threshold consistent with current expenditure patterns, a market basket approach, and public opinion would probably be about 50 percent higher than the current measure, indicating that at least 40 to 50 million Americans should be classified as poor, compared to 34.3 million poor under the current definition. Even after adjustments were made to account for noncash benefits, the 1982 figure of 34.3 million people in poverty strikes me as a conservative estimate of the number of poor.

Revised Orshansky

In an effort to improve the measurement of poverty we can start by looking at how the definition of poverty was originally derived. The poverty income thresholds were originally set at three times the cost of the USDA's 1961 economy food plan, adjusted for family size, farm status, age of household members, and sex of the head of household. (Adjustments for farm status and sex of the householder are no longer used.) The formula was based on the findings from a 1955 consumer expenditure survey, which showed that people spent approximately one-third of their income on food. The thresholds have been updated yearly based on changes in the Consumer Price Index (CPI). The principle person involved in construction of this measure was Mollie Orshansky, hence, it has become known to many people as the Orshansky index.

Although the researchers who developed the initial measure used the best data available to them at the time, we have accumulated much more information in the past twenty years. This new information should be used to revise the original index.

The 1972-74 Consumer Expenditure Survey (CEX) (Department of Labor, 1978), showed that food expenses are about one-fifth of all consumption expenses for all families ($1,625 out of $8,253) and nearly the same proportion for families in the lowest income decile ($663 out of $3,037). All of the expenditure inform from the 1980-81 Consumer Expenditure Survey is not yet available, but the results available so far indicate that people now spend about one-sixth ($2,626 out of $15,219) of their income on food (U.S. Department of Labor, 1983). This suggests that the poverty line should be at least five times the cost of food rather than three times as used in developing the original measure. Such an adjustment would mean that the poverty level under a revised index would be about five-thirds (1.67) times the current level. If the same methodology used in constructing the original poverty index were used today the poverty threshold for a family of four would be closer to $15,000 rather than $9,862.

It should also be pointed out that the economy food plan, used as the basis for the original poverty level, was the cheapest of four alternatives and was designed not for prolonged use but for "emergency or temporary use when funds are low." A more realistic food plan designed for long-term use would cost more, thereby raising the poverty income threshold. Also, the 1961 economy food plan used in developing the poverty index has changed based on more recent nutritional information.

What would happen to poverty figures if a such a revised measure were used? Recent work by Mollie Orshansky shows that use of a more realistic food plan and a multiplier based on recent consumer expenditure information would raise the poverty thresholds by at least 50 percent and increase the number of official poor by several million. A few years ago Ms. Orshansky (1978), in response to a query on improving the poverty measure, stated: "my own update, to bring the measure into line with more recent nutritional standards and consumption practices, is one example. That update would change the number of the poor for 1975 from 26 million to 36 million." This would have been an increase of 38 percent in the poverty population. Using 1977 data, the increase would have been slightly larger, from 24.7 million to 37.6 million under the updated or revised Orshansky index (Fendler and Orshansky, 1979). This measure, commonly known as the "revised Orshansky" or the "updated Orshansky" in federal statistical circles, has been available for several years; yet despite the fact that it uses technically superior and more timely information, it has not been adopted by the government and is completely ignored by many of those who argue that poverty is overstated because noncash government benefits are excluded from the calculation of income.

Market basket approach

The current measure of poverty fails to examine the actual costs of items generally thought to reflect a minimum standard of living. Instead, it simply updates a set of income thresholds devised nearly 20 years ago. And even these original thresholds were not based on the actual costs of a specific bundle of goods and services. Simply put, the current poverty measure is nothing more than a statistical artifact of the former cost of food and yearly changes in the Consumer Price Index (CPI).

Until 1981, the Bureau of Labor Statistics (BLS) regularly calculated a budget for a "Lower Standard of Living" based on actual costs of a series of household budget items. The BLS budget for a lower standard of living was 65 percent higher than the poverty standard in 1981: the BLS lower family budget was $15,323, while the poverty line was $9,287 for an average family of four in 1981 (U.S. Department of Labor, 1982; U.S. Bureau of the Census, 1983b). Use of the BLS Lower Standard of Living Family Budget as the poverty line would indicate that over 50 million people would be classified as poor.

Unfortunately comparable data is not available after 1981 because the Family Budget Program was eliminated by the Reagan Administration.

The National Social Science and Law Center (1980) also made an attempt to calculate the cost of the goods and services that permit a minimum acceptable standard of living. After developing a list of items necessary for a minimum standard of living, researchers actually went out to a group of representative cities and towns and priced the items in the budget. They found that a minimally adequate market basked for an average four-person family in New Jersey in 1980 would cost at least $12,192, which is 43 percent higher than the poverty index at that time.

These two examples show that the current poverty index bears little relationship to the cost of a minimum standard of living. If we were to take a fresh start at constructing a poverty index, by defining a market basket of goods and services necessary for a minimum standard of living, the poverty income thresholds would be substantially higher than the current poverty definition.

Public opinion

Over the past 20 years, public opinion data has consistently shown that the poverty threshold is only about 60-70 percent of the income necessary to "get along" in American communities.

A 1983 Gallup Poll asked, "What is the smallest amount of money a family of four (husband, wife and two children) needs each week to get along in this community?" The responses indicate that the public believes an average four-member family needs a yearly income of $15,400 "to get along." Using this measure, with adjustments made for family size, 59 million Americans were without adequate incomes in 1982. Obviously "getting along" and being poor are not synonymous, but these results certainly suggest that the official poverty figure of 34 million is understated.

It is not difficult to understand why the American public feels that the official poverty measure is too low. After taxes, a poverty income for a family of four is about $170 a week. Try to imagine supporting a spouse and two children on $175 a week and being told that you are not poor. Anyone who lives in a large American city knows that $175 a week for a family of four won't go very far. Think of the kind of housing you would live in, the kinds of meals you would eat, the kinds of clothes you would wear and the kinds of medical and dental care you could afford with an income at this level.

The people who operate assistance programs know that the official poverty line is not a good measure of need. This is evident in the fact that a large share of means-tested public assistance goes to people who do not fall below the poverty line. A recent report (U.S. Bureau of the Census, 1983a) shows that 38 percent of households receiving food stamps were above the poverty line, 46 percent of those who receive free or reduced-price school lunches are not "in poverty", 48 percent of those in publicly owned or subsidized housing are above the poverty level, and 41 percent of households with one or more members covered by medicaid are not below the official poverty line. The people who operate these programs know that many people with income above the official poverty threshold are indeed poor.

Another indication of the extent to which the poverty index is an inadequate measure of need is the widespread use of 125 percent of the poverty thresholds. This measure is regularly reported by the Census Bureau and used by governments to determine program eligibility and for distribution of public funds. Occasionally, higher multiples of the poverty threshold, such as 150 percent or 175 percent, are used in public programs to identify need. This signifies that the poverty thresholds are just too low to be realistic. In 1982, there were 46.5 million Americans with income below 125 percent of the poverty line (U.S. Bureau of the Census, 1983b).

INCLUSION OF NONCASH BENEFITS IN THE POVERTY DEFINITION

Although there have been numerous suggestions for changing the way the government measures poverty (see, for example, Plotnick 1975; Garfinkel and Haveman 1977, Coe 1978; Zimbalist 1977; Rodgers 1978; Landmann 1979; O'Hare 1980; and Dukert, 1983, among many, many others), one recommendation has received most of the attention in the last few years; inclusion of noncash, or in-kind, benefits in calculating income for the poor. (Cash transfer payments, such as AFDC and other public assistance, are already counted as income in the determination of income and poverty status.) Several publications in recent years (see, for example, Browning 1975 and 1976; Paglin 1977; Smeeding 1977a, 1977b; Anderson 1978, 1980a, 1980b; and the Congressional Budget Office 1977), argued that the official statistics on poverty overstate the real number of poor people because they do not include noncash government welfare benefits, such as food stamps, subsidized housing, and free health care, in calculating income. Government expenditures for major inkind transfers in the form of food stamps, free or subsidized school lunches, subsidized housing and medical care grew from $2.2 billion in 1965 to $72.5 billion in 1980 (U.S. Bureau of the Census, 1982a).

I have two kinds of concerns with the way the debate over the counting of in-kind benefits has evolved. First, there are some considerations regarding the inclusion of noncash benefits as income that have not been fully appreciated. Since a Census Bureau report (1982a) on this issue provides a good discussion of the many technical problems regarding the valuation and inclusion of noncash benefits as income, I only have a few comments in this area.

Secondly, and more importantly, other issues surrounding the proper measurement of poverty are as important as that of noncash benefits, but have not received similar attention. Many of these issues are discussed in other parts of this paper.

On a theoretical level I have no quarrel with counting noncash benefits as income. There is no reason why we should separate cash income from noncash income in assessing a person's well-being. However, I am concerned about how this idea might be put into practice. If noncash benefits are counted as income, shouldn't they be counted for the rich as well as the poor? To do otherwise is not only unfair, it provides a misleading picture of the economic characteristics of the population. Even if we decide to count everyone's noncash benefits, there remains the practical problem of assigning a dollar value to these benefits. For the time being, I think the problem of properly valuating everyone's noncash benefits are insurmountable.

Most of the proponents of including noncash benefits as income have focused on government benefits for the poor and have largely ignored the noncash benefits received by the nonpoor. Employer-paid health and life insurance, tax-free interest received by some investors, the enormous tax breaks given businesses, tuition subsidies for college students, and price supports are all government benefits that go largely to the nonpoor.

Recent data indicate that almost 137 million Americans enjoy group health insurance either entirely paid for or subsidized by their employers (U.S. Bureau of the Census, 1983a). Almost 48 million workers are provided with a pension plan that is partially or totally paid for by their employer (U.S. Bureau of the Census, 1983a). Table 1 shows some of the noncash benefits that currently go uncounted. I think it is clear that most of these benefits go to the people with income above the poverty line. One recent study shows that the value of noncash employer benefits equals to one-fourth of total remuneration (Hays and Huggin, 1981).

If the government is going to count in-kind benefits as income, shouldn't the noncash benefits of the middle-class and the well-to-do be counted just as the in-kind benefits of the poor? Some proponents of the inclusion of noncash benefits in measuring poverty seem to be advocating one standard for the poor and a different one for the rich—count the in-kind benefits of the poor but not the in-kind benefits of others. If the noncash benefits to the nonpoor were counted as income—and taxed appropriately—the increased revenue would do a great deal to offset the current budget deficit.

The Reagan Administration is concerned about the impression that it has been unfair to minorities and the poor. Yet, when it was recently suggested that certain noncash benefits received mostly by the middle and upper class be counted as income and taxed, the Administration lobbied against the measure. The Administration could start to dispell its image of unfairness by lobbying just as diligently against the inclusion of noncash benefits in the definition of poverty.

Those in poverty represent only one end of the income spectrum, and at least to some extent the poverty threshold which determines who is poor and who is not, depends on the characteristics of the entire income distribution. To get a clear picture of that spectrum, we need information on all the income (cash and noncash) of all the people. Consequently, if we want a clear picture of the well-being of the country, we should include the noncash benefits received by everyone.

While it is true that noncash government assistance programs have grown dramatically in the past two decades, we must realize that to some extent those programs simply replaced assistance that was formerly provided by family and friends. Two decades ago when a relative brought a bag of groceries to the home of a recent widow, or a family whose breadwinner was out of work, these were not counted as income. To include noncash benefits as income now, because they come from a different source—the government—would paint a misleading picture of changes over time. Of course, many people today receive assistance from nongovernment sources, which are not counted as income. Counting the noncash benefits received from the government while ignoring those received from friends, relatives or nongovernment agencies seems unfair. It penalizes those who have only the government to turn to.

Furthermore, some of the noncash benefits to the poor have important value for the public at large. For example, medical assistance for the poor has the effect of improving the "public health" of the entire country, and since the health of everyone is interrelated to some degree, there is some benefit for the nonpoor as well.

I would like to emphasize the methodological difficulties of including noncash benefits as income. This difficulty is recognized in the recent Census Bureau (1982a) report, which tried three different methods for valuing noncash benefits. This study did not come to any conclusion about a preferred method of evaluating in-kind benefits but did conclude that various valuation techniques would produce widely differing estimates of the number of officially poor.

MISCELLANEOUS FACTORS AFFECTING POVERTY FIGURES

There are a number of miscellaneous factors that should also be considered in evaluating poverty figures. The individual effect of each of these factors is relatively small, but their collective effect could significantly alter the accuracy of the current measure of poverty. In addition, these factors sometimes act in subtle ways and could easily be overlooked.

Geographic variation

One concern in the current use of the poverty index is the lack of any geographic variation. The same measure is used for high-cost-of-living areas such as New York, Washington, and Boston and low cost areas such as rural Alabama or Mississippi. I think it is clear that an income which is a poverty level income in one part of the country may not be so in another part.

The BLS Family Budget for a Lower Standard of Living incorporates a limited geographic differential which shows that where a person lives makes a difference in how much income is necessary to achieve a given standard of living. A recent report on the BLS Lower Family Budget (U.S. Department of Labor, 1982) shows that the cost of the same standard of living is 5.9 percent higher in urban parts of metropolitan areas than in the urban parts of nonmetropolitan areas ($15,481 versus $14,619). Furthermore, the BLS Lower Family Budget in the highest-cost metropolitan area (Seattle-Everett, Washington) at $17,124 is 19 percent higher than the lowest-cost metropolitan area (Dallas) at $14,392. (Both Honolulu, Hawaii, and Anchorage, Alaska, are substantially higher than Seattle-Everett but were not used here because of their unusual nature.)

Since 75 percent of the U.S. population lives in metropolitan areas which generally have higher living costs than rural areas, use of a single National poverty standard is likely to underestimate the poor in urban areas.

Aside from brief treatment by the U.S. Department of Health, Education and Welfare in its report to Congress (1976) and by Fendler and Orshansky (1979), the issue of geographic variability has received little attention. There has been no attempt to incorporate a geographic cost-of-living differential in the index, but it is clear that a reasonable cost-of-living differential for the poverty index would improve its utility.

Use of pre-tax income in determining poverty status

The poverty line applies to income before taxes. A family with income slightly higher than the poverty threshold really has a spendable income below poverty level after taxes are removed. Since the income paid in taxes is unavailable to cover the expenses incurred by poor people, it should not be used in determining poverty status. Use of after-tax or "spendable" income to measure poverty would enlarge the number of people defined as poor.

Recent data indicate that overall about 23 percent of income goes to various taxes. In those households in the $7,500 to $9,999 income range, about 9 percent of income goes to taxes (U.S. Bureau of the Census, 1983c). If the poverty line for a family of four were adjusted to account for taxes, it would be $10,750 rather than $9,862.

Data collection factors

Official poverty figures come from one of two primary sources; the Decennial Census and the March Supplement to the Current Population Survey (CPS). Because the census is taken only once every ten years we use the CPS data to track yearly changes in the size and composition of the poverty population. But there is evidence that these CPS figures underestimate the real number of poor. Comparisons of decennial census figures with corresponding CPS figures for 1970 and 1980 indicate that the CPS figures are 5 to 12 percent lower than the corresponding census figures. My efforts to understand these differences suggest that the outreach program associated with the Decennial Census is responsible for getting many people to participate in the Census who are probably missed in the CPS survey (O'Hare, 1983). If one puts more faith in the Decennial figures rather than the CPS figures, as I do, than the poverty figures we receive each year from the CPS underestimate the true number of officially poor by 5 to 10 percent.

Although the Census probably reaches a higher proportion of the population than the CPS, that is not to say that all inhabitant are include in the Census. For example, preliminary evidence indicates that approximately 5 percent of the black population was missed in the 1980 Census. The heaviest undercounts occurred among black males aged 20 to 40, a population that is disproportionately poor. It is likely that many aliens (particularly undocumented aliens) are also missed in the census. We can be certain that despite the best efforts of the Census Bureau, hundreds of thousands of people, a large portion of them poor, were not included in the official Census figures.

SUMMARY AND CONCLUSIONS

The use of three alternative ways of arriving at a measure of poverty produced surprizingly similar results. The revised Orshansky index, the market-basket approach and public opinion, all indicate that a poverty line for an average family of four should be in the neighborhood of $15,000 a year. This clearly suggests that the current poverty line of $9,962 for a family of four and the current estimate of the number of poor (34.5 million) are too low.

Measuring poverty accurately is a complex and difficult task. While the inclusion of noncash benefits as income for the poor has been the most widely discussed option for changing the official definition of poverty, many other equally important approaches should be considered. No one should be left with the impression that inclusion or exclusion of noncash benefits is the only issue—or even the most important issue—concerning the official definition of poverty.

Since the poverty definition was constructed in 1964 there have been many advances in social science measurement techniques. Our capability to use sample surveys has improved enormously. Computer developments allow us to analyze vast data sets in ways unimaginable just twenty years ago. Statistical techniques have been devised or sharpened to address some of the most difficult social measurement problems. There is every reason to believe these developments can help us create a more satisfactory (accurate) measurement of poverty if we establish a structured process for doing so.

No one expects a perfect measurement of poverty to emerge over night, if at all. But I do think it is realistic to think about improving the current official poverty definition, if we establish a reasonable process for doing so.

I believe it would be wise to re-instate the statistical policy and coordination branch in Office of Management and Budget (OMB) to address issues such as the proper measurement of poverty. Re-creation of a "real" statistical policy and coordination branch in OMB, where experts are brought together on a regular basis to consider issues like the measurement of poverty, is the most fruitful step we can take to develop a more realistic definition of poverty.

TABLE 1—IN-KIND BENEFITS NOT COUNTED AS INCOME

1. Reduced or free tuition for children of college employees
2. Free or bargain-priced fares for airlines and other transportation workers
3. Discounts for retail-store employes
4. Low-cost purchases of company products
5. Free parking
6. Company-sponsored discounts on outside products and services
7. Use of company recreational facilities
8. Low-cost faculty housing on campuses
9. Personal use of company cars and planes
10. Business lunches
11. Employer-subsidized meals
12. Awards to workers
13. Free medical checkups
14. Chauffeur-driven cars
15. Country-club memberships
16. Company picnics or other celebrations
17. Luxury office furnishings

Fringe benefits specifically protected by law from taxation

18. Health insurance
19. Death benefits
20. Life insurance
21. Contributions to pension plans
22. Day care for dependents
23. Group legal insurance
24. Van pools for commuting
25. Meals and lodging for employer convenience
26. Scholarships
27. Educational-assistance programs

REFERENCES

Anderson, Martin, 1978. *Welfare*, The Political Economy of Welfare Reform in the United States, Hoover Institution, Stanford University.

———, 1980a, "Welfare Reform", in *The United States in the 1980's*, eds. P. Duignan and A. Rabushka, Hoover Institution, Stanford University.

———, 1980b, and Welfare Reform Perspectives, Testimony before the Senate Subcommittee on Public Assistance, February 6.

Browning, Edgar K., 1975. *Redistribution and the Welfare System*. Washington, D.C.: American Enterprise, Institute for Public Policy Research, pp. 14-20.

———, 1976, "How Much More Equality Can We Afford?," *The Public Interest*, Spring.

Coe, Richard D., 1978. "The Poverty Line: Its Function and Limitations," *Public Welfare*, Winter.

Congressional Budget Office, 1977. *Poverty Status of Families Under Alternative Definitions of Income*. (Congressional Budget Office Background Paper No. 17, October).

Dukert, Joseph M., 1983. "Who is Poor? Who is Truly Needy?", *Public Welfare*, Winter.

Fendler, Carole and Mollie Orshansky, 1979. "Improving the Poverty Definition." (Paper delivered at the American Statistical Association meeting in Washington, D.C., 1979).

Garfinkel, Irwin, and Robert Havemen, 1977. "Earnings Capacity, Economic Status, and Poverty," *The Journal of Human Resources*, Vol. XII, No. 1, Winter.

Hays and Huggins, 1981. "Hays and Huggins Noncash Compensation Comparisons Reflect Benefit and Pay Growth Generally Exceeding Inflation," *Bulletin*, September.

Landmann, Robert S., 1979 "Determining Poverty Guidelines," *New Spirit*, (June).

National Social Science and Law Center, 1980, *The Cost of an Adequate Living Standard in New Jersey*, Washington, D.C.

O'Hare, William P., 1980, "Recent Proposed Changes to the Official Poverty Definition," *Clearinghouse Review*, Vol. 14, No. 8, November.

———, 1983, *Analyzing the Differences in Poverty Figures from the Decennial Census and the Current Population Survey*, paper delivered at the Southern Regional Demographic Groups, October, 1983, Chattanooga, Tennessee.

Orshansky, Mollie, 1978, "Measuring Poverty: A Debate," *Public Welfare*, Spring.

Paglin, Morton, 1977 "Transfers in Kind: Their Impact on Poverty, 1959-1975," (Paper presented at the Hoover Institution, Conference on Income Redistribution, October 1977).

Plotnick, Robert D., 1975 "The Measurement of Poverty," in *Progress Against Poverty*. Edited by Robert D. Plotnick and Felicity Skidmore.

Rodgers, H. R., Jr., 1978 "Hiding Versus Ending Poverty," 8 *Politics and Society*, No 2: 253-266.

Smeeding, Timothy M., 1977a "The Anti-Poverty Effectiveness of the Inkind Transfers," The Journal of Human Resources, Vol. XII, No. 3, Summer.

———, 1977b. "The Trend Toward Equality in the Distribution of Net Income: A Reexamination of Data and Methodology," Institute for Research on Poverty, Discussion Paper, No 470-77.

The Gallup Report, 1983, Report No. 211, April

———, 1982a. *Alternative Methods for valuing selected In-kind Transfer Benefits and Measuring Their Effect on Poverty*", Technical Report 50 by Timothy M. Smeeding, March 1982

———, 1983a, *Characteristics of Households and Persons Receiving Selected Noncash Benefits: 1981*, Series P-60, No. 136, U.S. Government Printing Office, Washington, D.C.

———, 1983b, Current Population Reports, Series P-60, No. 140, *Money Income and Poverty Status of Families and Persons in the United States: 1982 (Advance Data from the March 1983 Current Population Survey)*, U.S. Government Printing Office, Washington, D.C.

———, 1983c, *Estimating After-Tax Money income distribution using data from the March Current Population Survey*, Series P-23, No. 126, U.S. Government Printing Office, Washington, D.C. Aug.

———, 1983d, *Characteristics of Household receiving Selected noncash Benefits: 1982*, Series P-60, No. 141, U.S. Government Printing Office, Washington, D.C. Sept.

U.S. Department of Health, Education and Welfare, 1976 *The Measure of Poverty: A Report to Congress as Mandated by the Education Amendments of 1974*. Department of Health, Education and Welfare (April).

U.S. Department of Labor, 1978, *Consumer Expenditure Survey: Integrated Diary and Interview Survey Data*, 1972-73, Bulletin 1992, Table 1, p. 26.

———, 1982. "Autumn 1981 Urban Family Budgets and Comparative Indexes for Selected Urban Areas" USDL 82-139, April.

———, 1983, Bureau of Labor Statistics, USDL 83-225.

Zimbalist, Sidney E., 1977 "Replacing Our Obsolete Poverty Line," *Public Welfare*, Fall

Chairman RANGEL. Chairman Ford and I want to thank you for your testimony. And again, our apology that the public assistance conference is going on at the same time that we are having this.

We indicated this morning we have to be moving forward with some legislation. Our problem is how costly would it be, whether or not it makes any sense at all, and we are going to need a lot of help in trying to develop a strategy that can reduce poverty at the same time and not substantially increase the deficit.

We hope that you might agree in an informal way to be working with our staffs toward these goals, to get your insight into these things. If there are other things that you would like to add to your testimony, we will keep the record open.

Chairman Ford.

Chairman FORD. Thank you, Mr. Chairman.

Mr. Burtless, you talked about the Federal supplemental compensation program and the extended benefits program which in most States, with the exception of Louisiana and West Virginia, has triggered off. We are very keenly aware of that fact.

As a matter of fact, the subcommittee which I chair reported a bill extending FSC to the full committee and we reported that bill and passed it on the House floor. The differences in the Senate version and the House version have not been worked out, although I will say that the subcommittee and the full committee, no doubt, will come back with a 9-month extension.

We are very cognizant of the fact that the extended benefit program has been practically diluted, but at the same time, we are using the IUR's as well as the total unemployment rate in the new legislation that hopefully will be compromised on by both the House and Senate.

I think that we will see legislation forthcoming in the very near future.

Chairman RANGEL. We would like to recess the committee for 10 minutes as we go to vote.

I would like to advise Reverend Harvey, the executive director for Catholic Charities, as well as Colonel Miller of the Salvation Army that the Bureau of Census has agreed to allow you to testify first when we come back. We hope we will be able to get all of the witnesses this afternoon.

The committee will recess until 1:30.

[Recess.]

Chairman RANGEL. The committee will resume hearings. I want to thank you, Colonel and Father, for your patience with the committee. We welcome your testimony. Father Harvey?

STATEMENT OF REV. THOMAS J. HARVEY, EXECUTIVE DIRECTOR, NATIONAL CONFERENCE OF CATHOLIC CHARITIES

Reverend HARVEY. Thank you, Mr. Rangel.

I am Father Thomas J. Harvey, executive director of the National Conference of Catholic Charities. We appreciate the invitation to testify today.

I want to thank you personally and your staff for the opportunity to testify on a problem which unnecessarily vexes our country, the growing numbers of individuals and families who have incomes below our Government's own index of dire poverty.

I am going to pass over a lot of the statistics, because I concur with most of the other speakers about the kind of distribution of reward and penalty connected to some of the tax policies since the reconciliation bill of 1981, but I do want to say that I represent 600 human service agencies and 200 specialized institutions that constantly are in touch with the people who have been referred to statistically throughout this day.

We are committed not only to helping meet the immediate needs of the poor and hurting in our country, but also to have a role in speaking out in trying to shape a more benign national social policy.

We have provided, last year, $565.5 million in services, but we utilized over 100,000 volunteers, so it is very difficult to quantify the true contribution. We also are affiliated with many voluntary programs in the Catholic Church, such as the St. Vincent de Paul Society, the Christ Child Society and the Ladies of Charity, each of which involve thousands of volunteers and voluntary contributions at the neighborhood level across the country.

I particularly want to let the record show that it is our feeling that the increasing poverty unnecessarily vexes us, because in the recent years, there seems to be a conscious relationship between the growth of poverty and current government policies.

At the same time our Nation has witnessed the growth of people within poverty, there seems to be a deliberate policy of stimulating an increase in unemployment, to curb inflation, and a policy of cutting Federal funding to provide public service jobs and necessary income supports, whether in food stamps, welfare assistance, child nutrition and countless other programs.

Let me go to the actual questions that you asked of us, to what extent can our organization, whether nonprofit or church community in general respond to the increase in poverty, and second, how can the antipoverty activities of the Government and charitable organizations be better coordinated?

I would like to mention at the outset that one of the constant services provided by Catholic Charities agencies is emergency assistance. I would like to share some statistics in this area, but I would also like to say the more we get involved in energy assistance as a safety net, the less we do what we are best at, that is to bring freedom to people in whatever kind of support they need.

As long as we get caught up in the survival activities of just feeding people, people whose hunger comes from the policies of others, we are not free ourselves to do that which we want to be committed. Some of these statistics are dramatic.

From 1981 to 1982 alone, we have increased the provision of emergency meals from 496,514 to over 1.8 million. In New York, our agencies report an 82-percent increase in food assistance requests. A daily meal program supported by Catholic parishes in Baltimore used to feed 150 people and now feeds between 500 and 600 people daily, a three to 400-percent increase.

The room where these meals are served can only accommodate 45 people at a time so they have to eat quickly. It wasn't built for this kind of volume, and now you find that there is even a lack of humane opportunities to feed people because of the volume.

Agency food bank activity increased 100 percent from 1981 to 1982. Many agencies, and many Catholic parishes, have had requests for food triple and even quadruple, and some have had to ration food.

The Catholic Charities Agency in the city of Buffalo had 327,000 requests for emergency food assistance in 1982, up from 160,000 in 1981. In Omaha, Nebr. the heartland, the Catholic Charities pantry served 18,270 people, up 12,000 from the year before, a 300-percent increase.

Even in a sunny climate like Orlando, Fla. our agency reports doubled requests for emergency assistance. This past April, the St. Vincent de Paul Center in San Diego distributed 400,000 pounds of food to some 30,000 people, and this is interesting because they tied it to serving the dignity of people with a certain volunteer time.

People volunteered a registration fee and a few hours of volunteer work for a local church or community agency.

It is sort of like a cooperative. For this, the registrants will receive a monthly package of about 55 pounds of food including eggs, fresh vegetables, meats, and beans. Large families can pay multiple registration fees, with a ceiling of $66, and receive up to $300 worth of food.

If we move from hunger to homelessness, we find that Catholic Charities report that emergency shelter for single adults grew from 3,900 in 1981 to 63,000 in 1982. This represents those agencies that traditionally were identified with adoption and marriage counseling were confronted with people at the door asking for these kinds of services.

There have been tremendous adjustments over these last 2 years.

Emergency shelters for families and children nearly tripled in the same time to about 71,000.

In 1982, emergency financial assistance grants increased 26 percent over the previous year. Over 600,000 families received some financial assistance. In addition, it should be noted that our affiliate, the all-volunteer St. Vincent de Paul Society, provided $60 million in emergency assistance to another half a million families in 1982.

If we look at the people who are coming to us in need, we find there is a change in their characteristics, too. Not only the traditionally observed street people, frequently male individuals, but more and more we find the breadwinners are unemployed longer than at any time in our history, so you find younger people coming.

In many States, intact families, whose other benefits have run out, are not eligible for AFDC as earlier discussions brought to the panel. We also find that these intact families will turn to our agencies for help.

Many families split for simple economic reasons. They have to take to the streets, because they cannot support even the limited lifestyle of a roof over their head.

With all of these economic pressures, and I think this has been documented by many studies, not only those contracted by the Government, but the Harvey-Brenner study of Johns Hopkins University, we find all sorts of residual outcomes that are not desirable for the good of the Nation.

From 1980 to 1981, the number of abused adults coming to our Catholic Charities agencies jumped from 7,244 to 13,566. Many of our agencies have opened new shelters for abused wives and children.

Certainly once those services are in place, a clientele appears. In 1980, our agencies served 13,312 abused children. In 1981, 19,070, and in 1982, already we have reports that there were 21,988.

The trend is in the wrong direction. We are not heavily involved in the provision of health care, but many of our agencies, particularly in inner cities, do operate some clinics. With the cutback in benefits due to prolonged unemployment, we have also found that in 1980, we served 59,000 people in our clinics.

In 1981, this had jumped to 141,900. I don't have a figure for 1982 or 1983 at this time.

In the last year, I have listened carefully to the suggestion that the voluntary sector, particularly churches, can and should take up the slack caused by the budget cuts.

I want the record to show today as a spokesperson for that system that private charity can't increase sufficiently to make that kind of a dent.

The overall responsibility for the general welfare of the people of this Nation has to be a public responsibility, and we are more than willing to be committed to be partners in any way we can.

Let me come to some of the suggestions that we would have for the Ways and Means Committee in this area. It is deeply ingrained in the Catholic church's tradition that to eat is a fundamental right, one essential to human dignity, and to the right of life itself.

It does not come with work or it does not come with the profit needs of the Nation. When we talk about the implications for public policy, we are not speaking of feeding people out of largess or as a matter of privilege. It is the matter of being human, to have the wherewithal to eat.

It is a matter of social justice and basic human rights—rights from which entitlements flow—entitlements which only the Federal Government can guarantee for all people.

It should be obvious from what I have said thus far that our agencies have had to shift considerable attention and considerable energy and considerable resources to meeting these emergency needs. This is always the case in a recession, but in the recent decades it has never been this severe.

A good part of the reason, we think, is the substantial reduction in what is normally called countercyclical assistance from the Federal Government to the States and to local government.

We would plead for the permanent enactment of countercyclical revenue-sharing and a jobs program to be triggered by some specified unemployment rate in a given community.

Most urgently needed are public service job slots, which can be used in the nonprofit sector also, to enable families to maintain some dignity in the face of economic troubles not of their making.

Along with a countercyclical extended unemployment insurance program and some provision for health benefits, a goodly measure of the impact of a recession on those now unfairly bearing the brunt of difficult economic times could be relieved.

You have asked how government/voluntary sector programs to meet the needs of the poor could be better coordinated. We feel one historic example was the emergency appropriations earlier this year, 1983, with the jobs bill.

In that bill, $50 million was to be used by the nonprofit sector to provide emergency meals and shelter to those in need. Well within the timeframe provided by Congress, which was a rather narrow one, over 31 million meals were served beyond the previous capacity of organizations to provide them and 3 million additional nights of shelter were provided the homeless.

A seven-organization board, chaired by the Federal Emergency Management Agency, and with the United Way of America as the project's fiscal agent, within weeks stimulated the development of over 900 comparable boards at the local level which identified the specific local organizations or programs best able to provide the emergency service.

There was only 2 percent given for administration, and in point of fact, for this first time the voluntary sector did not take that small percentage. I think it is important to realize that the United Way probably expended $250,000 to administer the program, and I can say without documentation that my office, in working with Catholic Charities around the country, probably spent as high as $20,000.

We are willing to work that kind of a partnership, but I do think administrative costs, if it becomes more permanent and this recession continues, will also have to be b[illegible] into it.

In the 1981 Tax Act, as you will remember, Congress extended the charitable contribution to taxpayers who take the standard deduction. This was done on a phased-in basis so as to reduce the budgetary impact, but the legislation is to sunset in 2 years.

If we are to act in partnership with the Government, we can't be denied the opportunity to have incentives given to people to support us.

Legislation is pending with over 170 cosponsors in the House at the present time to lift that sunset and make the deduction for charitable giving a permanent part of the Internal Revenue Code.

We would urge your committee to give favorable consideration to this amendment, as a stimulus to private giving.

Clearly, Congress also should repair the damage done by some of the amendments to benefit programs in the 1981 reconciliation bill. Most notable were the AFDC amendments, which hit hard at the working poor.

Again, there was just so much testimony that I won't go into detail, but the amendments to repair this damage are in the jurisdiction of Mr. Ford's subcommittee, so I hope his presence on this panel today will be an important opportunity for him to carry that message.

We urge sensitive examination in Congress as well to one of the possible unintended effects of several block grant programs enacted in 1981. Prior to the enactment, many of the categorical programs developed, including title XX, required a percentage of matching funds before the States could draw down the Federal money.

In many cases, since States were often strapped for funds, the match requirement had the effect of stimulating nonprofit organizations to put up the matching money, and thus strengthen nonprofit involvement in service delivery as well as assured pluralism, which we are so committed to, in the delivery of human services.

Chairman RANGEL. We have a problem.

I have been advised that the chairman wants to start at 1:45, and I do want to hear from the colonel before I am forced to adjourn. I would like to advise the Bureau of the Census that the colonel will be our last witness, and so, the full statement will be in the record, and I would ask at this point, your forgiveness and ask the colonel whether he could summarize his testimony so that I can conclude this part of the hearing.

Reverend HARVEY. I was virtually finished, Mr. Chairman, so I thank you for the opportunity to be here.

[The prepared statement follows:]

STATEMENT OF REV. THOMAS J. HARVEY, EXECUTIVE DIRECTOR, NATIONAL CONFERENCE OF CATHOLIC CHARITIES

I am Father Thomas J. Harvey, Executive Director of the National Conference of Catholic Charities. We appreciate the invitation to testify today on a problem which unnecessarily vexes our country—the growing numbers of individuals and families who have incomes below our government's own index of dire poverty.

Catholic Charities is a federation of some 600 human service agencies and 200 specialized institutions providing services in virtually all parts of the United States. Catholic Charities is sponsored by a religious denomination committed both to helping meet the immediate human needs of the poor and hurting in our country and to work for a more just social order in which people can meet their own needs and share with others.

Catholic Charities' programs range from providing child care to residential facilities and programs for the elderly. We provide a variety of counseling services for families in stress, and we have programs to help substance abusers.

We provide emergency assistance—shelter, clothing and food—and we provide advocacy and legal assistance to enable people in need to secure what is due them. Our agencies have well over 50 program services, and while they do have paid professional staff, they also utilize over 100,000 volunteers in program delivery.

In addition, several substantial all-volunteer service organizations in the Catholic community are affiliated with us—the Society of St. Vincent de Paul, the Christ Child Society and the Ladies of Charity, each of which involve thousands of volunteers and voluntary contributions at the neighborhood level across the country.

I say this problem of increasing poverty unnecessarily vexes us because it is, to all intents and purposes, a conscious result of current government policy. For in this most recent recession the Administration, with the assent of Congress, threw out much we had learned since the 1930s about how to protect the poorest among us, and the marginally poor, from the ravages of an economy the poor would hardly influence.

At one and the same time, our nation has witnessed a deliberate policy of stimulating an increase in unemployment to bank inflation and a policy of cutting Federal funding to provide public service jobs and necessary income supports in food stamps, welfare assistance, child nutrition and countless other programs. All the evidence in to date on the economic policies of the past several years indicates that the burdens of economic adjustment have fallen on the poor and on moderate income families, while the wealthy of the country have become more wealthy still.

That is the way I would describe the problem. In the October 17th edition of The Washington Post, Chairman of the Council of Economic Advisors Martin Feldstein described it lucidly when he pointed out that, after adjusting for inflation and population growth, spending on domestic programs, except for Medicare, Social Security, and "interest on the national debt", will have fallen 16% between 1980 and 1984. Even including Social Security and Medicare, spending for all domestic programs will have fallen from 15.1% of the Gross National Product in 1980 to 13% of the GNP in 1988. We would agree with Mr. Feldstein's observation that this represents "a revolutionary change in the growth of government." We would only add that it marks a revolutionary new way for Americans to treat the poor and hurting.

It is no surprise that we have a growing number of poor in the United States. It is rather an inexcusable tragedy. The tax changes of 1981 increased the tax burden on the average working family while giving substantial breaks and, thus, income gains to the wealthy. The program changes enacted in 1981 invariably were more harsh for the poor, the working poor, and the marginally poor than anyone else. Means-tested programs—those designed for the poorest in our society—were cut more on the average than any other programs. Meanwhile, skyrocketing interest rates have pushed the cost of home ownership beyond the means of many families and nearly brought the housing market to a halt. Now we note the Administration wants a complete halt to government subsidized housing for the poor.

Congressional Budget Office studies reveal that the combined benefit and tax changes of 1981 actually result in a four year decrease of $1,420 for the average family with income below $10,000 a year. At the same time, the same changes result in a $42,390 increase in income over four years for the average family with a previous income of over $80,000 a year.

You have asked us to address two questions as well as to describe our work in meeting the needs of people: (1) To what extent can our organization (or the non-profit or church community in general) respond to the increase in poverty, and (2) How can the anti-poverty activities of the government and charitable organizations be better coordinated.

One of the constant services provided by Catholic Charities agencies is emergency assistance. From 1981 to 1982 alone, we have increased the provision of emergency meals from 496,514 to over 1,800,000. In New York our agencies report an 82% increase in food assistance requests. A daily meal program supported by Catholic parishes in Baltimore used to feed 150 people and now feeds between 500–600 people daily. The room can only accommodate 45 people at a time, so they have to eat quickly to make room for those waiting. Our agencies report that in the last two years meal programs have shifted from serving almost only single adults to serving an increased number of intact families, an increased number of mothers with children.

Agency food bank activity increased 100% from 1981 to 1982. Many agencies, and many Catholic parishes, have had requests for food triple and even quadruple, and some have had to ration food. Our Buffalo agency had 327,000 requests for emergency food assistance in 1982, up from 160,000 in 1981. In Omaha, the Catholic Charities pantry served 18,270 people, up 12,000 from the year before. They report that they have implemented a policy of providing only three days food to a family, and that only three times a year. At the same time, they say they are only scratching the surface of feeding hungry people. Even in the sunny climate of Orlando, Florida, our agency reports doubled requests for emergency services. This past April the St. Vincent de Paul Center in San Diego distributed 400,000 pounds of food to some 30,000 people who volunteered a registration fee and a few hours of volunteer work for a local church or community agency. For this, the registrants will receive a monthly package of about 55 pounds of food including eggs, fresh vegetables, meats and beans. Large families can pay multiple registration fees, with a ceiling of $66, and receive up to $300 worth of food.

Emergency shelter for single adults grew from 3,900 in 1981 to 63,000 in 1982. Emergency shelter for families and children nearly tripled in the same time to about 71,000.

In 1982 emergency financial assistance grants increased 26% over the previous year. Over 600,000 families received some financial assistance. In addition, it should be noted that our affiliate, the all-volunteer St. Vincent de Paul Society, provided emergency assistance to over a half million families in 1982.

If all this suggests to you that there are more people on the street, you would be correct. But not only the traditionally observed "street people." More breadwinners are unemployed longer than at any time in our recent history. In many States, as you know, intact families, whose other benefits have run out, are not eligible for AFDC. Many families split for simple economic reasons. You find intact families on the streets, and you find mothers with children on the streets. We are seeing "street families."

There are other kinds of emergencies than the above.

From 1980 to 1981, the number of abused adults coming to our agencies jumped from 7,244 to 13,566. Many of our agencies have opened new shelters for abused wives and children. Many have increased their counseling to the total family involved because most abused spouses do go back home.

And children? In 1980, our agencies served 13,312 abused children. In 1981, 19,070 and in 1982 we served 21,988 abused children.

Catholic Charities social agencies are not a big provider of health care, though Catholic sponsored hospitals are. We do operate some clinics. Since extended unemployment has left an increasing number of families with no health care protection, you would expect clinic visits to increase. In 1980, we served 59,436 people in our clinics. In 1981, this had jumped to 141,522. I do not have a 1982 figure on this as yet.

In addition, agencies tell us that they face a markedly increased caseload of people and families seeking help because of substance abuse, and other studies corroborate our agency reports.

Our current experience reminds us of the need to make available resources to provide preventative services such as day care, homemakers and counseling, and surely to provide counseling services to all parents under stress.

In the last year, I have listened carefully to the suggestion that the voluntary sector, and the churches in particular, can and should take up the slack caused by the budget cuts. This suggestion, that private charity can increase sufficiently to make key government programs unnecessary, ignrores both history and reality. Those programs and services now provided by voluntary agencies for the poor are made possible through contracts with government. These contracts have been reduced as a result of current fiscal policies. The Urban Institute reports that nonprofit, private organizations stand to lose $33 billion in Federal funds over the next three years. The loss of services is, however, even more extensive since State and local governmental matching funds are likely to be reduced or terminated. Voluntary monies have been maximized through cooperation with public funded programs. They neither can replace essential government funds and, in fact, will have a reduced impact when government funds are withdrawn.

It is clearly a Federal responsibility to meet income needs. The voluntary sector and the States do not have, and cannot command, the resources necessary to meet those needs. Only the Federal government can assure the equitable distribution of this country's goods.

We must be clear about the proper role of the government in protecting this right. The Catholic Church has a long tradition of social teaching on this subject, and our concern and interest in Federal domestic food policies flows from that tradition. The Catholic bishops in this country, and around the world, have called the right to eat a fundamental right, one essential to human dignity and to the right to life itself. When we talk about the implications for public policy, we are not speaking of feeding people out of our largess or as a matter of privilege. Rather, it is a matter of social justice and basic human rights—rights from which entitlements flow—entitlements which only the Federal government can guarantee.

It should be obvious from what I have said thus far that our agencies have had to shift considerable attention and considerable energy and considerable resources to meeting these emergency needs. This is always the case in a recession, but in the recent decades it has never been this severe. A good part of the reason, we think, is the substantial reduction in what is normally called countecyclical assitance from the Federal government to the States and to local government. We would plead for the permanent enactment of countercyclical revenue sharing and a jobs program to be triggered by some specified unemployment rate. Most urgently needed are public service job slots, which can be used in the non-profit sector also, to enable families to maintain some dignity in the face of economic troubles not of their making. Along with a countercyclical extended unemployment insurance program, and some provision for health benefits, a goodly measure of the impact of a recession on those now unfairly bearing the brunt of difficult economic times could be relieved.

You have asked how government/voluntary sector programs to meet the needs of the poor could be better coordinated. One historic example was the emergency appropriation earlier this year of $50 million to be used by the non-profit sector to provide emergency meals and shelter to those in need. Well within the time frame provided by Congress, over 31,000,000 meals were served beyond the previous capacity of organizations to provide them and over 3,000,000 additional nights of shelter were provided the homeless. A seven organization national board, chaired by the Federal Energency Management Agency and with United Way of America as the project fiscal agent, within weeks stimulated the development of over 900 comparable boards at the local level which identified the specific local organizations or programs best able to provide emergency assistance quickly. We think that this one shot program was probably the most cost efficient in the history of our nation. And, even though the legislation provided for up to 2% administrative costs, all the national non-profit organizations involved waived any administrative charges. United Way of America alone expended approximately $250,000 in serving as fiscal agent. Yet it is estimated that even if all legitimate administrative costs had been taken, such costs would have only been approximately one-half of 1%. I might add that this may also be a unique Federal program in that more was expended than Congress appropriated. By careful fiscal management, some $750,000 in interest earnings were added to the funds distributed around the nation.

Another government action which could substantially improve government/independent sector coordination in meeting human needs lies in the jurisdiction of your full Committee on Ways and Means. In the 1981 tax act, as you will remember, Congress extended the charitable contribution to taxpayers who take the standard deduction. This was done on a phased-in basis so as to reduce the budgetary impact, but the legislation sunsets in two years. Legislation is pending, with over 170 cosponsors in the House as of the present moment, to lift that sunset and make the deduction for charitable giving part of the permanent Internal Revenue Code. We would urge your favorable consideration of this amendment as a stimulus to private giving. The research indicates that the revenue lost to government is more than offset by the gain in charitable giving, and also that most of the increased giving comes from modest income families and goes to human service organizations and church groups, and church groups spend most of their income on meeting human needs.

Clearly, Congress also should repair the damage done by some of the amendments to benefit programs in the 1981 reconciliation bill. Most notable were the AFDC amendments which hit hard at the working poor. The amendments to repair this damage are in the jurisdiction of Mr. Ford's subcommittee, and since we understand the money is in the budget resolution, we hope the amendments can be acted on soon.

We urge sensitive examination in Congress as well to one of the possible unintended effects of the several block grant programs enacted in 1981. Prior to the enactment, many of the categorical programs involved, including Title XX, required a percentage of matching funds before the States could draw down the Federal money. In many cases, since States were often strapped for funds, the match requirement had the effect of stimulating non-profit organizations to put up the matching money, and thus strengthened non-profit involvement in service delivery as well as assured pluralism in our service capacity. We think pluralism here has positive value for our country, and hope that Congress will watch closely the impact of block grants which do not require a State match and thus may provide an incentive for growing State delivery of more and more services.

In his encyclical, "Pacem in Terris," Pope John XXIII taught that ". . . every person has the right to life, to bodily integrity, and to the means which are suitable for the proper development of life; these are primarily food, clothing, shelter, rest, medical care, and finally the necessary social services."

While we believe there are some programs which are necessarily the role of government in a society as large and complex as ours—income maintenance, health insurance, and low income housing for a few examples—we do otherwise believe that there is much the non-profit sector and government can do together. And we look forward to this necessary collaboration.

STATEMENT OF LT. COL. ERNEST A. MILLER, DIRECTOR, NATIONAL PUBLIC AFFAIRS OFFICE, THE SALVATION ARMY

Colonel MILLER. Thank you, Mr. Chairman. I am Lt. Col. Ernest Miller, director of the National Public Affairs Office of the Salvation Army. You have my prepared statement, which I would like to submit for the record. I will just make a few comments related to that rather than to attempt to read the statement itself.

Chairman RANGEL. Thank you very much.

Colonel MILLER. We appreciate the opportunity to appear in this instance. The Salvation Army has been involved in the problems of poverty in the United States and around the world for more than 100 years.

We feel that over time, we have made some impacts on that problem, and that we continue to do so, but it is an intractable problem that ebbs and flows with time, and Jesus once said, "The poor ye have always with you."

We are not really content to accept that. We agree that it may sometimes be so, that the poor are always with us, but we believe that it is our responsibility to do something about the poor, to relieve their suffering, and to make their lives more tenable while they are on Earth.

I do not have a list of statistics or data of any kind, but rather my comments have been drawn from talking to the people in our organizations, who are out on the front lines working with the problems of poverty, the people to do the casework, the people who actually meet the poverty, the poor who come to them for help, the people who day after day work with the ugly problems that arise in the midst of our poor people.

They tell me that they are identifying four distinct trends in the profile of the poor. They tell me that poverty is moving to the suburbs, that whereas a few years back in some of our major cities we were able to go into a particular neighborhood and know that here the poverty was concentrated in specific areas.

Now, we are finding the addresses of the people who come to us for help located in the suburbs, scattered in some neighborhoods which appear to be affluent and well-ordered.

Yet, there are very poor people in the midst of those affluent appearing neighborhoods. They are telling me that there is a rise in poverty among the people who thought they were in the middle class, or on the edge of the middle class, but who, because of cutbacks in middle management jobs or cutbacks in labor contracts which they thought were secure, now those people who thought they were in the middle class are finding themselves contending with poverty.

There is a strange paradox of an affluent poor, people who have so much property, so much possessions of material things, that they cannot qualify to receive public assistance.

We heard from one family who said that they were selling their furniture one piece at a time in order to put food on the table, and they could not qualify for public assistance or even for assistance from some voluntary organizations until they would be virtually destitute and divest themselves of all of these personal possessions, which can be quantified with some intrinsic value.

Then there is a dilemma of a new permanent poor, people who are living well past the age of 50, who suddenly have discovered themselves out of work, for whatever reason, too old to be trained for new jobs which can command anything like the kind of income they frequently earned, and because their earnings in these years just before retirement will be much lower than previously they were, they will receive very low retirement benefits as well, a few permanent poor who thought themselves to be in the middle class only a few years ago.

These are the human values, the human situations that are changing in what we are seeing in poverty at the present.

There is a growing proportion of the population poor, a growing total number of people who are poor, a growing intensity of poverty among those who are poor, and this is an acute problem.

The people who are getting public assistance, the AFDC beneficiaries, are beginning to come to us in growing numbers, because the help they are getting is simply not enough.

Case workers are telling me that more and more of the people they are seeing are people who are already receiving some assistance, but it is so little that it doesn't stretch, and new emergencies are arising month after month, and they are coming to voluntary agencies for help because their public assistance doesn't last.

This is a whole new profile. There are a number of programs with huge numbers of voluntary groups who are helping to feed the hungry. Others are helping to house the homeless.

Just in the last week, I visited a shelter down in Houston, Tex., where they tell me they were feeding 200 people a day a year ago, that number rose to 500 over the winter months, and is now leveled off to about 300 a day, who are still coming.

They expect it to grow much larger in the winter to come. These needs are growing exponentially. With a recovery that is going on there is still a residue of poverty, and we believe that in the winter months to come, we will see huge numbers of poor people who desperately need help.

Father Harvey mentioned the jobs bill, which has just recently been completed. We were pleased that we could participate in the wish of the Congress to pass that money out quickly to poor people.

We were able to feed millions of people, to house hundreds of thousands with those funds, but as Father Harvey suggested, there is an acute need to help voluntary organizations with the indirect costs entailed in those programs.

While we are willing to do it in this instance, to absorb those costs, and they can be very large costs, if those programs are to be repeated, it will be very necessary to work into the program some means of covering the indirect costs and the administrative costs entailed by the voluntary organizations.

These voluntary groups may be called on by the Congress for the very reason that they have well-structured programs and good administrative oversight to the programs, accountable to the public, but that accountability costs money, and in order to maintain it and to continue it, the cost apportionment of the funds that are expended for any program to keep it in place, and we appeal to the Congress to be sure to cover those administrative costs of the voluntary organizations which have to come from somewhere, and at the same time, we ask help with the charitable contributions deductions. We believe that, and it has been proven again and again, that the money raised by the incentive of a charitable contribution, the money that comes to voluntary organizations is much larger than the revenue loss to the Government.

Since we are concerned with the same problems the Government must be concerned with, with helping the poor people, we believe that that incentive with the charitable contribution deduction is a very effective use of tax policy, and that it should be continued and sustained.

I see that time is gone, and we appreciate the opportunity to be here and we want to indicate the willingness, indeed the eagerness of voluntary organizations to work closely with Government.

We believe that a partnership between Government and voluntary organizations is the best way to achieve the ends we all seek, and we believe that growing partnerships between voluntary organizations themselves is another productive way to work together, and we pledge our best efforts to achieve the will of the Congress and of the people, which is those things which are best for all of our people.

[The prepared statement follows:]

STATEMENT OF LT. COL. ERNEST A. MILLER, DIRECTOR, NATIONAL PUBLIC AFFAIRS OFFICE, THE SALVATION ARMY

Mr. Chairman, I am Lieut. Colonel Ernest A. Miller, Director of the National Public Affairs Office of The Salvation Army. We appreciate the opportunity to appear before the Joint Sub-Committee to discuss the problem of the Poverty Rate Increase in the United States.

The Salvation Army has been involved with the problems of poverty in the United States and in the world, for more than a hundred years. My own experience in the work of the organization spans more than a third of a century, much of that time working in communities of mid-America among the problems, and among the people affected by the problems of poverty.

In the preparation of this testimony I have talked to Salvation Army social services directors, local case workers and administrative leaders at many levels, and in all parts of the country. In recent weeks I have met with groups of Salvation Army leaders as each reported on poverty programs in his own area; and I have visited those programs in many parts of the country. Over the past several months I have served as a member of the National Board for Emergency Food and Shelter, created to distribute funds appropriated in the Jobs Stimulus Bill of 1983 (Public Law 98-8). And I have met with many groups meeting in the nation's capital over the past year to struggle with the problems of the homeless and the hungry.

Hard data relative to proverty and its effects are extremely difficult to assemble. The embarrassment often associated with poverty causes its victims to hide their shame, and to conceal the impact of poverty on their lives. Furthermore, the volunteers and the voluntary agencies who seek to help the poor are often much more effective in providing service and in giving help than in keeping records or gathering data. For those reasons much of the conclusions of this statement are the summary of comments gathered from experienced Salvation Army workers. Rather than conclusions drawn from verifiable data, they are conclusions drawn from the feelings and senses of those who live and work with the problem.

With various government agencies submitting testimony to the Committee based on quantifiable data, it seems appropriate that the Committee should also hear from the troops who daily fight the battle. This testimony attempts to focus the comments of some of those front line soldiers in the continuing war on poverty. The Salvation Army is a persistent adversary in that unending struggle.

TRENDS

The profile of poverty is changing in the U.S. Some segments of the population have been traditionally assumed to be poor, such as migrant farm workers, inner city groups with undeveloped job skills, new immigrants with limited language skills and other groups. These poor are still with us. But new groups are entering the ranks of poverty for the first time. Many of the "new poor" are those who considered themselves to be edging their way into the middle class—just before they suffered reverses that changed their lives.

The key villian is unemployment, and it has taken new turns in the 1980s. As unemployment has moved among population groups previously considered secure in their jobs, it has brought poverty in its wake to people who never imagined it could happen to them, and who were, therefore, totally unprepared to deal with it. Many of these "new poor" blame themselves for their dilemma; in their embarrassment they are ashamed to seek help. They often were liberal donors to charitable causes, and they are now reluctant to seek help from agencies and neighbors they have previously aided, and whom they have known so well. For community groups who wish to help them they are often difficult or impossible to reach with the assistance they desperately need. In our conversations about this problem Salvation Army social workers from various places have mentioned many of the same trends or conditions. Some of these trends include:

Poverty in the suburbs;
Poverty in the erstwhile middle class;
A new class of "affluent poor";
A new class of "permanent poor";
Obviously these terms require some explanation.

Poverty in the suburbs began to be noticed by Salvation Army workers during the Christmas season in 1982. It was observed that, compared to prior years, a much higher proportion of applicants for Christmas assistance gave home addresses in the suburbs. Traditionally most pockets of poverty in large metropolitan areas have been concentrated in the inner city; city slums and decaying neighborhoods have been the areas of the most crowding and the least expensive housing. The geographic location of poverty, therefore, could often be indentified with postal zip codes. The new phenomenon is that people seeking help are often scattered through generally affluent areas and in stable neighborhoods. The effects of poverty are penetrating into areas where not expected.

A case in point may be the metropolitan area surrounding the nation's capital city, Washington, D.C. Montogomery County in Maryland, and Arlington County in Virginia are suburban areas immediately adjacent to Washington and the District of Columbia. Both counties are regarded to be among the most affluent, economically stable areas in the nation. Neither county has seen the need for a program or facility for emergency housing or shelter for its citizens—until now. Montogomery County is negotiating with The Salvation Army for opening such a facility within a few weeks, and Arlington County has opened discussions for a similar program to be opened in the near future. The reason for their action is that poverty has sprung up in these affluent suburbs and there is a new need for programs and facilities to deal with it.

The phenomenon is nation wide. As unemployment has begun to reach unexpected segments of the population, poverty has followed. The "new poor" may live in some of the tidiest suburban cottages, in the midst of apparent affluence, where the mortagage is just about to be foreclosed.

Poverty in the erstwhile middle classes reaches whose who once were middle managers in established companies, or who had high paying jobs among the labor elite in stable industries protected by strong union contracts. The changes in management style, eliminating many white collar and management jobs, and the cut backs in smokestack industries, has thrown into unemployment many proud and confident Americans who thought they occupied the middle class. Many of these might be regarded as:

The new class of "affluent poor." They are the people whose material assets are too great to allow them to be eligible for many forms of public, or ofter private, assistance. They have a home in a good neighborhood, nice furnishings, and a recent model car. But being unexpectedly unemployed they can't pay the mortgage—or the payments on the furniture—or the loan on the car. Yet, while all these things are in their possession they may not qualify to receive assistance.

One familiy, in a mid western city, wrote to The Salvation Army last Christmas when they received the customary fund appeal letter. They said they had always been donors in the past, and that they would like to give again. But this year they were unemployed and hoped they might this time ask for help. They explained that their marterial assets made them ineligible for public assistance, and that, to put food on the table, they were selling their furniture piece by piece. When all their material "affluence" should be gone they could qualify for public assistance.

A new class of "permanent poor" has also emerged. They are workers over the age of 50, whose skills have become obsolete. They may be too old to be retrained for new skills, and they are too young to qualify for retirement benefits or social security. With pre-retirement years of little or no earnings before them, they may expect that retirement benefits, when they become old enough to qualify, will be meager indeed.

THE GROWING PROBLEM

The Census Bureau told us in August that the problem of poverty in the United States were growing. The consensus among front line social workers, and those who work every day with the people affected by poverty, is that the Census Bureau numbers are correct, but that those numbers tell only part of the story.

The full story of the Growing Problem contains at least these four components:

1. A growing proportion of the population are poor;
2. A growing number of people are poor;
3. There is a growing intensity of poverty among those who are poor;
4. There is a growing inability on the part of private voluntary agencies to fill the gaps of un-met needs.

The growing proportion has risen to 15.0% of the population, according to Census Bureau figures released in August.

The growing number rose to 34.4 million people who are living below what the US Government has determined to be a minimum level of income, below which is poverty.

The growing intensity may best be described in the press release of this joint subcommittee on September 23 in describing: ". . . the decline over the past ten years in the real (after inflation) level of public assistance benefits." This decline in real benefits is seen in the growing numbers of people receiving public assistance who are coming to private agencies to seek supplementary help, because their public assistance benefits are simply not enough.

The growing inability of private voluntary agencies to fill the gaps of un-met needs is seen in the strained budgets of social service agencies; in the attempts by agencies to find new sources of funds; in the growing caseloads of agencies; in the growing lists of those turned away because there simply were no resources; and in the growing fatigue and burnout of case workers whose work loads have grown and whose compassion is frustrated in their concern for the people they seek to serve.

It is very difficult to obtain hard data for current changes in service patterns, but there are a few statistics that may help to describe the scene:

In Salvation Army social service agencies, in a region of eleven (11) Midwestern states, total case loads in 1982 were up by 31% over 1981. Increase in fifteen (15)

Western states was 11% in the same time period. Growth in numbers has continued with 76% increases in 1983.

In a single family service agency in a major metropolitan center in the Northeast, caseloads were compared in the month of August, 1983, with the month of August, 1982, as follows:

Employment referrals, up 86%;
Number of families applying for assistance, up 102%;
Number single women applying, up 96%;
Number single men applying, up 78%;
Number incidental services rendered, up 98%;

These are isolated examples, which probably do not represent the absolute numbers nationwide, but they are reflected in stories of similar increases in cities all across the nation.

NEEDS

Among workers with the poor, certain basic needs are mentioned again and again, in all parts of the country. These inevitably include:

1. Food for the hungry;
2. Housing for the homeless;
3. Help with "exploding" utility bills;
4. Help with "exploding" medical bills;
5. Help to supplement inadequate public assistance; and
6. Counseling to help people manage their limited resources.

WHAT IS BEING DONE

It would be untrue to suggest that: "nothing is being done." The truth is that much is being done. Both through public agencies and among private voluntary groups, some very innovative and imaginative efforts are underway. Unhappily, they are often not enough.

Food for the hungry is probably the most visible form of aid to the poor. It is easiest to arouse sympathy and obtain assistance for people who are hungry, and probably the easiest problem to solve in our society of abundance. Yet the problem continues to challenge our best energies and ingenuities:

Food banks are springing up everywhere. Through the cooperation of food processors, wholesale and retail distributors, organized charities and armies of volunteers huge quantities of good food are distributed daily to hungry families.

New cooperative alliances between local governments, voluntary agencies and business and industry are funding mass feeding programs in major cities on a scale not seen since the "great depression" of the 1930s.

Imaginative solutions to sticky problems are developed by voluntary groups: such as the "street feeding" program in Washington, DC, whereby the homeless people who sleep outside at night are fed by canteen trucks, operated by volunteers, serving hot food and sandwiches nightly.

Government programs, such as Food Stamps, distribution of surplus commodities, and other programs, are of enormous help. The problem would be profoundly worse without these programs.

The "Jobs Stimulus Act of 1983" (Public Law 98-8) has been an innovative and creative help. Though it became available at the wrong time of the year (June through September), it demonstrated new capabilities for cooperation between government and voluntary agencies, and among voluntary agencies with each other. In general it has worked effectively to ease the problems, and it has pointed the way to further cooperative programs in a similar matrix.

An important question raised in the Congress related to the impact of Public Law 98-8 upon voluntary programs. It was asked: How much service did Voluntary agencies provide on their own?—How much was provided with Public Law 98-8 money?—and How much might have been provided without Public Law 98-8 money? The following data from the Western region of The Salvation Army might help to answer those questions:

JANUARY THROUGH JUNE

	1982	1983	Change (percent)
Meals provided	1,071,283	1,300,153	+21.4
Nights lodging provided	318,817	405,860	+27.3

FUNDS EXPENDED

(Estimated January September 1983)

	1982	1983	Change (percent)
Salvation Army funds	$7,623,000	$9,920,000	+30.1
Public Law 98-8 funds		1,722,834	

Note. These data are for a region of 13 states from the Rocky Mountains westward. They show that Public Law 98-8 did not replace private funds, and that private resources applied to the problem continued to grow substantially along with public funds.

Housing for the homeless is a much more difficult problem. Yet much is being done at many levels to address the problem. Much of this effort represents cooperative associations not seen before, both between government and voluntary agencies, and voluntary groups working together with each other.

Keeping people in their own homes is often the most effective and efficient way to deal with growing mortgage foreclosures and rental evictions. It avoids the proliferation of other multiple problems and dependencies that occur when families are put out on the street. Therefore private agencies are bending every effort to avoid evictions, by:

A Mortgage Assistance Network in one city has brought together six private agencies, who have pooled their resources and worked together to shift funds between them to help people stay in their own homes when foreclosures and evictions become imminent;

Agencies are using Public Law 98-8 funds for mortgage or rent payments (one month, one time only) while other means and resources are sought. This may be one of the most important uses of Public Law 98-8 funds.

The Federal Government has made available to private agencies the use of underutilized governmental buildings and military facilities. The program became available in February, 1983, too late to get off the ground in that winter. However, some key problems of the program emerged:

Military commanders and building managers were less than enthusiastic about the idea;

Facilities were often poorly located to fit local needs;

Voluntary groups discovered that it may be more costly to operate a government facility under the required constraints, than to operate a mass shelter in such as a local warehouse, a church basement or agency gymnasium.

In response to the first problem the government has clarified its orders and commands. The second problem really has no solution; buildings are where they are. For the third problem an appropriation has been added to the Armed Forces Budget, by line item, to enable the government to share the cost of a mass shelter in a government facility with the sponsoring voluntary organization. It is too early to tell what effect these actions may have on the program.

Suburban communities which have never before been aware of local emergency housing problems, or which have been able to shift those problems to nearby central cities, are now taking steps to provide facilities in their own boundaries. The Salvation Army has been asked to operate such programs in several areas around the nation; negotiations for such facilities are now under way in several instances.

Private foundations and business corporations are working together in many cities to obtain buildings and provide operating funds for a variety of emergency shelter programs. Local governments are often involved in the process.

Help with "exploding" utility bills has been a major problem in all parts of the nation. This problem is closely tied to that of keeping people in their own homes; without utilities a home may be nearly uninhabitable, particularly during winter months. Through an innovative approach by utility companies the problem is being addressed in many areas:

Utility customers and rate payers are invited to approve a montly donation, usually $1 per month, to be added to their utility bill. These amonts are pooled by the Utility Company, and turned over to a local charity (Salvation Army, Red Cross, or other group) to be used for the payment of utility bills for poor people. The criteria for payment is determined by agreed standards; the Utility Company often adds a matching donation to the gifts of its customers, and families are able to continue living in their own homes.

There is an element of self-interest in this program for Utility Companies. They get their bills paid. But poor people also benefit.

There is a glitch in some regulations that requires the amount of aid from this source to be deducted from public assistance benefits. This provision acts as a disincentive to the giving by the donors, and it is hoped that Congress will act to exempt this program from that provision.

Help with "exploding" medical bills is becoming a more intractable problem. Recent changes in government regulations are only now beginning to be felt. Variations in regulations from state to state make for an uneven picture across the nation. This problem deserves to be addressed all by itself.

Help to supplement inadequate public assistance has been a familiar appeal in private social service agencies for decades. For some, there is never enough. But the problem has become much more acute in recent years, as levels of assistance have not kept pace with inflation, and as cut-backs in numerous social programs have left people in need with no where to turn, except to private agencies.

Private agencies normally expect to fill the gaps in public assistance programs. They have served that role for many years as government, since the 1930s, has assumed a role in caring for the disadvantaged and less able of its citizens.

A paradox of the present system requires that those who may be least able are required to be the best managers of their resources. This points up the need for:

Counseling to help people manage their limited resources. This has always been one of the prime functions of all social case workers. But with growing case loads, and with more strained resources with which to deal with those cases, counselors have less time to help in this critical need.

Much publicity accompanied the recent effort of Agriculture Secretary Block to feed his family for one week with the budget of a family living on Food Stamps. Secretary Block demonstrated that it could be done. But little was said of the management skills of the Secretary and his family relative to the sophistication of those who normally receive Food Stamps. The need to help these people to manage is critical, and the means to do the job adequately is shrinking.

WHAT SHOULD BE DONE

There are no easy answers, and no panaceas in this arena. The best minds and experience of generations have struggled with the problem, and will continue to do so. Jesus said, "The poor ye always have with you." Perhaps so. But no caring people is content to leave it at that. Americans, in the twentieth century, believe that minimal standards of life are the rightful pursuit of all, and that those who have more should wish to share their substance with those who have less. Americans have reinforced that idea with their deeds time and time again.

William Booth, the founder of The Salvation Army, addressed this problem in England about a hundred years ago. In the book he published in 1890, "In Darkest England, And The Way Out," William Booth spoke of a "submerged tenth" of the people who were ill fed, ill clad, and ill housed. In the US, the Census Bureau's poverty figures for 1983 are not a "tenth"; but 15%; though it is reasonable to assume that all of those are not as "ill fed, ill clad, and ill housed", as were those in poverty in 1890, our ability to deal with the problem has hopefully gained somewhat in a hundred years.

William Booth suggested that every person should be eligible to have what a "London cab horse" had in 1890. He said that "while a cab horse lives he has food, shelter and work; and when he is down he is helped up." That standard appears to be as timely in 1983, as it was in 1890 when it was first presented.

William Booth set out to deal with the problems of poverty from a purely private perspective. Booth proposed to do it all with private funds, privately managed, privately donated and generated. The amazing outcome was that he did so much so well with so little. The Salvation Army, now in 86 countries of the world, is the long shadow of his efforts. Many of the programs he began are still in place, still serving current needs; still relieving the causes and effects of poverty after a full century. The resources of The Salvation Army within the United States—all 11,000 local units of its operations—are resources that are available to the people of America to help deal with this problem today.

But The Salvation Army is only a small part of a vast community of voluntary organizations—of voluntary skills waiting to be directed—of voluntary resources ready to be applied to this twentieth century problem. Thousands of voluntary organizations are now at work, or ready to be mobilized, to meet the problem.

There is also a new dimension—a resource that William Booth did not imagine; it is the commitment of the government to work together with voluntary groups, and the people of the nation, to solve its problems. The key must be the blending of those two massive resources: government and voluntary groups working together.

Probably the most important component of a solution to the problem of poverty is jobs. This component involves the third side of the triad, the commercial community of business and industry. Private business can do much to support voluntarism, but its most vital role is to provide jobs. People do not want to be dependent. They want to work. They want to earn their way. The greatest challenge of our time is to find a way to let them work.

But failing that—and at present we seem to be failing that—we must strengthen our resolve, our skills, and our efforts to work together in alternative programs that may ease the distress and raise the quality of life for those who are poor.

We believe that the efforts of government—of business—and of voluntary groups should be blended, so that they may have incentives to work together. Incentives is a key word here: In oversimplification the incentive that stimulates government is power; the incentive that makes business work is profit; but the incentives that make voluntarism work are far more complex than either of the first two. The blending of these three sectors of our society must allow for the incentives that actuate each of the three groups to function freely.

The voluntary sector is an ever changing scene. In a new study by the Urban Institute it is stated that, "Two-thirds of all non-profit organizations were created since 1960." That is an incredible statistic. It means that there are more "new" voluntary organizations than there are "old" ones. It means that Americans are creating new voluntary groups to deal with new perceived needs with a vigor that few of us have imagined. It also means that when we set out to work with voluntary organizations in any setting we must consider blending the old and the new in a creative mix.

The Jobs Stimulus Bill (Public Law 98-8), with its component for emergency food and shelter, with money to be allocated through a national board and a system of local boards, achieved just such a creative mix. The measure provided that old, established agencies should guide the program with their experience and structure to provide direction and accountability, but it also provided that new, emerging groups in each community should have access to the program. In hundreds of communities throughout the nation this mix of old and new, and the concurrent mix of government resources and voluntary effort, worked quite well. There were fewer problems than expected. The model—with modifications—could well be tried again.

A STUBBORN PROBLEM

The Jobs Stimulus Bill (Public Law 98-8) allowed the charities to recover their indirect costs only to the extent of 2%. That amount is totally unrealistic. If voluntary agencies are to work with government in a viable partnership they must be able to recover their unavoidable overhead costs in government mandated programs to a realistic degree.

The National Board formed in response to Public Law 98-8, was comprised of United Way of America, The Salvation Army, National Council of Churches, National Conference of Catholic Charities, Jewish Welfare Federation, American Red Cross, and Federal Emergency Management Agency. The Board designated United Way of America to act as its fiscal agent. United Way incurred enormous costs, in performing its role. Those costs could not be recovered under the constraints of the law. United Way could probably not afford to do the same thing again.

Furthermore, each of the national agencies involved in the program incurred extensive internal costs which could not be recovered.

It is likely that Congress chose these national agencies, with their well established structures, their reputations for accountability, and their experience for effective performance, because of those qualities. But those qualities cannot be acquired or sustained without cost. Administrative attention from a higher level is necessary to every local unit if the reputation and effectiveness of a national agency is to be protected, and a program carried out well. That attention incurs a cost; and Public Law 98-8 provided no means for recovering it.

Independent local agencies have also complained that the constraints of Public Law 98-8 were unduly restrictive to purely local groups. One new local agent noted, in its report to the National Board, that an overhead cost ratio of 10% was reasonable and unavoidable expense in performing the program. The cost of engaging qualified staff, and of training and supervising volunteers, is an inescapable part of any successful program.

Voluntary organizations may often make efficient use of resources. They may apply sophisticated and advanced skills to a task at minimal cost. And voluntary organizations, located as they are in the midst of communities, made up of the people of the community, may often be most sensitive to the needs of the community and the best way to deal with those needs. Government can often do no better than to work through voluntary organizations.

It is therefore reasonable and equitable—to allow those voluntary organizations to recover their realistic costs. They do not seek a "profit." They would be content only to "break even."

Voluntary organizations tend to do what they have set out to do by their own schedules for doing it. This is shown by the illustration above (see page 8) of Salvation Army expenses for food and housing programs in the Western Region in 1982 and 1983 expenditures increased in a reasonable growth without regard to the new monies from Public Law 98-8. The government funds available under the emergency measure were truly spent for expanded programs and increased services. The catch to each agency was: that they had to spend even more of their own money, taking funds from other programs, to pay the reasonable costs of administering the government program in a responsible, accountable and effective way.

CONCLUSION

Mr. Chairman, it is hoped that these comments have expressed the willingness—indeed, the eagerness—of the voluntary organizations of this nation to work together with government to solve the problems we all share together.

The problem of poverty—and the current problem of a growing rate of poverty—is of acute concern to us all. We are willing—and eager—to work together with the Congress and the Administration, at all levels, to address the problem.

May God guide us to choose our course well, and to seek His wisdom and strength in our efforts to help the poor: those who may be a new part of the problem, and those we "always have with us." We believe that God loves and cares for them all. We should do no less.

Chairman RANGEL. Thank you, Colonel, and thank you, Father. The staff could not have assisted the committee more in selecting you two as witnesses, not only for the eloquence and sensitivity of your testimony, but certainly for the historic contributions that Catholic Charities and the Salvation Army have made over the many, many years toward the needs of the powerless people.

I don't know why I fail to understand, however, why when there is in this very same room, at 2:30, when we start to deal with industrial development bonds, that this room is going to be packed with lobbyists, fighting aggressively to protect the rights of those people that either sell as middlemen these papers, these tax-exempt papers, or their broader constituencies and that of people that can invest in these papers and avoid paying taxes completely, or those people that will be the beneficiary in terms of construction, or how this room was packed when we had oversight hearings on independent gas producers as opposed to the major gas producers.

And yet, while we did have a respectable sized crowd this morning, it has dwindled down and very few people are here.

Colonel MILLER. Mr. Chairman, may I make a comment relative to what you have just been saying?

We are talking today about poverty, which deals with purely material matters in our society, but we believe that the essence of life involves some things other than just those material things, and the phenomenon you note, that there will be more people here to talk about industrial matters responds to the fact that our concerns are focused very much on the material aspects of our society.

Perhaps we need to discover that there are some other values that need attention, the artistic values of our people, which, because of poverty may not be developed in many people as much as they might, the community values, the values of fellowship and community association that can be very rewarding, the spiritual values that can make life worthwhile in all kinds of situations.

Perhaps we need, while we focus on these material matters, also to point the attention of our people to these other values that can make life more worthwhile in our society.

Thank you.

Chairman RANGEL. Colonel, it is hard for us to legislate those types of things, but you know, in St. Matthews, it became abundantly clear that Jesus was concerned about whether or not his brethren and sisteren were being affected and whether they had their thirst taken care of, and whether they had clothes.

I can more closely identify with those matters that Jesus was talking about, in terms of legislation, and so, it just appears to me that where we find people—and again, they say we should not preach to the choir, because Catholic Charities—I hope that my former classmate Mrs. Mildred Shanley is still with you——

Reverend HARVEY. She is, indeed.

Chairman RANGEL. We were at the same law class at St. John's University. We know the work that you are doing. You are in the trenches. When we had this omnibus budget, the people that came to this committee and came to the Congress did not have on a collar similar to yours, nor did they have the beautiful Salvation Army uniforms on.

They came with the attaché cases for a $750 billion tax cut, and I was looking for those that were reading St. Matthews, saying if we cut it then we are going to cut domestic spending.

Then when we had the defense bill, I knew the Salvation Army would be marching and Catholic Charities would be there saying we are concerning ourselves too much with the destruction of mankind rather than the building of the values of love and brotherhood, and yet, nobody was there, either, so now we are here, Father, dealing with poverty, and we are right back where we started.

Father.

Reverend HARVEY. I was just going to comment, I really appreciated your remarks, if it takes wearing a tie and carrying a calculator, I will come to any hearing you want to get me to. I was invited to this hearing because I have testified on this issue before, and if you can open any doors to be heard on other important issues, I will take it. I just want to add one thing, and that is that those people who have excellent political action committees and are well funded can continue to do this, while we have to fight circular A-122 to even have a right to come in here and speak.

We get inconsistent messages about what our role is in speaking to the Government. You get the Internal Revenue Code coming up with one formula, the Combined Federal Campaign coming up with another, circular A-122. I will ask you in return for an invitation to testify on other matters and I make the promise to come back for any such testimony.

Chairman RANGEL. Let me make it abundantly clear lest I get in trouble with the Ethics Committee, let it be for the Salvation Army and Catholic Charities. Any time you see any hearing, I want you to know as long as I am on this committee there is a standing invitation and I will make the arrangements with staff to see that you testify, but that is not what I am talking about.

Reverend HARVEY. I hear what you are saying.

Chairman RANGEL. Because, clearly, there is very little persuasion done in this room by any group. Where it is really done is back home, when the member gets there.

Sometimes we adjourn, we complete the business here, so the members don't have a chance to go back home to be hit so heavily by the vested interests. What I am basically talking about, it just seems to me that leaders of our synagogues and of our churches, if they just told their respective members, do what you have to do, as Republicans and Democrats, and independents, but when the final budget is finally written, make certain that you remember those who cannot be represented in the Congress by the lobbying interests.

I am saying that I am convinced that there is a moral silence as we go about doing this work, and there are not the pressures being placed on us by anyone back home as relates to the programs being discussed today.

As a State legislator, I recall if we were dealing with certain issues, that is tuition tax credits, property, church property rights, I won't even go into abortion, but charitable contributions, these things, somehow you can't get out of your house, you can't get out of the church.

Your mother would call you and say that the priest told her that there is something going on in Albany, and that the church would like to see which way you are going.

In other words, the pressures that can be placed on us can be good and bad. I think it is a great government that allows people to do this to us. I just would like to see more balance in what it takes for us to make a decision down here, because the votes for the budget were overwhelming, that provided for decrease in taxes, increase in defense, and decrease in domestic spending.

I don't recall any pressures being placed on us, except those of us who just felt a moral objection, but I don't think our election was in jeopardy by voting against this, saying that it just doesn't appear to be fair, and yet, I really believe that if some of us went back home, and our spiritual leaders would say we are not involved in politics, we certainly are restricted in terms of what we can do, but how did you vote on that, because we would like to be able to comment to our constituents how you voted on that issue, and it is not a question of separation of church and state, in my opinion.

It is that you have got your constituents, I have mine, and more often they are the same. If there are any doubts as to how far the church can go, I will put in a resolution in support of the churches and the synagogues and the Salvation Army, to let you know that if any of your superiors say that you are violating any rule that they think we have made, that is not so, but I want to tell you that you have been an inspiration to me not only today, but certainly over the years.

There are many people out there, as you well know, and you pointed out, that thought they were more protected. Now, they are included in a group that was not in the safety net, and as you can see, the hearings are about those people who thought they weren't poor, how the gap is growing.

Sooner or later in this country, people who really thought they had dreams and automatically their kid could go to college, that they get married, they get a home, and life would go on with two cars, will find out that there is a dramatic reversal and the gap is widening.

I guess it will increase the rolls of those who go to church. I want to thank you for the contribution you are making, and again, as I said to the other witnesses, we will be asking you to come in an informal way to assist us, as to what is a practical way to handle some of the problems you are facing in taking care of the Nation's poor.

Thank you very much.

Reverend HARVEY. Thank you.

Colonel MILLER. Thank you, Mr. Chairman.

Chairman RANGEL. Chairman Rostenkowski allowed me to extend the hearings for the purpose of receiving the testimony of the Bureau of the Census. We ask that you submit it for the record.

Mr. Kincannon, if you can make yourself available, I won't have a chance to ask questions, but the gavel will have to fall at 2:15, because we just received approval of the Chair to receive your testimony, and the other members are arriving now.

STATEMENT OF C. LOUIS KINCANNON, ACTING DIRECTOR, BUREAU OF THE CENSUS, U.S. DEPARTMENT OF COMMERCE, ACCOMPANIED BY WILLIAM BUTZ, ASSOCIATE DIRECTOR FOR DEMOGRAPHIC FIELDS, AND GORDON GREEN, ASSISTANT CHIEF, POPULATION DIVISION

Mr. KINCANNON. Thank you for providing the opportunity. Mr. William Butz, our Associate Director for Demographic Matters, and Mr. Gordon Green, Assistant Division Chief in our Population Division, in charge of our poverty and income statistics, will join me.

I will abbreviate even my shortened statement to fit in within your guidelines.

Chairman RANGEL. We also are going to invite you to come back on November 3. We just didn't want you to have to come back under pressures of not having testified.

Mr. KINCANNON. Thank you, sir. We do appreciate the opportunity to participate in this hearing, and in any further work of the committee.

The Census Bureau has been the official source of statistics on the poverty population since 1969. The poverty levels developed by the Social Security Administration in 1964 have been updated annually by the percentage change in the annual average Consumer Price Index.

Aside from several minor modifications in procedures, the poverty definition itself is essentially the same today as it was in 1964.

This reflects the Government's choice of an absolute concept of poverty, that is a measure based on need that does not change as real income rises.

Updating of the poverty levels annually using the Consumer Price Index adjusts the poverty thresholds for increases in the prices of consumer goods. The effect of these adjustments can be seen in chart 1 of the attachment to the written testimony.

For a family of four, the poverty level has increased from just under $3,200 in 1964 to almost $10,000 in 1982. This increase reflects directly the 211-percent increase in the Consumer Price Index over this period.

Between 1979 and 1982, which was a period of increase in the official poverty population, the Consumer Price Index rose by 33 percent.

Looking at the second chart, we see that the latest poverty estimates show that 34 million persons, or about 15 percent of the population, were officially classified as poor in 1982.

The third and fourth charts in that set show that the increase in poverty between 1979 and 1982 was widespread, affecting most segments of the U.S. population. The number of whites, blacks, and Spanish below the poverty level were all higher in 1982 than in 1979. The poverty rates for blacks and Spanish remain significantly higher than for whites.

Prior to the increases of 1980, 1981, and 1982, the overall poverty rate had remained fairly stable during the 1970's. The longer-term trend in poverty is presented graphically in chart 5. It shows that the poverty rate declined from the early 1960's through 1973. It was fairly stable then through 1979, and since then has trended upward.

There were, however, important changes in the composition of the poverty population during the 1970's. One of these changes involved an increase in the number of families maintained by women with no husband present. Chart 6 shows that these families constituted 15 percent of all families in 1982, up from 11 percent in 1969. Although official poverty in the United States for 1982 was at its highest level since 1966, this measure does not reflect the growth of noncash or inkind benefit programs. These programs provide food, housing and medical assistance to the low-income population, and they have grown rapidly.

Chart 8 compares the growth in the market value of noncash and cash assistance programs for the period between 1965 and 1982. The growth in constant dollars has been from $7 billion to $51 billion.

While the constant dollar market value of noncash assistance increased by nearly 140 percent between 1970 and 1982, the amount of cash assistance declined by 14 percent.

The growth of these programs during the 1970's and early 1980's has had no effect on the official statistical measure of the poverty population, because the value of the benefits is not included as income for purposes of determining poverty.

We began in March 1980 to collect data on noncash programs, and in September of that year, the U.S. Senate requested the Bureau to estimate the effect of noncash benefits on the number of families and individuals below the poverty level. As a result, we started an accelerated research project to examine procedures that could be used to assign values to noncash benefits, and measure the effect on poverty.

In March 1982, we released a technical report authored by Professor Timothy Smeeding, describing procedures for valuing major noncash benefits received by the low-income population. This report presented alternative estimates of the poverty population for 1979 based on the combined value of cash and noncash benefits.

The report examined three different techniques applicable in valuing these benefits. The combination of these techniques and the groupings of benefits valued produced nine alternative estimates of poverty. These are summarized in chart 10.

The range in reduction of the poverty population shown in this chart is between 12 percent and 42 percent, depending on the combination of valuation technique and benefits valued.

These estimates of the poverty population based on both cash income and the value of noncash benefits have been made only for 1979. We have undertaken a special project to produce more current, illustrative estimates of poverty after valuing noncash benefits.

This work will provide data for 1980, 1981, and 1982 using the same techniques as those used earlier. We expect to complete and release these data in January 1984

At present, there is no professional consensus on a preferred approach for valuing noncash benefits. We, jointly with the Office of Management and Budget, expect to arrange for a panel of distinguished experts in the field to review and evaluate research in this area. The panel will be asked to make a recommendation on the most preferable approach or approaches for valuing noncash benefits.

The last topic I would like to mention very briefly is taxes paid by households below the poverty level. Using a tax simulation model based on the income data collected in our annual survey, we estimate that about 8 percent of those households paid Federal income taxes in 1980. About 14 percent paid State taxes, 43 percent paid social security payroll taxes, and 37 percent paid property taxes on their own homes.

In summary, consideration of changes in poverty level over time is complicated by the limitations of the official data series. This series excludes significant noncash income. The series does not have complete reporting of cash income, and has other problems.

The preliminary work done and planned in valuing noncash income should permit the informed debate needed to arrive at a professional consensus on the most appropriate valuation method or methods to use. Our tax simulation model based on the annual survey will provide a new tool to assess the disposable income of poor and other families.

Finally, the commitment over the past three administrations to develop a new income survey has been realized in the Survey of Income and Program Participation. Collection of data in this survey began this month. It is a major step forward in information on income and assets of all kinds, and it will significantly reduce problems of underreporting of income.

Taken together, these steps promise great progress in our ability to measure income and poverty.

Mr. Chairman, thank you for the time to present these remarks.

[Submissions for the record follow:]

POVERTY TRENDS AND ISSUES

(Prepared by the Bureau of the Census, October 18, 1983)

I. INTRODUCTION

The Bureau of the Census has been the major source of annual household income statistics for the U.S. population since the first data were collected and compiled in 1947. In 1968, about 4 years after the initial development of poverty guidelines by the Social Security Administration (SSA), the Bureau published its first estimates of the poverty population. Until that time the Social Security Administration has been using income data collected by the Bureau to update estimates of the poverty population annually. In 1969, the Bureau followed up this initial report with a second report showing estimates of poverty based on a slightly modified definition. Coinciding with the Bureau's second release was Budget Bureau Directive No. 14, the document that declared the annual Census Bureau estimates based on the SSA poverty definition were to be the official estimates of poverty for statistical purposes. The directive also noted that subsequent reports in the Bureau's Consumer Income Reports series would, from that point on, be the source of the official poverty estimates.

As of this date the Bureau's reports continue to be the official source of estimates of the poverty population. Aside from several minor procedural modifications and annual adjustments to the poverty thresholds for the change in the annual average Consumer Price Index, the definition of poverty remains as it was in 1969. The definition, as we will discuss in more detail later, is based on the cash income received by families and individuals. Both the definition of poverty and the cash income concept used to measure it have come under criticism. A major criticism is that the income measure used to estimate the poverty rate ignores noncash benefits in the form of food stamps, free or reduced-price school lunches, publicly subsidized rental housing, and medical benefits provided by the Medicaid program. A second criticism is that there is significant underreporting of income on the Current Population Survey, which is the source of data for the Census Bureau's poverty estimates. Criticisms of the poverty definition will be discussed at a later point.

The testimony we have prepared has been divided into five sections. In the first section we have described, in detail, the origin of the poverty definition and specified some of the major criticisms of the definition. The second section summarizes the changes in the poverty population, both in its size and composition, with emphasis on the changes that have occurred during the 1979 to 1982 period as requested by the Committee. The emergence and growth of noncash benefits to the low-income population occurring during the period from 1965 to 1982 is described in the third section. The fourth section describes two research projects conducted by the Bureau. The first was development of procedures for estimating the value of noncash benefits received by the low-income population and examining the effect of their value on poverty. The second, a by-product of the Bureau's work on estimating after-tax incomes for households, developed estimates of the amount of taxes paid by households with incomes below the poverty level. The final section describes plans for updating previous work on noncash benefit valuation. These plans include publication of annual poverty estimates after valuation of noncash benefits. The final section also discusses briefly the new Survey of Income and Program Participation (SIPP), and its anticipated contribution to the measurement and anaylsis of poverty.

II. CURRENT POVERTY DEFINITION

Families and unrelated individuals are classified as being above or below the poverty level using the poverty index originated at the Social Security Administration in 1964. The index consists of a set of income cutoffs that vary by family size and the number of children under 18 years old; for unrelated individuals and 2-person families, there are separate cutoffs for those under 65 years old and those 65 years and older.

The original poverty index was based on the Department of Agriculture's 1961 Economy Food Plan and reflected the different consumption requirements of families based on their size and composition. The Department of Agriculture's 1955

Survey of Food Consumption showed that families of three or more persons spent approximately one-third of their income on food; the poverty level for these families was, therefore, set at three times the cost of the Economy Food Plan. For 2-person families and unrelated individuals, the cost of the Economy Food Plan was multiplied by slightly higher factors in order to compensate for the relatively larger fixed expenses of these smaller households.

The poverty thresholds are adjusted each year for inflation, as measured by the percentage change in the annual average Consumer Price Index (CPI). One of the major criticisms of the poverty definition in recent years has been that this simple adjustment for changes in consumer prices fails to reflect current expenditure patterns. For the base year, 1963, it can fairly be said that one-third of the poverty threshold represents a minimum adequate level of food expenditures and the other two-thirds represent minimum adequate expenditure levels for all nonfood items. For other years, however, the one-to-three ratio of food expenditures to total income needs does not necessarily hold true. Because of changes over time in expenditure patterns and in the relative prices of goods, there is no basis for breaking down the current set of poverty thresholds into components reflecting minimum expenditure levels of food or other items of consumption.

An alternative to using the CPI as the sole basis for updating the poverty thresholds is to recompute them periodically using the same methodology in conjunction with newer data sources. Updated versions of the Economy Food Plan (now called the Thrifty Plan) are issued periodically, as are data on the relationship of food expenditures to total income. The poverty lines resulting from recomputation can differ substantially from those obtained using a simple CPI update. While no such revised poverty thresholds are available for recent years, an example from the mid-1970's may serve to illustrate the point.

Mollie Orshansky, the principal author of the original poverty definition, developed the "Orshansky update," a new set of poverty thresholds based on the Department of Agriculture's 1975 Thrifty Food Plan. The new food plan took account of the newly issued revised Recommended Daily Allowances as well as the food choices of American families revealed by the 1965–66 Household Food Consumption Survey. The same survey (the most recent data source available to Orshansky) indicated that the proportion of family income spent on food was 29 percent instead of 33 percent, the factor yielded by the 1955 survey. This decline in the proportion of income spend on food results in a higher multiplier, approximately 3.4 instead of three. The revised poverty lines calculated by Orshansky on the basis of these data were considerably higher than the official figures for 1975—about 33 percent higher for an individual and 20 percent higher for a family of four. These revised thresholds, brought forward to 1977 by the CPI, were used in a special tabulation of the March 1978 CPS; they produced an estimate of about 38 million people below the poverty level, compared with only 25 million under the official poverty definition. It should be recognized that updating the official poverty measure using more recent data does not alleviate all its shortcomings.

It should be recognized that updating the poverty thresholds based on more recent food consumption and expenditure data brings the poverty concept closer to a relative measure, because it reflects increases in real income for the entire society. Many people, however, feel that poverty should be measured in absolute terms, so that poverty declines with real economic growth.

Other than the annual adjustment for inflation, the poverty thresholds are essentially the same as they were 20 years ago. The only conceptual changes were three minor modifications implemented in the March 1982 CPS: (1) elimination of separate, lower thresholds for farm families, (2) averaging of previously separate thresholds for female-householder and "all other" families, and (3) replacement of thresholds for families of seven or more persons with separate cutoffs for families with seven, eight, and nine or more members. Tabulations of the March 1981 CPS showed that the combined effect of the three changes was small. The revised definition resulted in a 1.3 percent increase in the number of persons classified as poor, and an increase of 0.2 percentage points in the poverty rate.

One of the most-debated issues of poverty measurement in recent years has been the treatment of noncash income. The current poverty estimates are based on money income only. The value of benefits received in a form other than cash is not counted as income, so that receipt of food stamps, Medicaid, Medicare, public housing, and free and reduced-price school lunches have no effect on the official estimates of poverty. The exclusion of noncash benefits was not considered a major issue when the poverty thresholds were developed because most government aid to the poor was provided in cash. Currently, however, means-tested noncash benefits exceed cash payments by a substantial margin.

The effect of noncash benefits on the size of the poverty population depends heavily on the method used to estimate their cash value. Research conducted at Census Bureau has explored alternative methods of valuation, including market value, recipient value, and a poverty budget share approach. These methods and their effect on poverty estimates are discussed in a later section.

III. TRENDS IN POVERTY

About 15 percent of the population was below the poverty level in 1982, compared with 11.7 percent in 1979, the last year in which the poverty rate did not increase significantly. The number of persons classified as poor increased by about 8 million between 1979 and 1982. One contributing factor to the increase was the high rate of inflation during the period. Although some cash assistance programs are indexed to the rate of inflation, some important programs such as the Aid to Families with Dependent Children are not tied directly to the cost of living. The CPI rose by 33 percent between 1979 and 1982, resulting in a similar increase in the poverty thresholds; the threshold for a family of four, for example, increased from $7,412 to $9,862 in 1982. However, the inflation rate in 1982 was only 6.1 percent, considerably less than in the preceding years, which may have moderated the increase in poverty for that year. Another major factor was the generally sluggish economy; an economic downturn in the early months of 1980 was followed by a recession that began in mid 1981 and persisted through most of 1982, accompanied by a sharp rise in the unemployment rate. A third contributing factor in 1982 may have been the tightening of eligibility standards for certain government aid programs. The effect of program changes on estimates of poverty cannot be determined directly from the CPS. It should be noted that the poverty statistics are not affected by changes made in noncash programs.

The poverty rate in 1982 was at its highest level since 1966. However, poverty rates for the two years cannot be fairly compared. Families and indivduals with low incomes had access to a greater number of government benefits in 1982 than they did in 1966. Most of the growth in aid to the poor occurred in programs that provide benefits in a form other than cash. These benefits are not counted as income in determining poverty status, but they make significant contributions to the well-being of recipients.

The increase in poverty between 1979 and 1982 was widespread, affecting most segments of the U.S. population. In 1982, there were 23.5 million Whites, 9.7 million Blacks, and 4.3 million persons of Spanish origin below the poverty level; all of these figures wer higher than in 1979. Poverty rates for all three groups also rose during this period, but the poverty rate remained considerably lower for Whites than for Black and persons of Spanish origin. The number of poor children under 18 years old rose from 10.0 million in 1979 to 13.1 million in 1982, and the poverty rate for children rose from 16.0 to 21.3 percent. In contrast, there was no significant change in the number of poor persons 65 years old and over (3.8 million in 1982). One reason for this may be that most elderly people are no longer working and, therefore, are less adversely affected by rising unemployment or reductions in hours worked. In addition, the most important government programs benefiting the elderly, including Social Security and Supplemental Security Income, are indexed to reflect changes in the price level.

Between 1979 and 1982 metropolitan and nonmetropolitan area experienced increases of similar proportions in the number of poor persons. The poverty rate rose from 10.7 to 13.7 percent in metropolitan areas and from 13.8 to 17.8 percent in nonmetropolitan areas. Although the overall poverty rate for metropolitan areas was 13.7 percent in 1982, central cities had a considerably higher rate (19.9 percent) and the portion outside central cities had a lower rate (9.3 percent). Both of these figures were higher than in 1979. All of the four major regions also had higher poverty rates in 1982 than in 1979.

Prior to the increases of 1980, 1981, and 1982, the overall poverty rate had remained fairly stable for a decade. It was about 12 percent in both 1969 and 1979, with only modest fluctuations in most of the intervening years. The slow growth in productivity and real income during the decade were among the reasons why poverty rates did not decline. However, there were important changes during the 1970's in the composition of the poverty population. One of these changes involved an increase in the number of families maintained by women with no husband present. These families constituted 15 percent of all families in 1983, up from 11 percent in 1970. This growth in the proportion of families maintained by women was another factor preventing declines in poverty rates during this period since these families have relatively low incomes. They made up 46 percent of all families below the poverty level in 1982 compared with 26 percent in 1969. The increasing concentration of the poor in families with a female householder was especially evident among Blacks. The number of poor Black families maintained by women rose from 740,000 in 1969 to 1.5 million in 1982; they accounted for 71 percent of all poor Black families in 1982, compared with 54 percent in 1969.

During the decade prior to the inflation- and recession-related increases of 1980 and later years, there was little change in the overall number of poor children. There were 10.0 million poor children under 18 years old in 1979, not significantly different from the 1969 figure. However, the number of poor children living in families with a female householder, no husband present, rose from 4.2 million to 5.6 million during this period, while the number living in other types of families declined from 5.3 million to 4.4 million. Although the number of poor children did not change, the poverty rate for children rose from 13.8 percent in 1969 to 16.0 percent in 1979 as a result of the sharp decline in the total number of children under 18 years, from 68.7 to 62.6 million.

While there were more poor persons overall in 1982 than in 1969, there were fewer poor persons 65 years and over (3.8 million versus 4.8 million). This decline occurred during a period when the total number of elderly people rose by about one-third, so that their poverty rate fell from 25.3 percent in 1969 to only 14.6 percent in 1982. The number of elderly poor declined sharply in the early 1970's, partly because of the enactment of substantial increases in Social Security benefits.

There were a number of changes in the geographic distribution of the poverty population during the 1970's. One such change was the increasing concentration of the poor in metropolitan areas. About 62 percent of all persons below the poverty level in 1982 lived in metropolitan areas, compared with 54 percent in 1969. The central cities of metropolitan areas contained 37 percent of the Nation's poor in 1982, up from 33 percent in 1969. This increase occurred during a period when the proportion of the total population residing in central cities declined from 32 percent to 28 percent. On a regional basis, poverty has historically been concentrated in the South; however, the South's proportion of the Nation's poor dropped from 46 percent in 1969 to 41 percent in 1982. Despite this improvement, the South still had the highest poverty rate in 1982 of the four regions (18.1 percent).

Many of the changes in the poverty population during the 1970's—more families maintained by women, greater concentration in cities, less concentration in the South—were continuations of movements observed during the 1960's. The primary difference between the two decades was that the 1960's were a period of steady decline in the overall poverty rate, from 22 percent to about 12 percent. Once this level reached in 1969, there was little change until the increases of the 1980's.

While there was little or no progress made during the 1970's in closing wide gaps between the poverty rates for different groups (e.g., Whites and Blacks, or male-householder and female-householder families), an expanding economy and relatively low rates of inflation lowered poverty rates for almost every group. The passage of civil rights legislation and the inauguration of a number of Federal aid and job-training programs targeted to the low-income population may also have contributed to the improvement by creating a potential for expanded economic opportunity. Federal cash assistance programs have continued during the 1970's and 1980's; however, there has been a major expansion of noncash benefit programs during this period.

IV. NONCASH BENEFIT TO THE LOW-INCOME POPULATION

Growth of Benefits

The majority of Federal expenditures for assistance to the low-income population are now concentrated in programs that provide "noncash" or "in-kind" benefits rather than cash. The market value of these means-tested benefits[1] surpassed that of means-tested cash assistance at some time between 1970 and 1975. Since that time the gap between cash and noncash benefits has widened considerably. The largest noncash programs aimed at the low-income population are, in order of expenditure levels, (1) the Medicaid Program, (2) food and nutrition programs including food stamps, free and reduced-price school lunches and breakfasts, Women and Infant Care (WIC), and a number of smaller programs, and (3) public and other subsidized rental housing. In 1965, about the time the poverty definition was developed, the market value of noncash benefits was approximately $2.2 billion. At that time, this compared to about $4.0 billion in means-tested cash assistance. In 1982, the

[1] Means-tested benefits are those requiring that the family income or assets fall below specified guidelines in order to qualify for assistance.

[illegible] noncash benefits was about $51.1 billion[1] compared to $19.0[2] in ben[illegible] means-tested cash programs.

[illegible] changes in prices, cash assistance to the low-income population [illegible] declined since 1975 as the market's value of noncash benefits continued [illegible]. Between 1975 and 1982 the market value of noncash benefits increased by [illegible] 27 percent in real terms as cash assistance declined by 35 percent.

The Medicaid program is by far the largest noncash program for the low-income population. In 1965 the market value of means-tested medical benefits was about $1.5 billion, accounting for three-quarters of the expenditures on means-tested noncash programs. The remainder of the noncash benefits to low-income households for 1965 consisted of benefits from the food stamp program which was established in 1964 and housing assistance in the form of public or other subsidized rental units. By 1982 the market value of Medicaid has risen to about $30.9 billion. The value of food stamps and free or reduced-price school lunches was $12.1 billion ($10.0 billion in food stamp benefits alone) and the value of public and other subsidized housing was approximately $6.0 billion.

Congressional directive

The procedures for estimating the official poverty population are indicated in Directive No. 14 issued by the Office of Management and Budget. As mentioned earlier they are based on before-tax cash incomes and make no provisions for including the value of noncash benefits. The large increases in Federal expenditures in the form of noncash assistance during the 1970's had, therefore, no effect on the official statistical measure of poverty.

The failure of the poverty estimates to account for billions of dollars in assistance to the low-income population led to a request from the Congress for estimates of the effect of noncash benefits on the number of families and individuals below the poverty level.[3] The Congress directed the Secretary of Commerce to expedite the program for collecting survey data on noncash benefits received. In addition, the Secretary of Commerce was directed to continue research and testing of techniques for assigning monetary values to noncash benefits and estimating the effect of these values on the poverty population.

V. VALUING NONCASH BENEFITS AND ESTIMATING TAXES

Valuing noncash benefits

In response to the Congressional directive the Bureau initiated a research project to develop techniques for assigning values to noncash benefits received by the low-income population and measure their effect on poverty. Dr. Timothy Smeeding of the University of Utah, an economist with extensive experience in this area, was employed by the Bureau under an American Statistical Association Fellowship to carry out this work.

In March 1982, the Bureau of the Census released a technical report describing procedures for value the major noncash benefits received by the low-income population and presenting alternative estimates of the poverty population for 1979 based on the combined value of cash and noncash benefits. The noncash benefits valued in this study included Medicaid, Medicare, food stamps, school lunches, and public or subsidized rental housing. The study was limited to these benefits because collection of data on noncash benefits in the March Current Population Survey was limited to this group of benefits. While there had been several previous studies that examined the effect of noncash benefits on estimates of the poverty population this was the first study that investigated several different valuation techniques.

The study examined three approaches to valuing noncash benefits. These three approaches were (1) market value, (2) recipient or cash equivalent value, and (3) poverty budget share value.

1. The market value is equal to the purchase price in the private market of the goods received by the recipient, e.g., the face value of food stamps or the insurance value of medical care.

2. The recipient or cash equivalent value is the amount of cash that would make the recipient just as well off as the in-kind transfer; it, therefore, reflects the recipient's own valuation of the benefit. The recipient or cash equivalent value is usually less than and never more than the market value. Even though cash equivalent

---

[1] Excludes Medicare coverage of the poor. Medicare is not a means-tested program.

[2] Excludes means-tested veterans pensions.

[3] Departments of State, Justice, and Commerce, The Judiciary and Related Agencies Appropriation Bill 1981, U.S. Senate, 96th Congress, 2nd Session, September 16, 1980, pp. 33-34.

value is a conceptually valid measure, it is quite difficult to estimate, especially for medical care.

3. The poverty budget share value, which is tied to the current poverty concept, limits the value of food, housing, or medical transfers to the proportions spent on these items by persons at or near the poverty line in 1960-61, when in-kind transfers were minimal. It assumes that in-kind transfers in excess of these amounts are not relevant for determining poverty status because an excess of one type of good (e.g., housing) does not compensate for a deficiency in another good (e.g., medical care). Because the value of in-kind transfers are limited in this way, the poverty budget share approach assigns the lowest average values to in-kind transfers of the three methods used.

Combinations of the three different valuation approaches and three different income concepts result in the presentation of nine alternative estimates of poverty. The choice of valuation technique and income concept produces a wide range of estimates when the value of in-kind benefits is included in the determination of poverty using the current poverty definition. The reduction in the estimated number of poor ranged from a high of 42 percent to a low of about 12 percent. Overall, the official estimate of the number of poor in 1979 was 23.6 million.[5] This number declines to 13.6 million using the procedures producing the 42-percent reduction and 20.7 million under the procedure producing the 12-percent reduction. The broadest income definition, which includes food, housing, and medical care, including medical expenditures for the institutionalized, reduced the poverty rate from 11.1 percent to 6.4 percent based on the market value approach. Of the three in-kind benefits, medical care is by far the most important for lowering the poverty rate. At market value, food and housing alone lowered the poverty rate from 11.1 percent to 9.4 percent, while the remainder of the decrease result from medical care benefits.

The recipient or cash equivalent value approach substantially reduces the number of poor but to a lesser extent than market value. The reduction in the poverty rate using this approach for food and housing alone is nearly the same as for market value (9.5 percent remained poor compared to 9.4 percent for market value). The inclusion of medical care benefits, with institutional care expenditures, reduces the poverty rate further to 8.2 percent for the recipient or cash equivalent method. Thus, the marginal effect of medical benefits on the poverty rate is significantly less than that of the market value approach.

The poverty budget share approach has a smaller effect on the number of poor than either of the other approaches. The poverty rate using the poverty budget share method for food and housing alone declines from 11.1 percent to 9.8 percent. The marginal effect of medical care benefits is less than either of the other valuation methods as well. The poverty rate based on the poverty budget share approach including medical benefits is 8.9 percent.

In no subgroup of the population is the effect of the value of medical benefits greater than on the elderly. The official poverty rate for the elderly was 14.7 percent in 1979. Food and housing benefits at market value reduce this poverty rate to 12.9 percent. The addition of the value of medical benefits with institutional care included reduces the poverty rate for this group dramatically to 4.5 percent. Other combinations of valuation techniques and income concepts have smaller effects.

Inclusion of the value of noncash benefits also has larger than average effects on the poverty rates of Blacks and families maintained by women since these groups have higher participation rates in the noncash benefit programs. Using the market value technique for valuing in-kind benefits reduced the estimated number of poor by about 42 percent overall. The comparable decline in poverty was about 50 percent for both Blacks and families maintained by women.

Estimating taxes

Over the past 18 months the Bureau has been developing a tax simulation model based on the March CPS. This model estimates the amount of Federal and State individual income taxes, payroll taxes (FICA), and property taxes paid by households. Using this model we have been able to estimate the amount of taxes paid by households with cash incomes below the poverty level and the number of households below the poverty level based on after-tax cash income.

About 66 percent of households below the poverty level in 1980 paid one or more of the four types of taxes mentioned. Payroll taxes and property taxes were, by far, the two most common of these four taxes paid by the poor. Forty-three percent of households below the poverty level paid payroll taxes and 37 percent paid property

[5] Poverty estimates for the noncash valuation research were computed on a household basis and, therefore, differ somewhat from the official published figures.

taxes on homes being purchased or owned outright. Federal income taxes were paid by 8 percent and State income taxes by 14 percent of households below the poverty level. Overall, about 8 percent of the cash income received by these households was paid in taxes.

Development of the poverty definition in the mid-1960's was actually based on income after payment of Federal and State individual income taxes even though the before-tax income levels collected in the March CPS have been used directly since that time to estimate the poverty population. Our estimates for 1980 indicate that the poverty rate for households would have been 13.5 percent instead of 13.3 percent had Federal and State individual income taxes been deducted prior to calculation of the poverty estimates.

VI. UPDATING ESTIMATES OF POVERTY INCLUDING THE VALUE OF NONCASH BENEFITS

Estimates from the March CPS

Estimates of the poverty population based on both cash income and the value of noncash benefits have been made only for 1979. They were the product of the major research effort directed by Congress and conducted by the Bureau of the Census. Because the 1979 estimates are now well out of date, we have undertaken a special project to produce more current estimates of poverty after valuing noncash benefits. Work on this project has already begun. The goal of this work is to produce estimates for 1980, 1981, and 1982 using comparable procedures based on the techniques developed in the initial research effort.

A report in the Bureau's technical paper series is planned for release in January 1984. This report will contain estimates of poverty before and after the valuation of noncash benefits for each year between 1979 and 1982. Estimates for earlier years will not be made because 1979 was the first year for which the noncash benefit data were available from the March CPS. The report will show estimates of the poverty population by a large number of social and economic characteristics, e.g., age, race and Spanish origin; sex; family relationship; marital status, size and type of family, etc. The report will provide up to nine different alternative estimates of the poverty population. Combinations of the three valuation techniques and grouping of benefits to include or exclude the value of medical care altogether or the portion spent on the institutional population produced the nine different poverty estimates contained in the earlier technical report for 1979.

The January 1984 technical report will provide the first time series of poverty estimates based on the broader definition of income including noncash benefits. Data on noncash benefits for 1983 are scheduled to be released in August 1984 at approximately the same time as the annual advance report on the income and poverty status of families and persons in 1983.

The Office of Management and Budget and the Bureau of the Census will submit the in-kind valuation methods to a panel of expert economists and statisticians from outside the Federal government to determine which one or ones of these methods meet sufficiently high conceptual and statistical standards to be used in making official estimates of the number of families and individuals in poverty. The panel will be asked to recommend any further refinements in measurement methodology that may be needed to produce reliable poverty estimates. When in-kind valuation methods have been refined to the satisfaction of the Census Bureau and OMB, poverty estimates based on total income, including in-kind benefits, will be included in the Bureau's regular annual poverty reports. The Bureau is also moving ahead with other efforts to improve poverty estimates.

Estimates From the Survey of Income and Program Participation

The Bureau began conducting the Survey of Income and Program Participation (SIPP) on October 1, 1983. The SIPP is designed to provide longitudinal information about labor force participation; program participation; program eligibility, income, assets, etc., of the U.S. population. Data from the survey will provide a monthly profile of these and many other important aspects of the socio-economic condition of households.

The first data products scheduled from SIPP are quarterly reports covering a wide range of socio-economic characteristics of the population. The first publication, scheduled for release in August 1984, will contain estimates of the "low-income" population both before and after inclusion of noncash benefits for the third quarter of 1983. Average monthly income for the calendar quarter will be used to determine low income status. The low-income levels will be derived by dividing the poverty levels based on annual income levels by 12. We have decided to use the term low-income rather than poverty because the official definition is based on an annual income concept.

Going beyond the initial data products for calendar quarters, SIPP will provide the most comprehensive data base ever available for the examination of income and poverty. Not only will the survey supply more detail concerning the characteristics of the poverty population; the longitudinal aspect will enable an examination of the dynamics of poverty over the 2½ year period during which each sample household is interviewed 8 times.

Detailed tables and charts follow.

U.S. DEPARTMENT OF COMMERCE
BUREAU OF THE CENSUS
WASHINGTON, D.C. 20233

Table 1.—THRESHOLDS AT THE POVERTY LEVEL IN 1982 BY SIZE OF FAMILY AND NUMBER OF RELATED CHILDREN UNDER 18 YEARS OLD

Size of family unit	Weighted average thresholds	Related children under 18 years								
		None	1	2	3		5	6	7	8 or more
1 person (unrelated individual) ..	$ 4,901									
Under 65 years	5,019	$5,019								
65 years and over	4,626	4,626								
2 persons	6,281									
Householder under 65 years ...	6,487	6,459	$6,649							
Householder 65 years and over ..	5,836	5,831	6,624							
3 persons	7,693	7,546	7,765	$7,772						
4 persons	9,862	9,950	10,112	9,783	$9,817					
5 persons	11,684	11,999	12,173	11,801	11,512	$11,336				
6 persons	13,207	13,801	13,855	13,570	13,296	12,890	$12,649			
7 persons	15,036	15,879	15,979	15,637	15,399	14,955	14,437	$13,869		
8 persons	16,719	17,760	17,917	17,594	17,312	16,911	16,403	15,872	$15,738	
9 persons or more	19,698	21,364	21,468	21,183	20,943	20,549	20,008	19,517	19,397	$18,649

Table 2. Changes Between 1959 and 1982 in the Consumer Price Index and the Average Poverty Threshold for a Family of Four

Year	Consumer Price Index (1967=100)	Average threshold for a family of four persons[1]
1982	289.1	$9,862
1981	272.4	9,287
1980	246.8	8,414
1979	217.4	7,412
1978	195.4	6,662
1977	181.5	6,191
1976	170.5	5,815
1975	161.2	5,500
1974	147.7	5,038
1973	133.1	4,540
1972	125.3	4,275
1971	121.3	4,137
1970	116.3	3,968
1969	109.8	3,743
1968	104.2	3,553
1967	100.0	3,410
1966	97.2	3,317
1965	94.5	3,223
1964	92.9	3,169
1963	91.7	3,128
1962	90.6	3,089
1961	89.6	3,054
1960	88.7	3,022
1959	87.3	2,973

[1] For years prior to 1981, average threshold for a nonfarm family of four is shown.

Table 3. PERSONS, FAMILIES, AND UNRELATED INDIVIDUALS BELOW THE POVERTY LEVEL, BY RACE: 1959, 1969, 1974, 1979, AND 1982

(Numbers in thousands)

	Number Below Poverty Level			Poverty Rate		
	All Races	White	Black	All Races	White	Black
PERSONS						
1982.............	34,398	23,517	9,697	15.0	12.0	35.6
1979r............	26,072	17,214	8,050	11.7	9.0	31.0
1974r............	23,370	15,736	7,182	11.2	8.6	30.3
1969.............	24,147	16,659	7,095	12.1	9.5	32.2
1959.............	39,490	28,484	9,927	22.4	18.1	55.1
FAMILIES						
1982.............	7,512	5,118	2,158	12.2	9.6	33.0
1979r............	5,461	3,581	1,722	9.2	6.9	27.8
1974r............	4,922	3,352	1,479	8.8	6.8	26.9
1969.............	5,008	3,575	1,366	9.7	7.7	27.9
1959.............	8,320	6,185	1,860	18.5	15.2	48.1
UNRELATED INDIVIDUALS						
1982.............	6,458	5,041	1,229	23.1	20.7	40.3
1979r............	5,743	4,452	1,168	21.9	19.7	37.3
1974r............	4,553	3,555	927	24.1	21.8	39.3
1969.............	4,972	4,036	850	34.0	32.1	46.7
1959.............	4,928	4,041	825	46.1	44.1	57.0

r Revised

Table 4. POVERTY STATUS OF FAMILIES, BY FAMILY TYPE AND RACE: 1969, 1979, AND 1982

(Numbers in thousands)

	1982	1979[r]	1969	Percent Change 1969-1982
ALL INCOME LEVELS				
All Races				
All families	61,393	59,550	51,586	19.0
Families with female householder, no husband present	9,469	8,705	5,593	69.3
All other families	51,924	50,845	45,995	12.9
White				
All families	53,40[illegible]	52,243	46,26[illegible]	15.4
Families with female householder, no husband present	6,507	6,052	4,165	56.2
All other families	46,900	45,19[illegible]	42,096	11.4
Black				
All families	6,530	6,184	4,889	33.6
Families with female householder, no husband present	2,734	2,495	1,384	97.5
All other families	3,796	3,689	3,505	8.3
BELOW POVERTY LEVEL				
All Races				
All families	7,512	5,461	5,008	50.0
Families with female householder, no husband present	3,434	2,645	1,827	88.0
All other families	4,07[illegible]	3,816	3,181	28.2
White				
All families	5,118	3,581	3,575	43.2
Families with female householder, no husband present	1,813	1,3[illegible]	1,069	69.6
All other families	3,306	2,232	2,506	31.9
Black				
All families	2,158	1,72[illegible]	[illegible],366	58.0
Families with female householder, no husband present	1,535	1,234	737	108.3
All other families	622	488	629	-1.1

r Revised

Table [illegible]. RELATED CHILDREN UNDER 18 YEARS OLD IN FAMILIES BELOW THE POVERTY LEVEL, BY FAMILY TYPE AND RACE: 1969, 1979, AND 1982

(Numbers in thousands)

Characteristic	All income levels			Below poverty level		
	1982	1979[1]	1969	1982	1979[1]	1969
RELATED CHILDREN UNDER 18 YEARS IN FAMILIES						
All races						
Total	61,565	62,646	66,746	13,139	9,993	9,501
In families with female householder, no husband present	11,946	11,595	7,602	6,696	5,635	4,247
Percent of total	19.4	18.5	11.3	51.0	56.4	44.7
In all other families	49,619	51,251	58,943	6,443	4,358	5,253
Percent of total	80.6	81.5	88.7	49.0	43.6	55.3
White						
Total	50,3[illegible]	51,[illegible]	58,[illegible]	8,282	6,404	5,627
In families with female householder, no husband present	6,99[illegible]	6,806	4,577	3,249	2,629	2,068
Percent of total	13.9	[illegible]	7.8	39.2	44.5	36.5
In all other families	43,311	44,[illegible]79	54,[illegible]	5,032	3,279	3,596
Percent of total	86.1	86.8	92.2	60.8	55.5	63.5
Black						
Total	9,269	9,[illegible]	9,290	4,[illegible]	3,745	[illegible]
In families with female householder, no husband present	4,[illegible]	4,57[illegible]	3,[illegible]	3,[illegible]	[illegible]	2,[illegible]
Percent of total	49.9	49.9	33.7	74.5	77.1	58.1
In all other families	4,647	4,598	[illegible]	1,[illegible]	858	1,539
Percent of total	50.1	50.1	[illegible]	25.5	22.9	41.9

[1] Based on revised methodology.

Table 6. Persons 65 Years Old and Over Below the Poverty Level by Race: 1969, 1979, and 1982

(Numbers in thousands)

Characteristic	Number below poverty level			Poverty rate		
	1982	1979[r]	1969	1982	1979[r]	1969
PERSONS 65 YEARS AND OVER						
All Races						
Total[1]	3,751	3,682	4,787	14.6	15.2	25.3
In families	1,474	1,380	2,127	8.5	8.4	16.0
Unrelated individuals	2,275	2,299	2,660	27.1	29.4	47.3
Male	391	428	567	21.2	25.3	39.8
Female	1,884	1,871	2,093	28.7	30.3	49.9
White						
Total[1]	2,870	2,911	4,052	[illegible]	[illegible]	23.3
In families	1,075	[illegible]	1,753	6.9	6.8	14.3
Unrelated individuals	1,792	1,884	2,300	23.6	26.5	45.0
Male	270	325	448	16.9	22.3	36.3
Female	1,522	1,555	1,852	25.4	27.6	47.7
Black						
Total[1]	811	740	689	38.2	36.3	50.2
In families	360	338	323	25.9	26.8	38.2
Unrelated individuals	451	399	336	61.6	58.9	74.8
Male	107	95	107	[illegible]	[illegible]	69.9
Female	344	305	229	84.3	65.6	77.4

[r]Based on revised methodology.

[1]Includes unrelated subfamily members not shown separately.

Table 7. POVERTY STATUS OF PERSONS, BY TYPE OF RESIDENCE AND REGION: [illegible]

(Numbers in thousands. Persons as of March of the following year. [illegible] noninstitutional population [illegible] Armed Forces living off post or with their families on post)

Characteristics	[illegible]				[illegible]				[illegible]			
	Total	Below poverty level			Total	Below poverty level			Total	Below poverty level		
		Number	Percent of total	Percent distribution		Number	Percent of total	Percent distribution		Number	Percent of total	Percent distribution
All persons	[illegible]	[illegible]	[illegible]	100.0	[illegible]	[illegible]	11.7	100.0	[illegible]	[illegible]	[illegible]	100.0
Type of residence:												
Inside metropolitan areas	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
In central cities	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	37.3	[illegible]	[illegible]	[illegible]	[illegible]
Outside central cities	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	21.1
Outside metropolitan areas	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Region:												
Northeast	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
North Central	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
West	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[1] Based on estimates consistent with 1980 census results.

SOURCE: U.S. Bureau of the Census, Current Population Reports.

Table 8. All Persons: Comparison of the Number of Poor and Poverty Rates Using Alternative Income Concepts and Valuation Techniques: 1979

(Numbers in thousands)

Income concept	Valuation technique		
	Market value approach	Recipient or cash equivalent value approach	Poverty budget share value approach
Money income alone:			
Number of poor	23,623	23,623	23,623
Poverty rate	11.1	11.1	11.1
Money income plus food and housing:			
Number of poor	19,933	20,218	20,743
Poverty rate	9.4	9.5	9.8
Percent reduction[1]	-15.6	-14.4	-12.2
Money income plus food, housing, and medical care (excluding institutional care expenditures):			
Number of poor	14,023	18,393	18,866
Poverty rate	6.6	8.7	8.9
Percent reduction[1]	-40.6	-22.1	-20.1
Money income plus food, housing, and medical care (including institutional care expenditures):			
Number of poor	13,634	17,318	18,866
Poverty rate	6.4	8.2	8.9
Percent reduction[1]	-42.3	-26.7	-20.1

[1] Percent reduction in the number of poor from the current poverty estimate based on money income alone.

Table 5. The Elderly: Comparison of the Number of Poor and Poverty Rates Using Alternative Income Concepts and Valuation Techniques: 1979

(Numbers in thousands)

Income concept	Valuation technique		
	Market value approach	Recipient or cash equivalent value approach	Poverty budget share value approach
Money income alone:			
Number of poor	4,097	4,097	4,097
Poverty rate	14.7	14.7	14.7
Money income plus food and housing:			
Number of poor	3,601	3,649	[illegible]
Poverty rate	12.9	13.1	[illegible]
Percent reduction[1]	-12.1	-10.9	[illegible]
Money income plus food, housing, and medical care (excluding institutional care expenditures):			
Number of poor	1,452	2,601	3,01[illegible]
Poverty rate	5.2	9.3	10.8
Percent reduction[1]	-64.6	-36.5	-26.3
Money income plus food, housing, and medical care (including institutional care expenditures):			
Number of poor	1,251	2,242	3,019
Poverty rate	4.5	8.0	10.8
Percent reduction[1]	-69.5	-45.3	-26.3

[1]Percent reduction in the number of poor from the current poverty estimate based on money income alone.

Table 10. Poverty Status in 1979 of Households Using Money Income and Alternative Methods of Valuing Noncash Benefits, by Selected Characteristics

[illegible]

Table 11. Poverty Status in 1975 of Households Using Money Income and Alternative Methods of Valuing Noncash Benefits, by Selected Characteristics—Continued

[illegible]

Table 10. Poverty Status in 1979 of Households Using Money Income and Alternative Methods of Valuing Noncash Benefits, by Selected Characteristics—Continued

[illegible]

Table 11. Comparison of Poverty Status of Households Before and After Exclusion of Federal and State Income Taxes by Selected Characteristics: 1980

[illegible]

Characteristic	Before taxes		After taxes		Percent increase in poverty
	Number	Poverty rate	Number	Poverty rate	
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
RACE AND SPANISH ORIGIN OF HOUSEHOLDER					
White	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Black	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish origin[1]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TYPE OF HOUSEHOLD					
Family households	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Married-couple families	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Female householder, no husband present	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nonfamily households	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
WORK EXPERIENCE OF HOUSEHOLDER					
Worked	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Worked at full-time job	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50 weeks or more	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Worked at part-time job	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Did not work	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
REGION					
Northeast	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
North Central	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
West	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TENURE					
Owner occupied	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Renter occupied, including no cash rent	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[1] Persons of Spanish origin may be of any race.

Table C-2.—Number of Poverty Households, Mean Income Before and After Taxes, and Percent Paying Specified Tax: 1980

Characteristic	Number	Mean household income: Before taxes	Mean household income: After taxes	Percent of income paid in taxes	Percent of poverty households paying: One or more taxes	Federal income taxes	State income taxes	FICA payroll taxes	Federal retirement taxes	Property taxes
Total	10,968	$4,235	$3,912	7.6	65.8	7.7	14.1	42.8	1.4	36.8
Race of householder										
White	7,628	4,177	3,823	8.5	69.1	8.0	14.6	43.2	1.1	41.2
Black	2,064	4,387	4,137	5.5	56.8	7.0	13.2	41.0	2.1	25.7
Spanish origin	954	4,957	4,695	5.3	62.8	8.3	5.5	51.9	1.0	22.6
Number of Earners										
None	5,736	3,223	3,133	3.7	37.9	0.3	1.6	(X)	(X)	37.4
One	3,565	4,522	4,133	8.6	98.6	10.3	24.7	86.2	2.4	34.7
Two	1,379	6,734	5,905	12.6	94.4	25.5	32.4	96.7	3.6	37.4
Three	212	7,960	7,022	11.8	100.0	36.5	40.0	97.8	6.4	44.7
Four or more	76	11,429	10,211	10.7	100.0	45.4	53.8	100.0	6.9	51.0
Age of householder										
15 to 24 years	1,367	4,773	4,381	8.2	70.3	18.8	24.3	67.1	2.0	7.1
25 to 29 years	1,229	4,951	4,551	8.1	69.8	11.1	20.1	61.8	2.5	18.5
30 to 34 years	1,256	4,895	4,511	7.8	66.8	7.2	18.7	58.3	1.4	27.8
35 to 39 years	869	5,517	5,010	9.2	75.7	9.4	20.8	63.5	2.1	39.0
40 to 44 years	671	4,820	4,393	8.9	79.8	10.9	22.6	67.7	2.4	38.3
45 to 49 years	541	4,555	4,139	9.1	79.9	12.0	21.5	59.7	2.0	44.7
50 to 54 years	619	4,008	3,610	9.9	75.1	10.1	16.0	52.4	2.1	48.5
55 to 59 years	483	3,992	3,595	10.1	74.2	7.4	14.6	39.6	0.9	58.5
60 to 64 years	721	3,290	3,053	7.6	62.7	3.7	8.9	25.4	0.8	52.8
65 years and over	3,198	3,411	3,257	4.5	50.8	2.9	2.7	8.8	0.3	46.0
Type of household										
Family households	6,217	4,772	4,417	7.4	72.2	6.2	14.9	55.4	1.9	37.2
Married-couple families, with no related children under 18 years old	1,058	3,262	2,959	9.3	73.7	2.2	7.4	34.6	0.7	50.0
Married-couple families, with related children under 18 years old	1,974	5,565	5,126	7.9	88.8	7.6	20.6	78.5	2.8	42.7
Female householder, no husband present, with related children under 18 years old	2,703	4,831	4,530	6.2	58.5	6.2	13.1	46.9	2.1	23.2
Nonfamily households	4,751	3,533	3,252	8.0	57.3	9.8	13.0	26.1	0.8	36.3

193

Chart 1. Changes Between 1959 and 1982 in the Consumer Price Index and the Average Poverty Threshold for a Family of Four

Year	Consumer Price Index (1967=100)	Average threshold for a family of four persons[1]
1982	289.1	$9,862
1981	272.4	9,287
1980	246.8	8,414
1979	217.4	7,412
1978	195.4	6,662
1977	181.5	6,191
1976	170.5	5,815
1975	161.2	5,500
1974	147.7	5,038
1973	133.1	4,540
1972	125.3	4,275
1971	121.3	4,137
1970	116.3	3,968
1969	109.8	3,743
1968	104.2	3,553
1967	100.0	3,410
1966	97.2	3,317
1965	94.5	3,223
1964	92.9	3,169
1963	91.7	3,128
1962	90.6	3,089
1961	89.6	3,054
1960	88.7	3,022
1959	87.3	2,973

[1] For years prior to 1981, average threshold for a nonfarm family of four is shown.

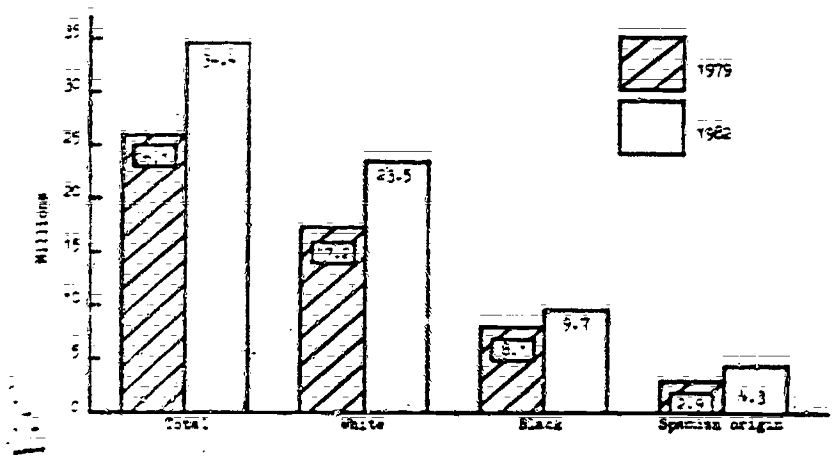
Chart 2. PERSONS BELOW THE POVERTY LEVEL, 1982

(Numbers in thousands)

Characteristic	Number below poverty level	Poverty rate	Percent of all persons
All persons	34,398	15.[illegible]	100.0
White	23,517	12.[illegible]	68.4
Black	9,697	35.[illegible]	28.2
Spanish origin 1/	4,301	29.9	12.5
Under 65 years	30,647	15.0	89.1
65 years and over	3,751	14.6	10.9
In families with female householder, no husband present	11,701	40.6	34.0
In all other families	15,649	9.1	45.5
Female unrelated individuals	4,110	26.6	11.9
Male unrelated individuals	2,347	18.8	6.8

1/ May be of any race.

Chart 3. NUMBER OF PERSONS BELOW THE POVERTY LEVEL, BY RACE AND SPANISH ORIGIN: 1979 AND 1982



PERCENT OF PERSONS BELOW THE POVERTY LEVEL, BY RACE AND SPANISH ORIGIN: 1979 AND 1982

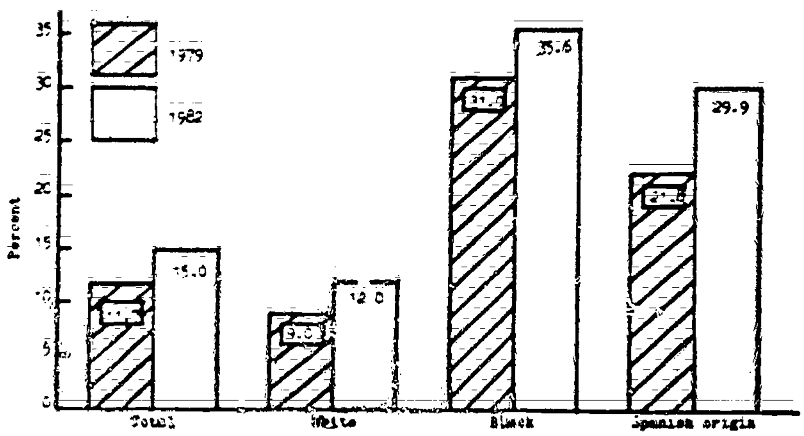
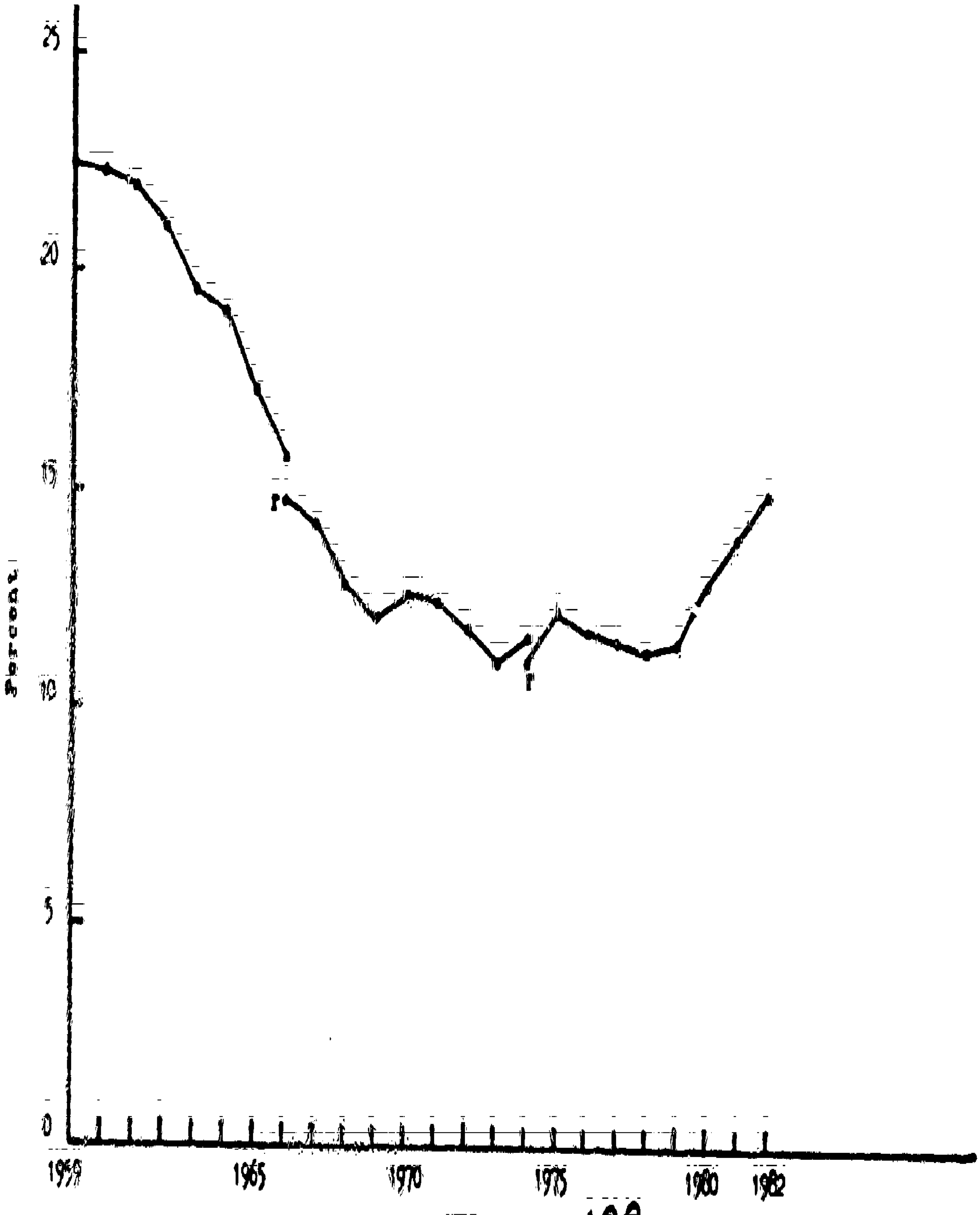


Chart 4. SELECTED CHARACTERISTICS OF PERSONS BELOW THE POVERTY LEVEL: 1979 AND 1982

(Numbers in thousands)

Characteristic	Below poverty level			Poverty rate		
	1982	1979	Percent Difference	1982	1979	Difference
All persons	34,398	26,072	31.9	15.0	11.7	3.3
In families	27,349	19,964	37.0	13.6	10.2	3.4
Related children under 18 years	13,139	9,993	31.5	21.3	16.0	5.3
In families with female householder, no husband present	11,701	9,400	24.5	40.6	34.9	5.7
In all other families	15,649	10,563	48.1	9.1	6.3	2.8
Unrelated individuals	6,458	5,743	12.4	23.1	21.9	1.2
Under 65 years	30,647	22,390	36.9	15.0	11.3	3.7
65 years and over	3,751	3,682	1.9	14.6	15.2	-0.6
In metropolitan areas	21,247	16,134	31.7	13.7	10.7	3.0
In central cities	12,696	9,720	30.6	19.9	15.7	4.2
Outside central cities	8,551	6,415	33.3	9.3	7.2	2.1
In nonmetropoltain areas	13,152	9,937	32.4	17.8	13.8	4.0

Chart 5. PERCENT OF PERSONS BELOW THE POVERTY LEVEL: 1959 TO 1982



r: Revised

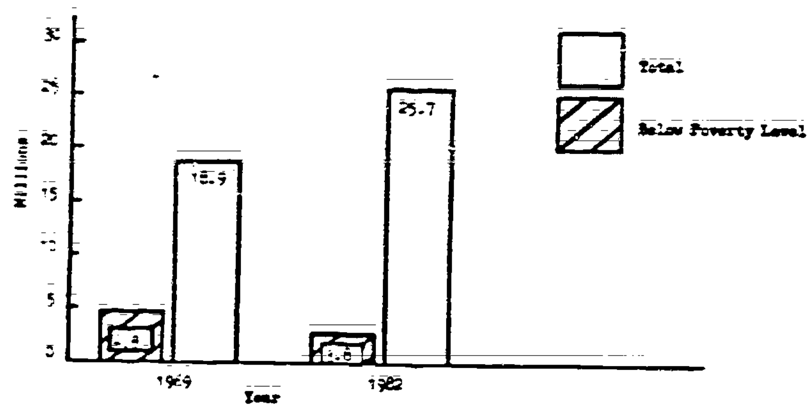
194

Chart 6. POVERTY STATUS OF FAMILIES, BY FAMILY TYPE AND RACE: 1969 AND 1982

(Numbers in thousands)

Characteristic	1982		1969		Percent change 1969-82
	Number	Percent of all families	Number	Percent of all families	
ALL INCOME LEVELS					
All Races					
All families	61,393	100.0	51,588	100.0	19.0
With female householder, no husband present	9,469	15.4	5,593	10.8	69.3
All other families	51,924	84.6	45,995	89.2	12.9
White					
All families	53,407	100.0	46,261	100.0	15.4
With female householder, no husband present	6,507	12.2	4,165	9.0	56.2
All other families	46,900	87.8	42,096	91.0	11.4
Black					
All families	6,530	100.0	4,889	100.0	33.6
With female householder, no husband present	2,734	41.9	1,384	28.3	97.5
All other families	3,796	58.1	3,505	71.7	8.3
BELOW POVERTY LEVEL					
All Races					
All families	7,512	100.0	5,008	100.0	50.0
With female householder, no husband present	3,434	45.7	1,827	36.5	88.0
All other families	4,079	54.3	3,181	63.5	28.2
White					
All families	5,118	100.0	3,575	100.0	43.2
With female householder, no husband present	1,813	35.4	1,069	29.9	69.6
All other families	3,306	64.6	2,506	70.1	31.9
Black					
All families	2,158	100.0	1,366	100.0	58.0
With female householder, no husband present	1,535	71.1	737	54.0	108.3
All other families	622	28.8	629	46.0	-1.1

Chart 7. POVERTY STATUS OF PERSONS 65 YEARS AND OVER: 1969 AND 1982



PERSONS 65 YEARS AND OVER AS A PERCENT OF ALL PERSONS AND THOSE BELOW THE POVERTY LEVEL: 1969 AND 1982

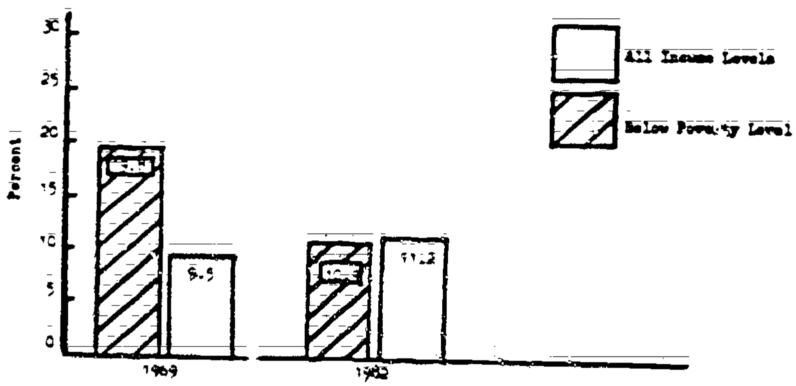


Chart 8. COMPARISON OF CASH ASSISTANCE AND THE MARKET VALUE OF NONCASH BENEFITS FOR MEANS-TESTED PROGRAMS IN 1982 CONSTANT DOLLARS: 1965 TO 1982

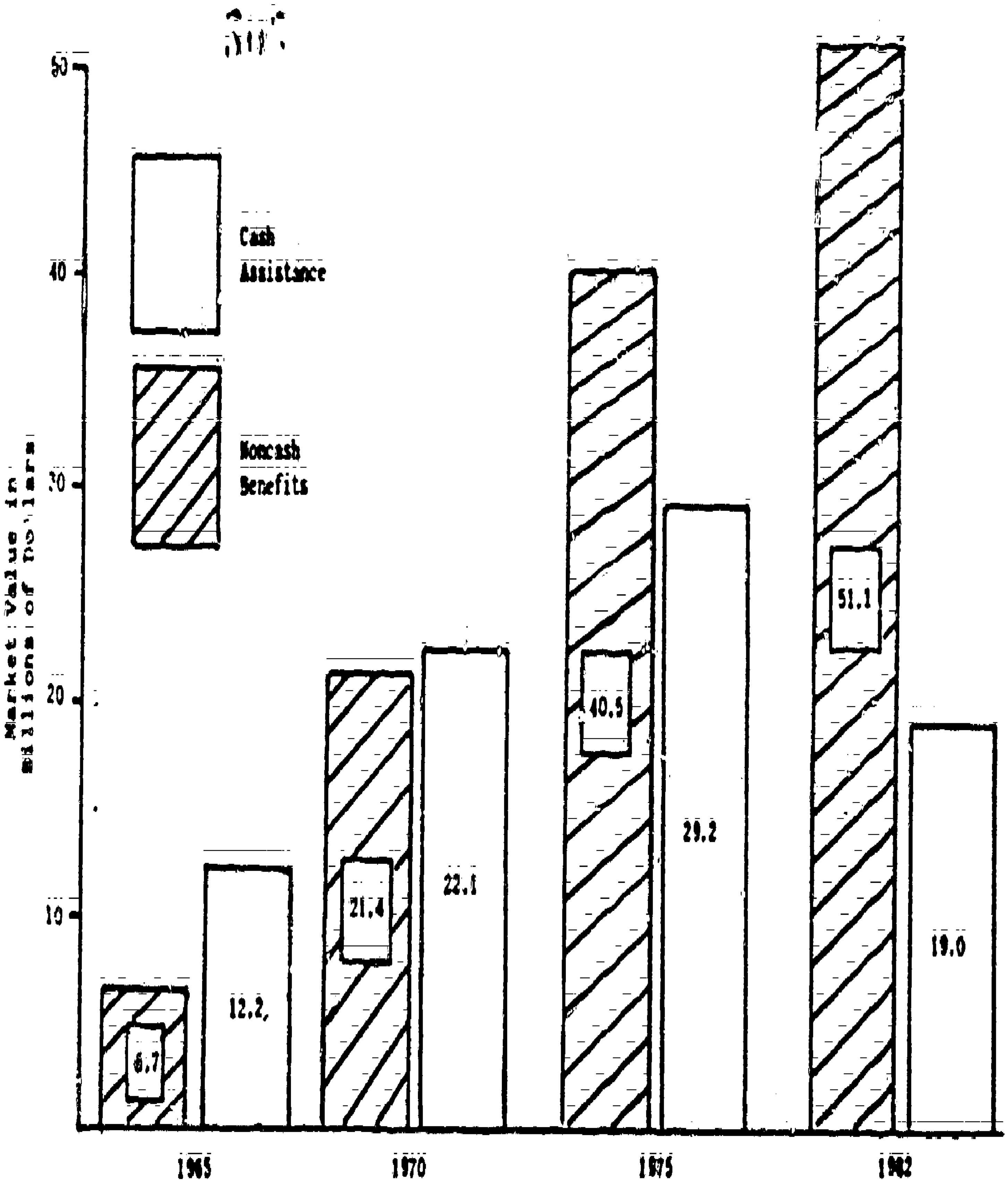


Chart 9. MARKET VALUE OF MAJOR NONCASH BENEFIT PROGRAMS FOR 1982

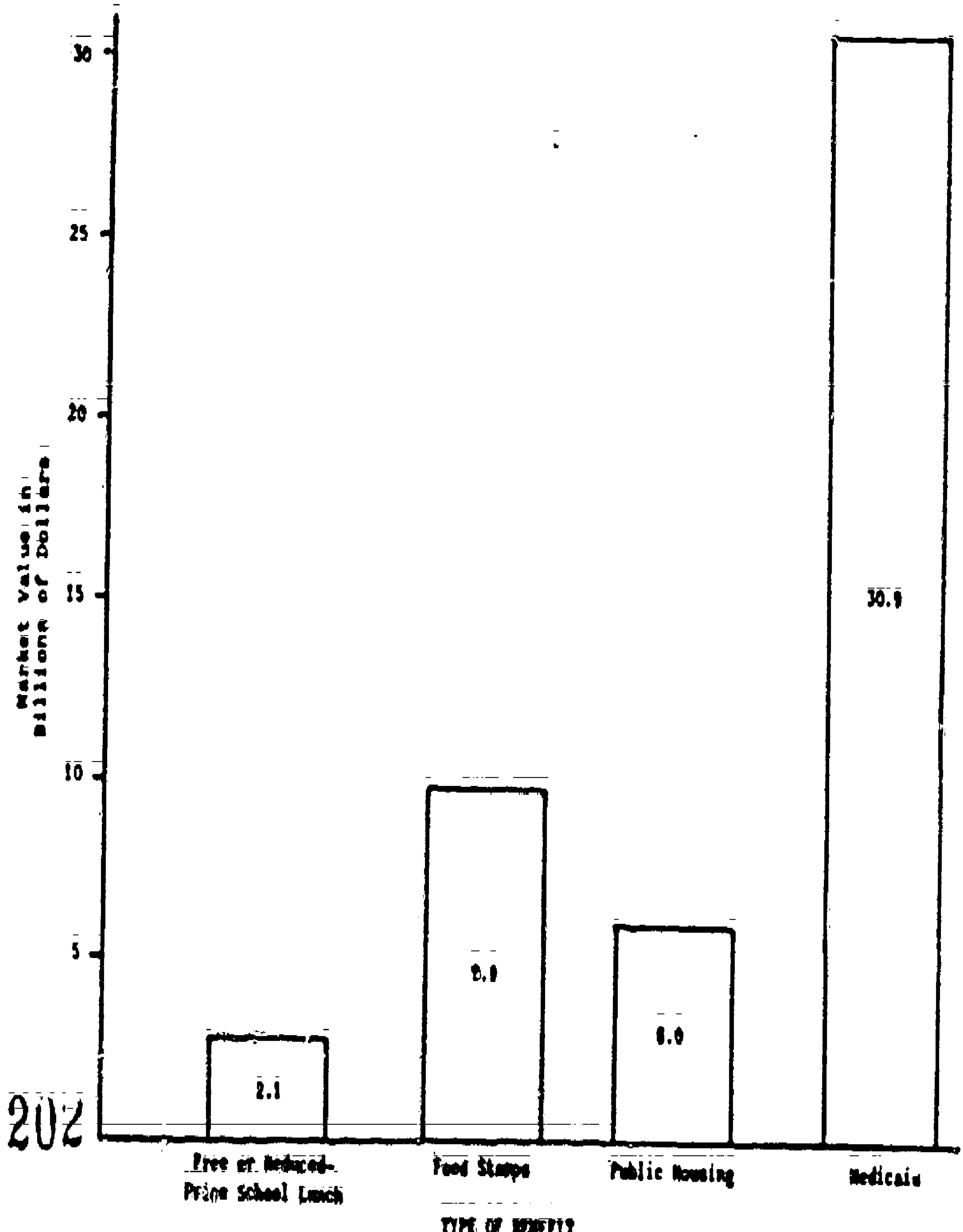


Chart 10. ALTERNATIVE ESTIMATES OF POVERTY BY VALUATION TECHNIQUE AND TYPE OF NONCASH BENEFITS VALUED: 1979

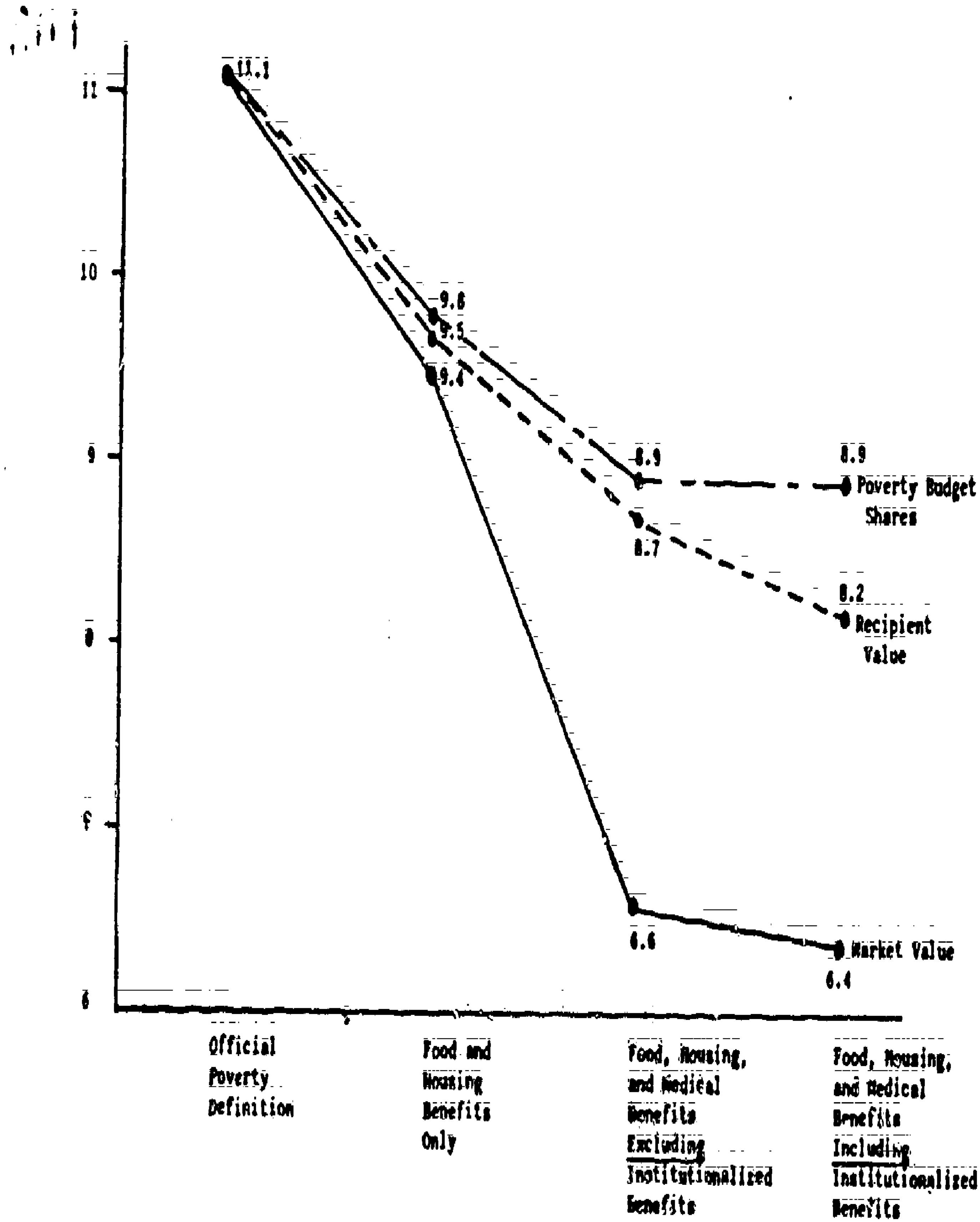
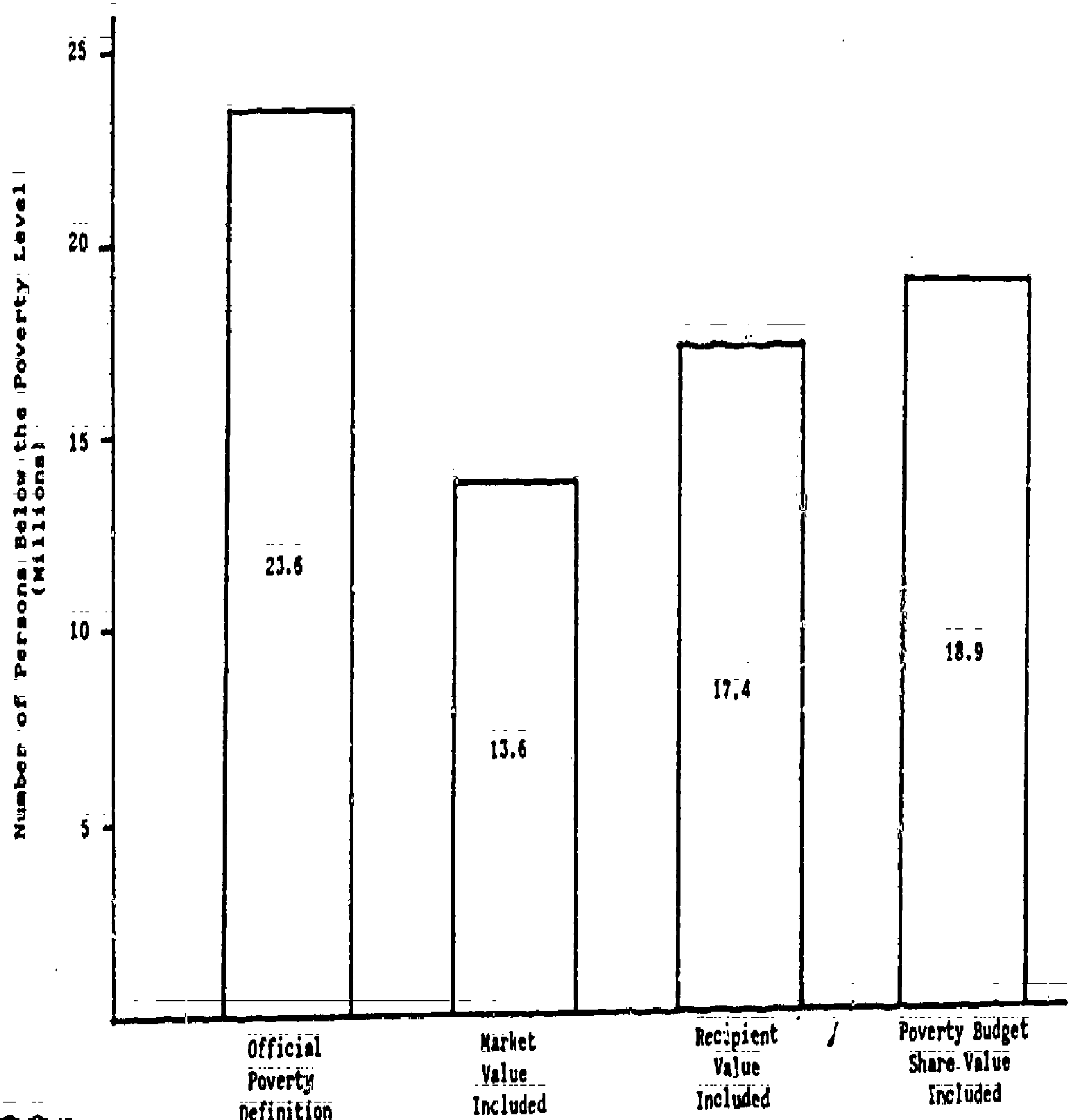


Chart 11. NUMBER OF PERSONS BELOW THE POVERTY LEVEL BY VALUATION TECHNIQUE INCLUDING THE VALUE OF ALL FOOD, HOUSING, AND MEDICAL BENEFITS[1]



[1] These estimates have not been revised to 1980 census population figures and were calculated on a household poverty concept.

Chart 12. PERCENT REDUCTIONS IN POVERTY USING MARKET VALUE APPROACH FOR SELECTED SUBGROUPS: 1979

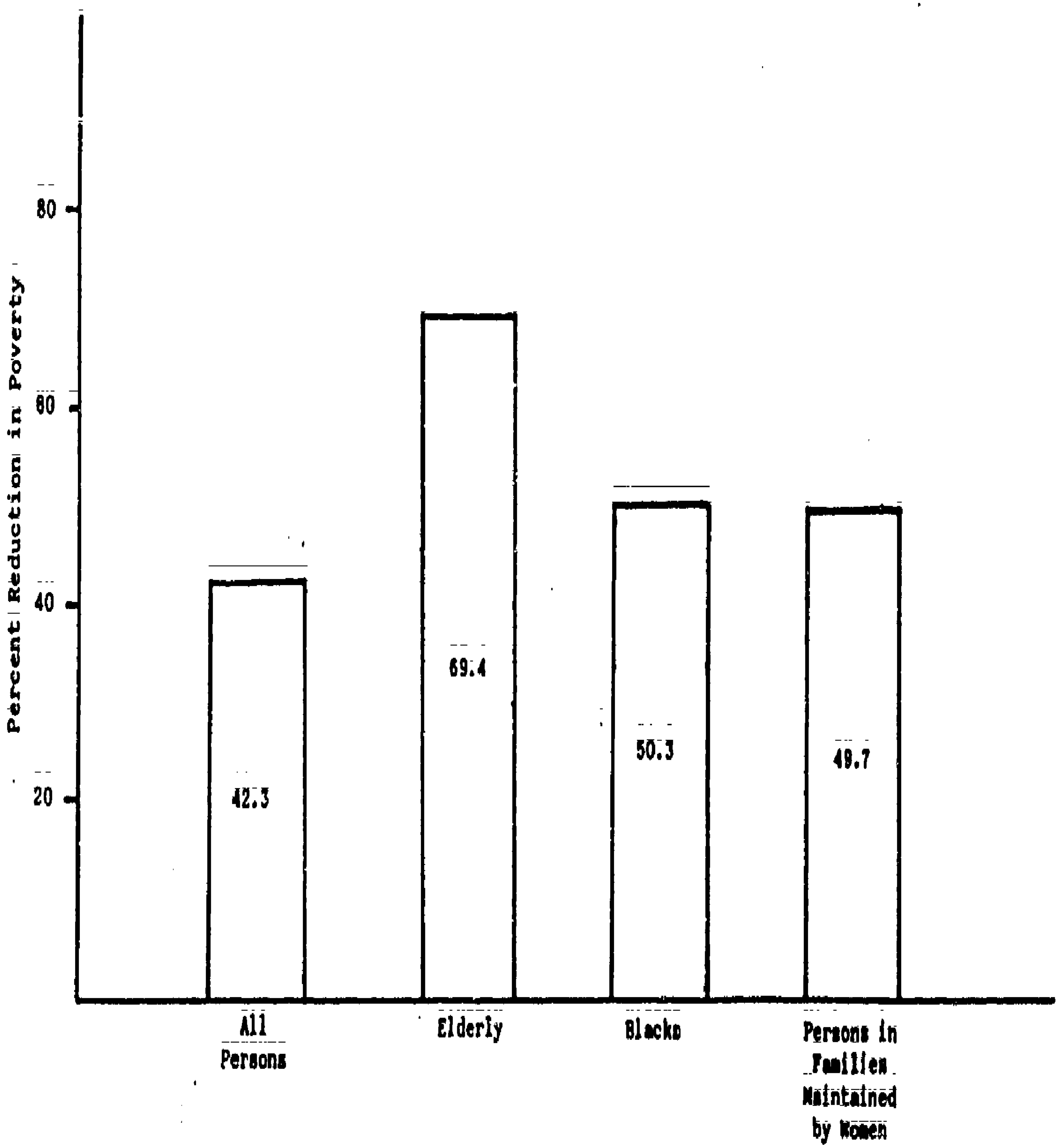


Chart 13. COMPARISON OF THE PERCENT OF ALL HOUSEHOLDS AND POVERTY HOUSEHOLDS PAYING TAXES BY TYPE OF TAX: 1980

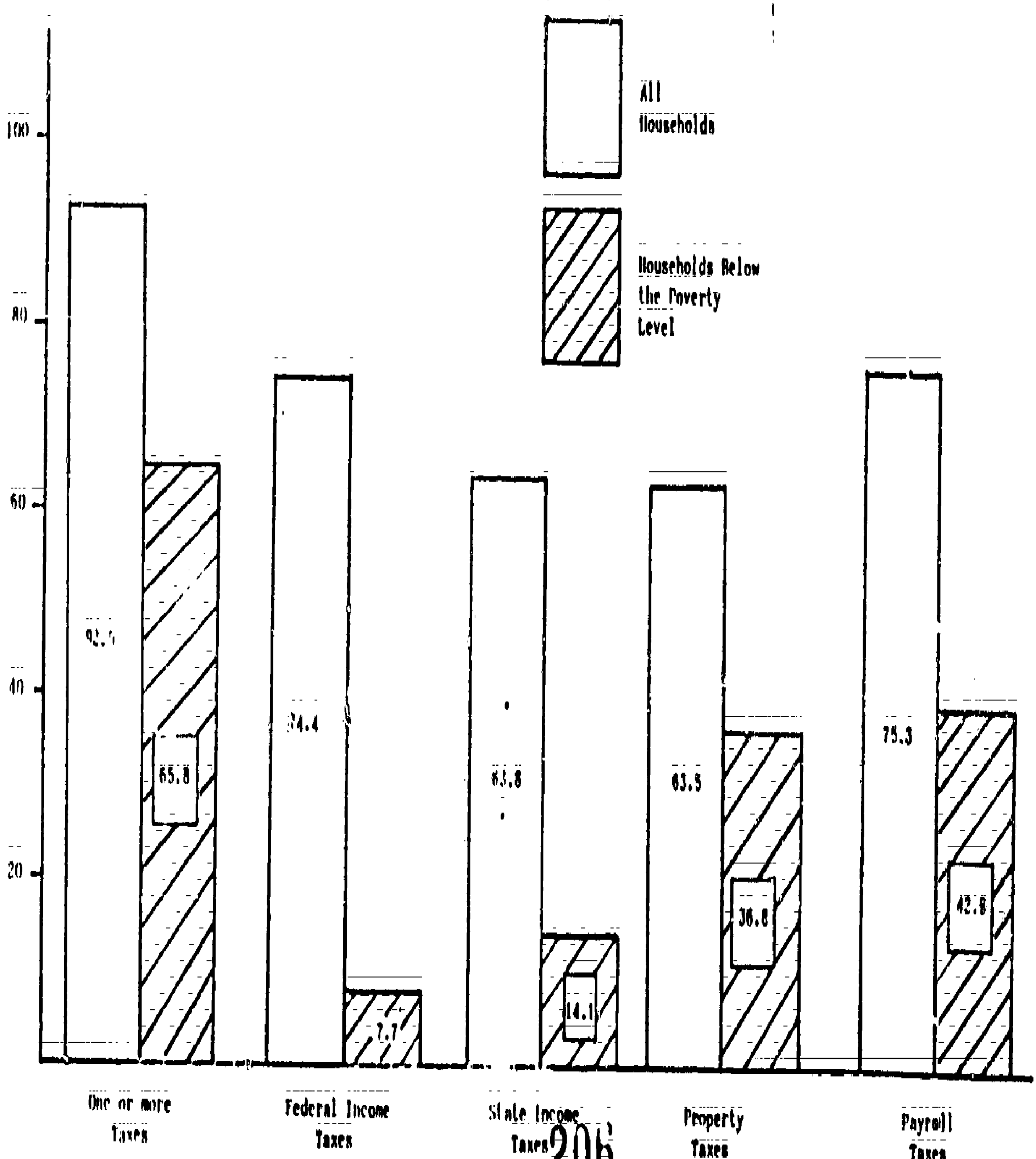
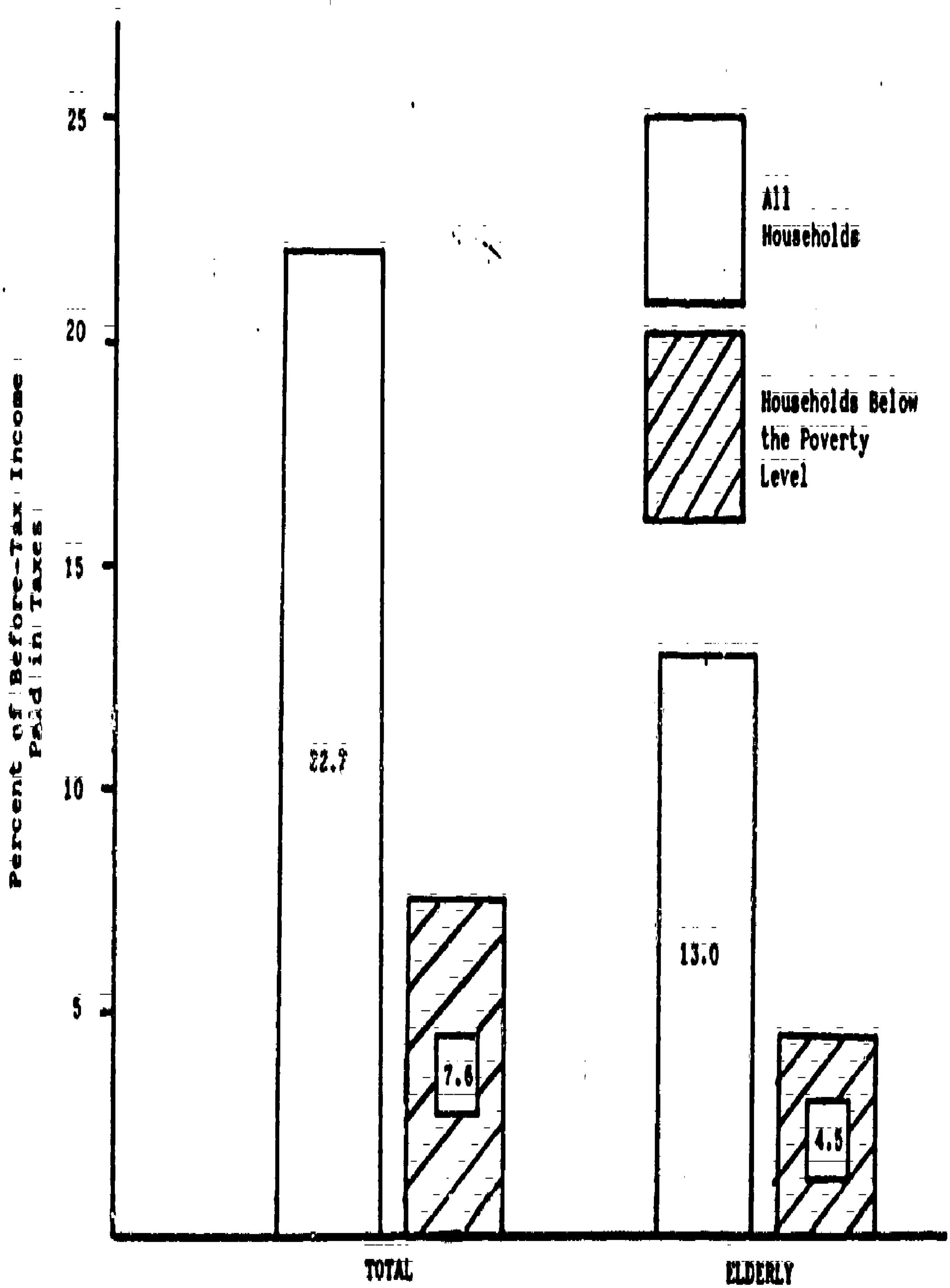
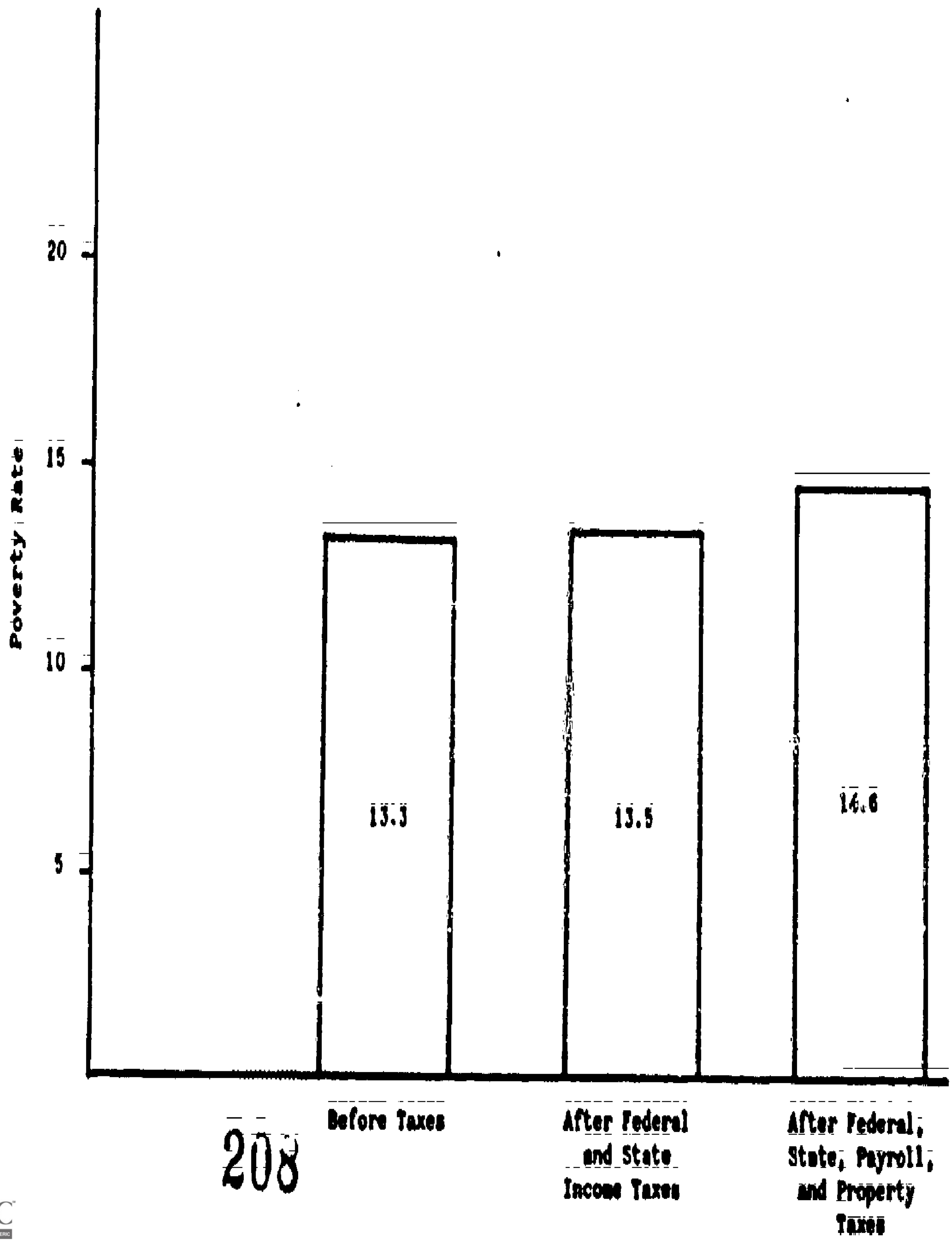


Chart 14. PERCENT OF BEFORE-TAX INCOME PAID IN INCOME, PAYROLL, AND PROPERTY TAXES IN 1980 FOR ALL HOUSEHOLDS AND HOUSEHOLDS BELOW THE POVERTY LEVEL



203

Chart 15. POVERTY RATES FOR HOUSEHOLDS BEFORE AND AFTER PAYMENT OF SPECIFIED TAXES IN 1980



Chairman RANGEL. Thank you very much.

The Chair is going to reserve the right at this point to ask questions and we will forward those questions to your office.

[The material follows:]

COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES,
Washington D.C., November 17, 1983.

Mr. C. LOUIS KINCANNON,
Acting Director, Bureau of the Census,
Washington, D.C.

DEAR MR. KINCANNON: On behalf of the Subcommittee on Oversight and the Subcommittee on Public Assistance and Unemployment Compensation, we wish to thank you for testifying during the joint hearing, held on October 18, 1983. Your statement was important in aiding the Subcommittees examine the causes and impact of the recent increases in the poverty rate.

Near the end of your testimony you mention that the Office of Management and Budget and the Census will submit in-kind valuation methods to a panel of expert economists and statisticians from outside the Federal government and that the panel will be asked to recommend further refinements in measurement methodology. We would like to know when the panel will be formed, the names of these expert economists and statisticians and when the panel will submit its findings or recommendations. Please keep us apprised of your work and further surveys (SIPP) and reports on the measurement of poverty.

In addition, provide for the record, the number of persons living below the poverty threshold, the poverty rate and the poverty gap subdivided by type of family head (elderly, female-headed and other) if the thresholds had been indexed to CPI-X1. This information should be calculated for 1973, 1975 and 1978 through 1982.

Again, we appreciate your assistance.

Sincerely,

HAROLD FORD, *Chairman,*
Subcommittee on Public Assistance and Unemployment Compensation.
CHARLES B. RANGEL,
Subcommittee on Oversight.

U.S. DEPARTMENT OF COMMERCE,
BUREAU OF THE CENSUS,
Washington, D.C., December 14, 1983.

Hon. CHARLES B. RANGEL,
Chairman, Subcommittee on Oversight, Committee on Ways and Means, House of Representatives, Washington, D.C.

DEAR MR. RANGEL: Thank you for your cosigned letter requesting additional information relevant to the recent increases in the poverty rate.

The Census Bureau and the Office of Management and Budget are discussing the membership of a panel of expert economists to review the Bureau's work on valuing noncash benefits and measuring their effect on the porverty estimates. No decisions on panel membership have yet been reached. Early in calendar year 1984, when the panel has been named and its schedule determined, we will inform you.

We will provide the data you requested on income deficits indexed to the CPI-X1. We can provide all of the years requested by the Subcommittees except 1973; we will provide 1974 data as a substitute. We will send the data to you as soon as we have completed the computer tabulations.

If you have any questions, please have your staff contact Mr. Gordon Green, Population Division, on 763-7444.

Sincerely,

C. L. KINCANNON,
Deputy Director, Bureau of the Census.

31-496 O—84——14

U.S. DEPARTMENT OF COMMERCE,
BUREAU OF THE CENSUS,
Washington, D.C., January 31, 1984.

Hon. CHARLES B. RANGEL,
Chairman, Subcommittee on Oversight, Committee on Ways and Means, House of Representatives, Washington, D.C.

DEAR MR. RANGEL: We are enclosing the materials that we agreed to provide you in our December 14 letter.

We retabulated the poverty counts for 1974, 1975, and 1978 through 1982 from the Current Population Survey (CPS) applying an experimental Consumer Price Index (CPI-U-X1) rather than the CPE used in the published CPS reports. Table 1 displays these data along with corresponding published data for persons, families, and unrelated individuals. Table 2 compares the CPI-U-X1 adjusted average poverty thresholds for a family of four with the published series for 1974 through 1982.

If you have any questions, please have your staff contact Mr. Gordon Green, Population Division, on 763-7444.

Sincerely,

C. L. KINCANNON,
Deputy Director, Bureau of the Census.

Enclosure.

Table 1. Poverty Population and Income Deficit Based on Poverty Thresholds With CPI-U-X1 Inflation Adjustment: 1974, 1975, and 1978-82

Year	Number below poverty level (numbers in thousands)			Percent below poverty level			Aggregate income deficit (millions of 1982 dollars)		
	Adjusted poverty thresholds	Official poverty thresholds[1]	Percent difference	Adjusted poverty thresholds	Official poverty thresholds[1]	Difference	Adjusted poverty thresholds[2]	Official poverty thresholds[1 3]	Percent difference
All Families									
1982	6,616	7,512	-11.9	10.3	[illegible]	-1.4	23,490	[illegible]	-19.7
1981	5,932	6,851	-13.4	9.7	[illegible]	-1.5	20,313	[illegible]	-20.4
1980	5,510	6,217	-11.4	9.1	[illegible]	-1.2	18,124	22,630	-19.9
1979r	4,909	5,461	-10.1	8.2	[illegible]	-1.0	16,133	NA	NA
1979	4,784	5,320	-10.1	8.2	9.1	-0.9	15,745	19,108	-17.6
1978	4,760	5,289	-9.8	8.3	9.1	-0.8	15,115	18,521	-18.4
1975	4,987	5,450	-8.5	8.9	9.7	-0.8	15,823	19,035	-16.9
1974	4,561	4,922	-7.3	8.2	8.8	-0.6	14,772	17,494	-15.6
Families with Householder 65 and Over									
1982	690	897	-23.1	7.2	9.3	-2.1	1,525	2,023	-24.6
1981	670	851	-21.3	7.1	9.1	-2.0	1,288	[illegible]	-27.0
1980	701	837	-16.2	7.6	9.1	-1.5	1,250	1,696	-26.3
1979r	700	822	-14.8	7.8	9.1	-1.3	1,277	NA	NA
1979	680	797	-14.7	7.7	9.1	-1.4	1,251	1,602	-21.9
1978	625	712	-12.2	7.3	8.4	-1.1	1,051	1,322	-20.5
1975	644	728	-11.5	7.9	8.9	-1.0	978	NA	NA
1974	619	686	-9.8	7.7	8.5	-0.8	1,037	1,258	-17.6

NA Not available.
r Reflects 1980 Census population controls.
1 As published in U.S. Bureau of the Census, "Current Population Reports," Series P-60.
2 Constant dollar adjustment based on CPI-U-X1; 1967 = 100.
3 Constant dollar adjustment based on CPI-U; 1967 = 100.

207

Table 1. Poverty Population and Income Deficit Based on Poverty Thresholds With CPI-U-X1 Inflation Adjustment: 1974, 1975, and 1978-82

Year	Number below poverty level (numbers in thousands)			Percent below poverty level			Aggregate income deficit (millions of 1982 dollars)		
	Adjusted poverty thresholds	Official poverty thresholds[1]	Percent difference	Adjusted poverty thresholds	Official poverty thresholds[1]	Difference	Adjusted poverty thresholds[2]	Official poverty thresholds[2, 3]	Percent difference
Families With Female Householder, No Husband Present									
1982	3,184	3,434	- 7.3	33.6	36.3	- 2.7	11,390	13,990	-18.6
1981	2,955	3,252	- 9.1	31.4	34.6	- 3.2	10,310	12,746	-19.1
1980	2,747	2,972	- 7.6	30.2	32.7	- 2.5	9,079	11,196	-18.9
1979[r]	2,453	2,645	- 7.3	28.2	30.4	- 2.2	8,343	NA	NA
1979	2,388	2,575	- 7.3	28.0	30.2	- 2.2	8,102	9,736	-16.8
1978	2,384	2,654	-10.2	29.0	31.4	- 2.4	7,821	9,755	-19.3
1975	2,220	2,430	- 8.6	30.3	32.5	- 2.2	7,329	8,946	-18.1
1974	2,141	2,324	- 7.9	30.1	32.1	- 2.0	7,152	8,585	-16.7
All Unrelated Individuals									
1982	5,541	6,458	-14.2	19.9	23.1	- 3.2	11,040	13,640	-19.1
1981	5,729	6,490	-11.7	20.7	23.4	- 2.7	11,090	13,754	-19.4
1980	5,421	6,227	-12.9	20.0	22.9	- 2.9	9,761	12,170	-19.8
1979[r]	5,193	5,763	- 9.9	19.8	21.9	- 2.1	9,460	NA	NA
1979	5,038	5,600	-10.0	19.7	21.9	- 2.2	9,225	11,127	-17.1
1978	4,866	5,435	-10.5	19.9	22.1	- 2.2	8,597	10,360	-17.0
1975	4,750	5,088	- 6.6	23.5	25.1	- 1.6	8,303	9,822	-15.5
1974	4,259	4,553	- 6.5	22.5	24.1	- 1.6	7,211	8,456	-14.7

NA Not available.
[r] Reflects 1980 Census population controls.
[1] As published in U.S. Bureau of the Census, "Current Population Reports," Series P-60.
[2] Constant dollar adjustment based on CPI-U-X1; 1967 = 100.
[3] Constant dollar adjustment based on CPI-U; 1967 = 100.

Table 1. Poverty Population and Income Deficit Based on Poverty Thresholds With CPI-U-X1 Inflation Adjustment: 1974, 1975, and 1978-82

Year	Number below poverty level (numbers in thousands)			Percent below poverty level			Aggregate income deficit (millions of 1982 dollars)		
	Adjusted poverty thresholds	Official poverty thresholds[1]	Percent difference	Adjusted poverty thresholds	Official poverty thresholds[1]	Difference	Adjusted poverty thresholds[2]	Official poverty thresholds[1 3]	Percent difference
Unrelated Individuals 65 and Over									
1982	1,835	2,275	-19.3	21.8	27.1	- 5.3	2,094	2,953	-29.1
1981	1,980	2,421	-18.2	24.3	29.8	- 5.5	2,005	2,923	-31.4
1980	1,971	2,448	-19.5	24.7	30.6	- 5.9	1,943	2,802	-30.7
1979[r]	1,973	2,299	-14.2	25.2	29.4	- 4.2	2,207	NA	NA
1979	1,924	2,243	-14.2	25.1	29.3	- 4.2	2,156	2,834	-23.9
1978	1,771	2,053	-13.7	23.3	27.0	- 3.7	1,788	2,307	-22.5
1975	1,942	2,125	- 8.6	28.3	31.0	- 2.7	2,077	NA	NA
1974	1,819	1,975	- 7.9	27.9	30.3	- 2.4	1,822	2,221	-18.0
Unrelated Individuals - Female									
1982	3,496	4,110	-14.9	22.7	26.6	- 3.9	6,268	7,913	-20.8
1981	3,700	4,251	-12.8	24.2	27.7	- 3.5	6,464	8,194	-21.1
1980	3,559	[illegible]	-13.6	23.7	27.4	[illegible]	5,642	7,183	-21.5
1979[r]	3,369	3,771	-10.7	23.2	26.0	- 2.8	5,534	NA	NA
1979	3,277	3,669	-10.7	23.2	26.0	- 2.8	5,398	6,593	-18.1
1978	3,200	3,611	-11.4	23.1	26.0	- 2.9	5,169	6,279	-17.7
1975	3,202	3,422	- 6.4	27.0	28.9	- 1.9	5,193	6,151	-15.6
1974	2,775	3,007	- 7.7	25.3	27.3	- 2.0	4,253	5,026	-15.4

NA Not available.
[r] Reflects 1980 Census population controls.
[1] As published in U.S. Bureau of the Census, "Current Population Reports," Series P-60.
[2] Constant dollar adjustment based on CPI-U-X1; 1967 = 100.
[3] Constant dollar adjustment based on CPI-U; 1967 = 100.

Table 1. Poverty Population and Income Deficit Based on Poverty Thresholds With CPI-U-X1 Inflation Adjustment: 1974, 1975, and 1978-82

Year	Number below poverty level (numbers in thousands)			Percent below poverty level			Aggregate income deficit (millions of 1982 dollars)		
	Adjusted poverty thresholds	Official poverty thresholds[1]	Percent difference	Adjusted poverty thresholds	Official poverty thresholds[1]	Difference	Adjusted poverty thresholds[2]	Official poverty thresholds[1 3]	Percent difference
Persons[4]									
1982	29,737	33,807	-12.0	13.0	14.8	- 1.8	34,530	42,910	-19.6
1981	27,291	31,340	-12.9	12.1	13.9	- 1.8	31,393	39,278	-20.1
1980	25,449	28,828	-11.7	11.4	12.9	- 1.5	27,885	34,800	-19.9
1979[r]	23,139	25,707	-10.0	10.4	11.6	- 1.2	25,593	NA	NA
1979	22,499	24,994	-10.0	10.4	11.1	- 0.7	24,970	30,155	-17.2
1978	22,143	24,497	- 9.6	10.3	11.4	- 1.1	23,712	28,881	-17.9
1975	24,010	25,877	- 7.2	11.4	12.3	- 0.9	24,125	28,857	-16.4
1974	21,807	23,370	- 6.7	10.4	11.2	- 0.8	21,982	25,950	-15.3

NA Not available.
r Reflects 1980 Census population controls.
1 As published in U.S. Bureau of the Census, "Current Population Reports," Series P-60.
2 Constant dollar adjustment based on CPI-U-X1; 1967 = 100.
3 Constant dollar adjustment based on CPI-U; 1967 = 100.
4 Excludes persons in unrelated subfamilies for the years 1979-82.

Table 2. Average Poverty Threshold for a Family of Four -- CPI-U-X1 *vs* CPI-U: 1974-1982

Year	Using CPI-U-X1	Using CPI-U (published)	Percent difference
1982	$8,978	$9,862	-9.0
1981	8,455	9,287	-9.0
1980	7,718	8,414	-8.3
1979	6,941	7,412	-6.3
1978	6,335	6,662	-4.9
1977	5,932	6,191	-4.2
1976	5,576	5,815	-4.1
1975	5,278	5,500	-4.0
1974	4,874	5,038	-3.3

NOTE: Thresholds shown for 1974 through 1980 are for nonfarm families; the farm differential was dropped beginning 1981.

Chairman RANGEL. We do hope that tentatively you would make arrangements to be here to wrap up our hearings cn November 3, and I thank you for your patience.

Mr. KINCANNON. You are welcome, sir.

Chairman RANGEL. The hearing stands adjourned, subject to the call of the Chair.

[Whereupon, at 2:15 p.m., the hearing was adjourned, subject to the call of the Chair.]

POVERTY RATE INCREASE

THURSDAY, NOVEMBER 3, 1983

HOUSE OF REPRESENTATIVES, COMMITTEE ON WAYS AND MEANS, SUBCOMMITTEE ON OVERSIGHT; SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION

Washington, D.C.

The subcommittees met at 9:45 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Charles B. Rangel (chairman of the Subcommittee on Oversight) presiding.

Chairman RANGEL. The joint hearing of the Subcommittee on Oversight and the Subcommittee on Public Assistance and Unemployment Compensation will come to order.

Earlier we had a day of hearings and received a lot of information relating to poverty from expert witnesses, its definition, measurement, the increase in the poverty rate, and on the characteristics of the poor. Based on the previous testimony, certain fundamental facts are clear.

First, poverty has increased dramatically in recent years regardless of how it is measured. Second, the prime reason for increasing poverty is governmental policy. The recession, budget reductions, the failure to adjust public assistance benefit levels for inflation, and inadequate responses to increasing human needs have all contributed to the increase in poverty. Third, the administration's tax policy has imposed a substantial burden on the poor while providing a lot of relief for middle and higher income people. And I think that a combination of all of these things have shown that the numbers of people entering this group called the poor have increased.

I think that we would want to address these things, and for those reasons we have continued our hearing.

We have with us to start off the testimony this morning, David Stockman. Of course he is the director of the Office of Management and Budget. We had hoped that the Secretary, Department of Health and Human Services could be with us, but she was unable to adjust her schedule to accommodate the committee. So Dr. Robert Rubin, the Assistant Secretary for Planning and Evaluation, will be with us.

I, personally, on behalf of the committee recognize the heavy schedule that the Budget Director has, and we hope that this morning we will have a fruitful exchange to see what we can do together to better accommodate the needs of the poor of our country.

[The statement of Mr. Rangel follows:]

OPENING STATEMENT OF CHAIRMAN CHARLES B. RANGEL

This morning the Subcommittee on Oversight and the Subcommittee on Public Assistance and Unemployment Compensation continue joint hearings on poverty and its recent increase.

Earlier, the subcommittees held a day of hearings and received a great deal of information from expert witnesses on poverty, its definition and measurement, the increase in the poverty rate, and on the characteristics of the poor. Based on the previous testimony, four fundamental facts are clear.

First, poverty has increased dramatically in recent years regardless of how it is measured. Second, the prime reason for increasing poverty is governmental policy. The recession, budget reductions, the failure to adjust public assistance benefit levels for inflation, and inadequate responses to increasing human needs have all contributed to the increase in poverty. Third, tax policy has imposed a substantial burden on the poor. For example, combined Federal income and payroll taxes for a family of four with earnings equal to poverty have increased from $269 in 1978 to $1,076 in 1984—an increase of $806. This represents an increase in Federal taxes from 4 to 10 percent of the family's income. Four, improvements in the economy will not significantly reduce poverty.

Based on these four facts, I believe further governmental action is required to address increasing poverty in our country. This morning we will hear from two administration witnesses on this subject, David Stockman, Director of the Office of Management and Budget (OMB) and Dr. Robert J. Rubin, Assistant Secretary for Planning and Evaluation of the Department of Health and Human Services (HHS).

I think it is critical that we hear from the administration on this matter and whether it plans any new policy initiatives to combat growing poverty.

Chairman RANGEL. Chairman Ford?

Chairman FORD. Thank you very much, Chairman Rangel, and to the Subcommittee on Oversight. We, as members of the Subcommittee on Public Assistance and Unemployment Compensation welcome the opportunity to join with you in the hearings today and welcome Mr. Stockman to the hearing.

The purpose of today's session is to examine the alarming rise in the poverty rate in this country. The official poverty rate has increased from 11.4 percent in 1978 to 15 percent in 1982; 34.4 million people in this country have incomes below the poverty level.

I know that the measure of poverty is subject to some controversy, and we will be discussing that today with the Director of OMB along with the representatives of Health and Human Services. However, no matter how one measures poverty there is no dispute that it has increased.

I, for one, do not find great satisfaction in the argument that the poverty rate is overstated and that we really have only 20 million people in poverty in this country. The fact is that we have a substantial number of Americans for whom the American dream is a fairy tale. The American reality for them, and millions of them are children in this country, is substandard housing, lack of health care, and poor nutrition.

There is a perception that this Government, in particular this administration, has simply forgotten about the poor in this country. In times like this and as chairman of the Subcommittee on Public Assistance and Unemployment Compensation, we have a real sensitivity to the needs of the poor of this country, and we would hope that the administration would focus its attention on those needs.

Through the hearings we have conducted and the legislation which we have considered on the Subcommittee on Public Assistance I have to come to share the view that those who are helpless and those who are homeless and those who are poor in this country, and those who fit within those poverty lines have been forgotten. I hope today that the witnesses from the administration, Mr. Stockman, who is Director of the Office of Management and Budget, and Secretary Rubin of the Department of Health and Human Services will help change my mind and the minds of others who are out there in this country who are in need of help and who need the administration's attention.

I look forward to the testimony of Mr. Stockman today, along with Mr. Rubin. And also look forward to hearing from my colleagues who will raise those vital questions to both of those representatives from the administration.

Mr. Chairman, once again we are delighted to joint with you and the Oversight Committee today in this joint session.

Chairman RANGEL. Thank you.

Mr. Duncan.

Mr. DUNCAN. Mr. Chairman, I have no opening statement other than that Mr. Martin is unable to be here. I don't know of more important hearings that we could have now than really what is poverty and our definition of poverty; what we have done perhaps to move more people into the poverty bracket; and how much of the poverty is by choice or the income is by choice, may I say. And I think it is very important that we go all the way into this subject and I congratulate you, Mr. Chairman, for holding the hearings.

Chairman RANGEL. Mr. Matsui.

Mr. MATSUI. I have no statement, Mr. Chairman, thank you.

Chairman RANGEL. Mr. Anthony.

Mr. ANTHONY. No opening statement.

Chairman RANGEL. Mrs. Kennelly.

Mrs. KENNELLY. Mr. Chairman, I have a statement but I don't think we should hold up the witness any longer, so could I have permission to insert it in the record.

Chairman RANGEL. Without objection.

[The statement of Mrs. Kennelly follows:]

STATEMENT OF HON. BARBARA B. KENNELLY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT

Mr. Chairman, at our earlier hearing on the increase in the rate of poverty, these two subcommittees heard disturbing testimony about the growth and depth of poverty in our country today.

The poverty rate in 1982 was at its highest level since 1966 and represented a 33 percent increase over 1979. While the elderly now experience poverty at a rate comparable to the population as a whole, the poverty rate for children rose from 16 to over 21 percent between 1979 and 1982.

Our hearing explored the inadequacies and the complications involved with different measures of poverty, but we found that by every standard poverty has increased. And the rate of poverty including in-kind transfers is growing faster than the rate of the historical measure of poverty. Even if we accept the accuracy of the 8.8 to 9 percent poverty rate including in-kind transfers, Dr. Timothy Smeeding testified that this country still has more than a staggering 20 million citizens who are poor and needy.

More Americans have fallen below the poverty line, and might I add, through the "safety net". The poor in this country have become poorer. They are losing the front line battle against poverty. CBO Director Rudolph Penner told us that in the years 1979 thru 1982 the proportion of Americans who are the poorest of the poor increased from 61 to 68 percent.

Although this Administration's economic policies were sold to the Congress as good for the country as a whole, the benefits of these policies have been very unequally distributed. A drop in inflation was brought at the price of high unemployment, and as unemployment reached record levels, the Administration pushed through reductions in the very programs which tide the jobless over the recession: unemployment insurance cut by 7 percent, food stamps slashed by nearly twice as much, Title XX reduced by 22 percent.

We have seen suffering among Americans reach unprecedented levels in the last two decades as a result of the increase in poverty. Where the federal government has turned its back on the poor, the religious and private charities have been overwhelmed by the demand for their assistance. In two years alone, Catholic Church Charities increased its provisions of emergency meals from 500,000 to over 1,800,000. Food bank activity in Catholic Charities jumped 100 percent—but this is under restricted conditions and with rationing. As every Member of Congress who has been involved in setting up food and shelter programs in his or her own district knows, there is simply not enough help to go around.

Poverty will always be with us, but I believe we have a moral obligation not to ignore those in need. During this period in which poverty increased, we have seen more families who never felt poverty before seeking aid—more street families bereft of their past bearings. In Connecticut, the Department of Income Maintenance held a hearing to evaluate assistance programs in the State. In fact, the hearing was a report on poverty itself as recipients of State and Federal assistance spoke in moving and forceful ways about their frustrations and desperation, their great desires for a better life, for just a chance—and for, quite simply, more food for their children.

The Federal Government must respond to the needs of its citizens to further a just and equitable society. I look forward to working with this Committee on initiatives to reduce poverty and I look forward to hearing from Director Stockman what cooperation we can, or cannot, expect from the Administration.

Chairman RANGEL. Mr. Stockman, the committee has your 34-page statement. We are also aware that you have an 11 o'clock appointment. Your entire 34-page statement will be entered into the record; thus if you would summarize or highlight the document, we will be able to maximize the time that the members would have to get a better clarification of the administration's position. Is that all right with you?

Mr. STOCKMAN. That would be fine, Mr. Chairman.

Chairman RANGEL. Without objection you may proceed.

STATEMENT OF HON. DAVID A. STOCKMAN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. STOCKMAN. Thank you very much, Mr. Chairman, members of the committee.

Let me begin by commending you for holding these oversight hearings. It is my conclusion after serving 4 years in this body and 3 years downtown that we are often so busy legislating solutions to problems that we do not take enough time to diagnose them before we attempt to solve them. What you have been doing in these hearings to try to get to the bottom of this problem, diagnose it and understand it, is critically important if we are to make progress in reducing the poverty rate that we recorded in 1982 and that all of us are concerned about.

I want to say also that what I am presenting this morning represents my most recent and freshest thoughts about this issue. If you will put your hands on the testimony, you will see it is still warm. I regret we couldn't get it to you sooner. However, we are so busy legislating solutions to appropriations problems, debt ceilings, tax bills, reconciliation bills and other items, that I simply have not been able to make the advance preparation that I would have liked so that my testimony could be provided in advance to the committee.

But let me try to make some opening thoughts and then summarize what I think is some of the important information in this presentation that will help us to comprehend the problem and the solutions to it advocated by the administration.

Mr. Chairman, I think the important policy debate about the issue of poverty is unfortunately plagued with sweeping ideological propositions and endless manipulation of the aggregate poverty count and trend numbers issued by the Census Bureau—to the detriment of both comprehension of the problem and progress on its solution. Some advocates contend that insufficient economic growth alone is the sole source of the poverty problem while others insist with equal vehemence that income transfer program reductions have made the problem far worse.

Likewise, aggregate statistics which tell us that 34 million citizens, 15 percent of the total population, were below the official poverty line in 1982 have been analyzed, decomposed, reconfigured and projected in so many different and variant ways as to support nearly every imaginable policy conclusion.

So let me suggest today a number of propositions that I hope will help transcend these incessant debating points and lead us to a better diagnosis of the problem and the multiple paths—and I want to underscore that, multiple paths—to remediation of the poverty that exists in our Nation today. I would offer five propositions at the outset:

One, the poor are not an homogeneous group of our citizenry whose betterment depends exclusively upon more economic growth on the one hand or more Government programs on the other, the polarization that seems to have developed in this debate. There are distinct subgroups among the 34 million poor we are focusing on whose condition results from different causes and must be remedied with different solutions.

Two, the official poverty count based on money income substantially overstates the rate of poverty because it ignores $107 billion in in-kind medical, housing, food and other aid that tangibly raises the living standard and condition of many low-income families.

Three, the same poor people are not always with us—even though the same numbers seem to be. The degree of temporary poverty, and I have some new information on this subject to present to the committee today, is far greater than commonly believed or perceived. While there has been an average number of 30 million poor people for the last 23 years, with ups and downs in that number that have been driven by the economy and a number of factors, that that number over the last decades has consisted of substantially different people over time. That is, large numbers of people move in and move out of poverty, as we have learned from the recent results of longitudinal data and studies that have just become available after a decade of work.

Four, the long-term trends and composition of the poverty population tell a significant but complex story. Poverty rates among the elderly have been drastically reduced due to the growth of our vast social insurance system. In other words, in this area Government programs have nearly solved the problem. On the other hand, poverty rates among female-headed households have not changed at all, other than minor fluctuations from year to year since 1959—

despite a massive expansion of another part of our transfer payment system, the means-tested welfare poverty programs.

Poverty rates for young people under age 25 living on their own have fallen despite the rise of the youth unemployment rate and the near total absence of large scale Government programs to assist them, or for which they are eligible. On the other hand, poverty among the working age population (25–65), excluding those in female-headed families, has declined markedly but remains far too high.

My fifth point, Mr. Chairman, in terms of overall summary or proposition is that economic growth since 1970 has been too sporadic and weak to help those subgroups of the poor who can benefit most from it, and the vast expansion of transfer payments has been too scattershot and ill targeted to reduce poverty among other subgroups who have the strongest claims on the taxpayers' support and need for Government programs in terms of remediation of their condition of poverty.

Mr. Chairman, I have suggested that different kinds of poverty require different approaches to policy, the public policy of the Federal Government. While no categorization scheme is perfect, let me suggest as a framework for my testimony this morning that the official poor can be divided into four mutually exclusive groups: Persons in households headed by, first, the elderly; second, single females with a dependent child; other adults age 25 to 64, both those with families and those without; and, fourth, young people age 16 to 24 who live independently, what we have termed young singles.

If you will look on page 4 of my testimony and table 1, I have tried to create a diagram here both of the composition of the problem, that is the poverty count, and then the policy relevance of the various issues that we debate incessantly here in Congress in terms of the role and the kinds of policy mechanisms the Federal Government ought to apply to reduce the problem.

If you take my first subcategory, the elderly, you can see that 3.7 million of the 25 million elderly in this country are officially designated as poor. That amounts to a 15 percent rate among the entire elderly population, and they account for 11 percent of the 34 million figure that Mr. Ford mentioned at the beginning.

In terms of policy, I would suggest that for this group economic growth is irrelevant because most of the elderly are retired and have little attachment to the labor force, and the few that do work do so voluntarily. I would suggest the second dimension of public policy, social insurance, and I will use this term throughout the testimony to mean our social security and medicare system primarily, is of critical importance. And I will present some data that indicate the vast impact that this social insurance system that we have built up over 40 years has had in dramatically reducing poverty among the poor.

The third aspect of public policy concerns our means tested or so-called welfare transfer payment systems. That includes both the cash benefits, SSI, as well as the in-kind food and housing and so forth. I would suggest that among the elderly poor that is of secondary importance because it supplements and fills in the gaps. But in dollar magnitudes and in impact magnitudes, in reducing the incidence of poverty, clearly social insurance and how we keep that solvent, how we manage that system, is the overriding variable in terms of public policy importance.

If you move to the second category or group in my table, that is "female-headed" households, you see that 11.2 million of the poor fall in that category. Their poverty rate is 42 percent, meaning among the 25 million Americans who live in female-headed households, nearly two-fifths are poor. That rate has been persistent over two and a half decades.

More importantly, they account for nearly one-third of all the poor in our society as measured by the Census Bureau. For this group, I would suggest that economic growth is significant, but not the only or overwhelming variable. I will present some data relevant to this point later.

Social insurance is obviously of very limited or negligible significance, because most in this group would not be eligible, except for some children under social security. The means-tested benefit system is of critical and overwhelming significance both for the support that it provides dollarwise and living standardwise, and because of the impact that it has in either increasing or reducing the number of poor in this category.

My third category consists of what I will call the young singles, people moving out of the parental household into the labor market but not yet fully integrated either into our social or economic system. There are 1.3 million of them in the total poverty count. Their poverty rate is nearly a third, but they account for a very small share of the poor.

I will suggest later that I believe that poverty for this group is largely a life cycle problem, and that if you look at the Census Bureau statistics, you will see that this is largely a transitory condition and as these people become older, as their attachment to the labor force strengthens, the degree of poverty in each cohorts declines dramatically.

For this group, I think economic growth is significant but not overwhelming. Social insurance is obviously irrelevant. And means-tested benefits have minimal policy significance because very few of these are eligible under the kind of system that we have structured for AFDC, food stamps, and the like.

The fourth category is large. It covers households headed by all other adults, both male-headed families as well as single individuals. There are 18 million in this category of the 34 million. Their poverty rate is 10 percent, which is low compared to some of the others but high compared to what we would like to see in our society. They account for half of the poor. For this group, I would suggest in terms of the public policy debate that economic growth and steady economic performance are of critical or overwhelming significance. I will try to demonstrate this in a moment.

Social insurance is irrelevant except to the extent that they are taxpayers into the social insurance programs, rather than beneficiaries. And means-tested benefits, I would suggest, are of only secondary importance because the structure of our system does not provide for large eligibility.

Mr. Chairman, what I would like to do is turn to some figures on the trends and the impact of our public policies on each of these four groups. But before I do that, I want to focus for one moment on this issue of the poverty count. Is it too high or too low and how should we account for in-kind benefits? I think in the 1980s it is important to resolve that issue. It wasn't in 1959 or 1970 because our in-kind benefits were very small and their proportion of total income transfers was very limited.

But that obviously has changed dramatically over time. If you would look at my table 2, on page 6, I think you can see why it is critical that we have a better understanding of in-kind benefits and that we begin to incorporate them in our statistics once we resolve all of the knotty issues about how to value, measure and count them.

If you look at the first column, it provides a measure in constant dollars. So we have got the inflation stripped out of the picture of what the entire governmental system does in this country to provide transfer payment benefits to people. This table includes both the Federal dollars as well as the State-local dollars for medicaid, AFDC and the other main transfer payment programs. You will see that in the period from 1959 to 1982 there was a massive increase in constant dollars in the amount of support we made available as a society.

From $70 billion[1] to $362 billion, a fivefold increase in real terms, in total benefits of all kind, in-kind and cash, social insurance and means tested, made available. Perhaps more dramatic in the second column is the means-tested benefits, both cash and in-kind. Twelve billion was available to the poor on a means tested basis in 1959. By 1982, it was nearly 80 billion in the same constant purchasing power dollars. That is a sixfold increase in what our society decided to do over that two-decade period to meet the needs of people in our society.

Now, my point, though, in bringing this out is to have you look at the middle column, because that shows something far more startling or dramatic about why this issue of how we count in-kind benefits is critical. If you will look in the third column, you will see that in 1959 the in-kind or noncash benefits in this country barely existed—$1.3 billion. The issue wasn't worth arguing about. It wasn't a significant phenomenon. It did not have any impact in improving the lot of the poor.

By 1982 we were making available through medical, housing and food in-kind benefits $107 billion in the same constant dollar purchasing power. What I am saying, Mr. Chairman, and I hope this committee sees the significance, is that in two and a half decades we increased 100-fold the amount of support that we are providing to people in other than checks and cash, in the form of the housing, medical and nutrition assistance we provide.

That is startling. That is dramatic. That is the measure of State and Federal assistance for noncash programs, a 100-fold increase in 25 years. The same is true of means-tested in-kind benefits alone. The third column is all transfer payments, including social insurance, so medicare is in there. But if you move to the fourth column, this is the means tested, those programs specifically designed and targeted to reduce poverty and meet the needs of the poor. Even there you will see that the amount of aid through the

[1] See notes at end of testimony, p. 286, for subsequent figure changes.

in-kind mechanism has grown just massively, from $1 billion in 1959 to $56 billion in constant dollars of purchasing power in 1982.

Now, this table indicates that it is critical that we include these dollars, this kind of support, in our measures. In my last two columns, I have indicated the percentage of our total transfer payment system that is provided by in-kind benefits. And again you can see the change has been startling. In 1959, it was less than 2 percent for all of the transfer payment system. By 1982, it was 30 percent. But perhaps more significant and important are the figures for the means-tested programs, those that we target at citizens in this country in need. In 1959, 90 percent was cash, and 10 percent was in kind. In 1982, 72 percent was in-kind, and only 28 percent was cash.

So obviously if we want to have a measure, if we want to have a comprehension of the poverty problem and its extent, we have to include in-kind benefits. Now, there are problems in doing this, and you have heard a lot of expert witnesses about it. There too two divergent or different kinds of problems that we are grappling with. One is underreporting. Because the poverty statistics are based on the Census Bureau surveys, it is made very clear by matching the results of those surveys with what we know is going out of government budgets that a significant fraction of both cash and in-kind benefits is not reported and does not show up in the official surveys.

This fact is indicated in my table 3 on page 7. Basically what we conclude after analyzing the statistics is that about 15 percent of social insurance is not reported and not reflected in the Census Bureau data. That is $38 billion that is missing in the income count. About 26 percent of means-tested cash is not reported. And for means-tested noncash or in-kind benefit programs, food, housing, and so forth, a third is not reported and reflected in the statistics.

So overall something like $62 billion worth of social insurance and means-tested transfer payments does not show up in the Census Bureau statistics. Some 20 percent is not reported. On the other hand, there is a second and equally great problem. And that is, how do we value a subsidized housing unit or a food stamp entitlement or medicare or medicaid eligibility.

Throughout the remainder of my testimony, we have used market value. And although there can be great debates about this, I think the market value measure is the best one, the most practical, because what we are attempting to understand or ask is how much additional cash income would it take to purchase the same medical insurance protection, the same unit of section 8 housing or the same amount of food that is purchased with food stamps.

Now, some recipients may feel they are not getting 100 cents' worth of benefit for the dollar of value that it takes to purchase these in-kind benefits. And that is a different issue, one of subjective valuation. But if we were to ask what would the proper statistic of income be if we gave cash to purchase these things in the marketplace, then I think the market valuation approach is correct.

There is great debate about medicare specifically. And I think there is often confusion between the issue of the inefficiency of our medical care market generally and the value of the medicare entitlement. It is true that our medicare medical market generically is generally inefficient, that people probably do not get 100 cents worth of value. But that is true for everybody—the working, nonworking, those who pay for it themselves, those who receive government benefits. Given that that market exists and that people want protection and some people do not have the income to buy that protection, there is little doubt in my mind that the medicare entitlement should be valued at its actuarial value.

If people could buy more insurance protection on their own for far less than the medicare value, it would be a good argument for his committee to conve[illegible] immediately and pass a voucher system so that the elderly wou[illegible] have the cash in hand to get better health care protection o[illegible] keep some of it for other uses. You haven't done that. And w[illegible] haven't made a strong argument in that direction because there is no evidence under the existing structure of the health care system that we can buy much more with the dollars that we are spending.

Well, Mr. Chairman, if you then take into account the explosive phenomenon that I have just demonstrated, a 100-fold growth in in-kind benefits over the last two and a half decades, and factor that into the official poverty count, I think we see a somewhat different picture. I have provided this picture in the table on page 8, table 4. The official poverty rate, the share of citizens under the poverty line in 1982 was 15 percent. But if we factor in all of the in-kind benefits, we believe the rate drops to 9.6 percent. That is still too high. But it does indicate that despite a variety of problems we have had in this society in recent times—too much inflation, too little economic growth, too much start-stop-change in our economy, a transfer payment system that is large but does not meet all the needs—we are making steady progress in reducing the true rate of poverty.

In 1959, when in-kind benefits did not exist, the measured poverty rate measured the true poverty rate; it was 22 percent. By 1966, when in-kind benefits were only a marginal phenomenon, $6 [2] billion a year in constant purchasing power, the poverty rate was 15 percent. In 1982, despite all the problems and adverse developments in the economy, the poverty rate we believe was under 10 percent. That indicates steady decline in the true extent of poverty over time. I am not suggesting that that is satisfactory. I am suggesting it is too high. But I am suggesting that we are marching forward as a society to reduce the degree of poverty if we measure it correctly. We have been doing so steadily over the last two and a half decades.

Now, Mr. Chairman, I would like to turn to the first group of my four classes, because we have different results and different answers in each case, as I have tried to suggest. Turning to page 10 and the first group: the elderly, I simply want to reiterate here what I think is a rather startling and rather significant improvement in the trend of poverty. If you look at this table, you will see that the absolute number of the elderly who are in poverty has declined substantially over the last two decades, from 5.5 million to

[2] See Notes on p. 280.

3.7 million. At the very same time, the number of elderly in our society doubled. As a result, the poverty rate among the elderly, even at the official money income count of the Census Bureau, has declined dramatically, as you see in column 2, from 35 percent in 1959 to 14.6 in 1982.

Now, I think this is significant because in 1959, the incidence of poverty among the elderly was far higher, nearly double what it was for our society as a whole. The poverty rate in 1959 was 22 percent. The rate for the elderly subgroup was 35 percent. By 1982, we see that the rate for the elderly was below the rate for the average and for the entire population, and this is only on a cash basis.

I will show you a more complete and better picture in just a moment. Now, in my view the major reason for this welcome improvement is shown in column 3. We have seen our social insurance system mature and grow into a fundamental major network or structure of support for our retired population. In constant dollars it only provided $32 [3] billion worth of support in 1959. In constant dollars the cash social insurance provided $205 [3] billion in 1982. But if you turn to page 11, I think the picture is even more dramatic than this first table would suggest because the first table is based just on cash income, whether it is from savings or earnings for a few, or social security for most.

In this table—table 6—we factor in the additional benefits that are provided to the elderly population. Basically if we want to know what our government is doing in terms of reducing poverty among the elderly component of our population, this table tells a heartening story. If we did not have the social insurance system in this country, 55 percent, one out of every two elderly people would be poor. But as a result of the social insurance system, both the cash side, social security and medical side, medicare, the true rate of poverty among the elderly drops from half to 8 percent. That is what the social insurance system does to eradicate poverty among our elderly and retired population.

Then if we add in the supplementary support that comes from means-tested cash benefits, mainly SSI, the rate drops to 5.5 [4] percent of the elderly who are poor. If we then further factor in some additional benefits that accrue through subsidized housing units, medicaid benefits in addition to medicare, and the various nutrition programs, we can see that the rate is 3.7 percent.

Now, to put this perhaps more tangibly into perspective let me just say, without our transfer payment system there would be 13 [5] million poor people in elderly families in this country. Over half of all the elderly. With the entire transfer payment system, social insurance plus the means-tested supplements, there are only about 950,000. That indicates that in this area of our society and in terms of this component of the problem, we have a system that is working, the government role is predominant. And it is important that we make sure that, over time, we as members of the administration and as Members of Congress manage this social insurance system in a way that it remains solvent so that the kind of dramatic improvement that you see in this table, mainly as a result of that system, can be guaranteed for the future.

See Notes on p. 286.

Now, I think another way to look at this issue of the impact of our governmental programs, our transfer payment system, on the elderly is not merely to measure a head count, but also to look at what we call the poverty gap. The poverty gap is simply a measure of the additional dollars that would be needed to bring every single elderly person up to at least the poverty line threshold.

If you look at table 7, I think you see even more dramatically the same story that I have just tried to tell in terms of numbers. If we did not have this transfer payment system, both the social insurance side and means-tested side, half of the elderly would be poor, and they would be short by $44 billion what they would need even to come to a minimal poverty level living standard, a poverty line living standard for each person in the elderly cohort of our population.

But as a result of the social insurance system, that deficiency or gap, that deficit of $44 billion, dramatically declines to $3 billion. That is all the additional assistance that is needed after social insurance to bring everybody up to at least the poverty line. When we add in then the means-tested cash benefits, SSI, the gap is reduced further to $1.9 billion. And when we add in finally the in-kind benefits, the gap declines to only a little over a billion dollars. What that tells you then, if I can sum it all up, is that we are a $3 trillion society, and basically as a result of what we have evolved over 30 years or 40 years is a system that leaves only a small fraction of the elderly in true poverty and that misses eradicating or eliminating the problem, at least statistically, by only a very small amount of money relative to the size of our system.

So my conclusion, Mr. Chairman, is that social insurance is the critical or important thing to worry about in terms of this component of poverty, that the supplements we provide in means-tested benefits are important; and that, together, they fundamentally transform the nature of our society and extent of poverty among the elderly.

Now, I would like to turn now to the remaining three groups in the poverty population. Again, I think we will see some fairly interesting, and I think important, insights as a result of some of this information we have pulled together. For the nonelderly, we have a complex picture but, I think, some very clear hints as to what policy ought to be doing to reduce its magnitude and extent. If you would turn with me to page 14 of the testimony and table 8. The first table focuses on my second group, which is female-headed households who are in the poverty group in our society.

Now what you see there is a very depressing story on every count. The number of poor in this category has increased from 5 million to 11 million over the 1959-82 period. The share of the poverty population, excluding the elderly, accounted for by female-headed households has increased dramatically from a seventh to more than a third—37 percent. And perhaps most depressingly, the poverty rate among this component of our population has basically not changed in 25 years. It was about 45 percent in 1959. There have been little ups and downs as you look at the numbers over the years. However, in 1982 it was 42 percent.

Now, this is despite the growth during this same period of time in our means-tested benefit system, which as members of this committee well know, is driven by the AFDC household type—the female-headed household type—because that is the entry program. If you are in AFDC, you are automatically eligible for medicaid and probably receive other benefits. So despite the fact that over that 24-year period the sum total of benefits, cash and in kind, grew from $12 billion to $80 billion, the incidence of poverty among this component of our population didn't change, the absolute number doubled, and the rate or share of our total poverty problem or magnitude increased enormously.

Now, later I am going to present some statistics which suggest that in this second group there are really two subgroups. And that the policy answer, what we should do as a government, differs for the two groups. It would appear as a result of this new analysis of longitudinal data that some significant share of female-headed poor households or AFDC poor households are only temporarily on the system and dependent on benefits for a year or two. Now, it is clear that in that group or that category, economic growth, the availability of jobs, the availability of opportunity is the critical policy variable.

On the other hand, it is also clear that over time nearly half of AFDC is accounted for by households which are more or less permanently on the rolls, that according to these data they had been or would be in the program for more than 10 years. Here it would appear to me that we have a twofold implication for policy. No. 1, they need more income. That is why they are below the poverty line. I would suggest that one thing we need to do is make sure that the fathers who are out there are contributing more, both in terms of support payments and also in terms of what their medical insurance could provide if they were required to cover their children.

Second, since one half of the AFDC population is long term, 8 years or more, we have to raise some serious questions about whether or not we could better structure the incentive system to encourage greater movement off the rolls, such as the movement we see in that other part of the AFDC population that is only on the system temporarily. I will get to more of that in a moment, but if you would look now at table 9 which deals with my third group. This group both demographically and economically and in terms of policy differs still again relative to the first two.

This third group is single individuals under 25. You can see in terms of numbers that is mainly a demographic phenomenon. The incidence of poverty among this group has gone down relative to 1959, but if you look at the table you can see that really over the last decade and a half it has been about a third. Now, what does this mean and what do we do about it? I don't think anybody has the answers, but it would appear to me that, in part, this is a life cycle phenomenon.

People leave the household of their parents. They are in the labor force at a low earnings level or sporadically employed as a result of problems in our economy or inadequate skill training, or all the other issues that you could mention. And as a result, a third of this age group tends to be in the poverty population over time. But we have some census data that suggest that they don't stay in the poverty population; that as they become older, as they develop a skill; as they become family heads, their income rises and their incidence of poverty drops dramatically.

I would give you one example of this phenomenon. We looked at a cohort from the 1970 census of this age group, those under age 25 living outside the parents' household. Twenty-three percent of them were poor. By 1975, after 5 years when all of them obviously were 5 years older, and most of them were no longer in this age group, the poverty incidence had declined to 10 percent. So merely the passage of 5 years had caused the poverty incidence to decline rather dramatically. Now what does this suggest for policy? It suggests to me that there is probably some frictional level of poverty that is going to occur as people enter our society as adults. But there are probably two things that we can do to reduce its incidence and its extent.

No. 1: if we have an evenly performing growing economy, obviously it is going to be easier for these people to attach themselves to the labor force and to move out, on this life cycle basis, of the poverty level or count as I have indicated. Second, obviously as we look at our various vocational and manpower training systems, it is clear that to the extent that we improve them and thereby help people to enter the mainstream of the labor force faster, the level and incidence of poverty for this group will fall.

I think that what we have done in the job training program through the major reforms of the last 2 years should begin to bear fruit in terms of solving this problem, as will economic growth.

Now, if you look at my final group on the next page, table 10. This group consists of the working age population of this country that is poor and between 25 and 65 years of age. For this group, you see that the number has gone down from 1959, but there has been retrogression ever since 1973 when the strong economy of the sixties turned into the inflationary, nongrowing, volatile economy of the late seventies and early eighties. While the poverty rate has gone down from the 1950's level of 19 percent, obviously that 10.4 percent in 1982 is way too high and worrisomely above what it reached at the peak of our economic expansion in 1973.

Chairman RANGEL. Mr. Stockman, could we pause for a minute to take a look at our time because I know you have a time schedule that you have to keep.

Mr. STOCKMAN. Well, Mr. Chairman, I would be willing to spend a little more time if you would be willing to give me a few minutes to get the rest of this in. I have covered most of it.

Chairman RANGEL. You can go as long as you want because we are prepared to stay here. I just was trying to accommodate you.

Mr. STOCKMAN. Let's work on that basis, Mr. Chairman.

Chairman RANGEL. Very good.

Mr. STOCKMAN. Now, in this area it is fairly evident just from looking at these statistics, both in terms of numbers and incidence, that economic growth and performance is critical because this is the age group capable of working. These are not female-headed households with dependent children. And it is clear that since 1973, we have been moving backwards. Now, I think there are two reasons for this. One, I will call the trend growth of the economy, and the second I will call the cyclical performance of the economy.

If you look at page 11, I think you see rather dramatic evidence that the single most important thing we can do to reduce poverty among this category, and this group accounts for half of the poor in our country, is to make sure that, over time, our economy grows steadily at the strongest possible rate.

Chairman RANGEL. That is table 11, not page 11.

Mr. STOCKMAN. Excuse me. Table 11, page 16. I have divided the last 25 years into three periods here. You can see that from the period 1959 to 1966 we had very strong economic growth, 3 percent a year per capita real GNP growth. During that period, the rate of poverty for all the nonelderly declined 6 percent a year but for the nonelderly, non-female-headed share of the poverty population it declined more dramatically, over 8 percent a year. Then, in 1966 to 1973, we continued to have economic growth, although less robust, of 2.8 percent per year. The rate of decline in poverty slowed down and slowed down especially for the nonelderly, non-female-headed households. It declined from over 8 percent to less than 6 percent.

Then, from 1973 to 1982, when real economic growth per capita was less than 1 percent, the rate of poverty reversed itself and increased at 4 percent a year overall for the nonelderly but 5 percent a year for the working age group, 25 to 65, when female-headed households are excluded. So I think it is very clear from this table that if we can grow the economy in the eighties—now that we have the inflation behind us and we have gone through the adjustment of this recession—at the rate that it grew in the sixties, that the elevated level in incidence of poverty that we have in this fourth group at the present time can and will dramatically decline because history provides ample evidence that that has occurred.

But equally important, we must have steady economic expansion. I think that is shown on page 17 at table 12 because what I have tried to do here is indicate what happens when we go through one of these start-stop spells, boom and bust, in terms of the poverty incidence among this fourth component.

What you will see is that in the 1973 to 1975 recession, the 1979 to 1980 recession and the 1981 to 1982 recession, there were dramatic changes in the increases in the number of poor in this category of nonelderly, non-female-headed households. There was an 18 percent a year increase in the poverty incidence in the first recession, and numbers nearly that high in the second and third.

Now, if the economy is backing and filling every 3 or 4 years from boom to recession, we are simply fighting a hopeless battle, in my view, in trying to reduce poverty among the working age population because all the gains that we make tend to be wiped out, as people are unemployed, their incomes drop, and their circumstances deteriorate. So this, it seems to me, demonstrates better than anything else that in terms of public policy, keeping this economy on an even keel, expanding at a strong but even rate, is as important as the trend rate of growth itself.

Now, Mr. Chairman, there is an additional point that I would make regarding this group of the poor. Even though it is clear from this evidence that for the non-female-headed, nonelderly group of the poor, economic growth is critical, it is nonetheless true that our transfer payment programs are important, albeit secondary, as well. And one of the problems that I think we have most critically, and perhaps paramount here, is that our system somehow is not very well targeted to putting the dollars where they are needed. If you look at table 13, you will see a pretty dramatic evidence of this.

If you look at the line 1981, what that says is that if somebody handed out $51.8 billion in 1981 to those who were officially below the poverty line as measured by census, all poverty would disappear; everyone would be brought up to the poverty line with $50 billion. Well, as it turns out, in 1981 we actually spent $81 billion in means-tested transfer payment programs from AFDC to section 8 housing, trying to do that. And after we had made all of those benefits available through a variety of different programs, the income deficiency, the amount needed to bring everyone up to the poverty line, is still $24.7 billion.

In other words, to restate and drive this point home, before $1 of Government welfare benefits of any kind, we needed $50 billion to eradicate poverty, at least in the statistical sense. We went ahead and spent $81 billion through more than a dozen major programs, and we still had a lot of poor people left, and we still had income deficiency in terms of moving everyone up to at least the poverty line of $25.8 billion.

Now, in part this is due to the lack of coordination and the enormous overlap that we have in our means-tested transfer payment system as a result of various efforts over the years to focus on one kind or aspect of the problem or another as forces moved on the Congress. I think you can see some evidence of this in my table 14, because since every committee has been involved in the action of trying to reduce the poverty gap, we have created so many different programs that in some cases we argue that in 1981 we were providing too much and in other cases too little.

Now, if you look in 1965, there were about 8.7 million people who were receiving one or more means-tested benefit. That is the unduplicated count of people who received at least one kind of benefit, AFDC, medicaid, food stamps or whatever. The total number of people enrolled in all of our means-tested programs in 1965 was 9.5 million, which means that we had an average of 1.1 program or benefit per unduplicated participant. But now look at 1980, and I think this is rather dramatic. By 1980, there were 35 million different individuals enrolled in at least one of our programs. If you add up the enrollment number for all of our programs, there were 111 million participants. And that means that on the average, people were participating in more than three programs. Some six, some seven, some one.

It is this sort of arbitrariness of participation that leaves some people short because they are only getting one benefit, and others probably getting too much because they have combined a whole package—subsidized housing, medicaid, low-income energy assistance, food stamps and other benefits. I bring this up here because one of the things that we have endeavored to do in the reforms that we made in 1981, which were approved by this committee is to put a cap on eligibility at a gross income level so that we can better target the money that we are making available, which is

---

[illegible]

huge, to the point where it is needed to fill in the shortfall that otherwise exists.

Now, I would suggest that, despite some of the criticisms that have been made there is now evidence that we can succeed. I know some members of this committee have been critical of the 1981 reconciliation reforms. I would suggest that if you look at table 15, on page 21, you see that we have done what we said we would and that in terms of getting dollars to people who are below the poverty line, we were doing more after the changes then we were before. The simple way to read this table is to look at 1981. That is prereconciliation reform. Total benefits reported by poverty families below the poverty line were $50 billion.

If we analyze the statistics we see that actually, only $25 billion of this total helped to move people at least up to the poverty line or part way there. So in a sense, 49 cents on every dollar was actually moving people from some point below poverty up toward the poverty line in terms of those receiving means-tested benefits. Now if you look at 1982, after the reforms, you see that we actually spent slightly less in constant dollars. This is what some of you have criticized.

We spent $49.1 billion rather than $49.8 billion. However, in terms of the amount of dollars that actually went to people below the poverty line and helped to move them up, nearly $27 billion went to those people below the poverty line. This figure compares to $24.6 in 1981. In other words, in 1982 54 cents on every dollar went to those below the poverty line to help improve their living standard and move them closer to a minimal basic standard of living. And so I believe that as the numbers come in for 1983 and 1984, and as these reforms are tailored, this trend will continue. Slightly fewer dollars in the total payment system for means-tested benefits—not radically fewer but slighly fewer, 4 or 5 percent. But more dollars in real terms going to those who are below the poverty line and have the highest claim on support.

Now, I would like for my concluding point to turn to page 27 of my testimony, which brings in the final issue that I believe is of critical significance. I believe that the numbers we are providing here are new. They are the results of a longitudinal survey of the poverty population that has been underway since 1970, more than a decade. The authors are Bane and Ellwood.

What this table—table 17—shows rather dramatically, and this table only shows the nonelderly, is that the performance of our economy is critical both for the female-headed households but even more so for those in the last group, those 25 to 65, labor force age, that I have mentioned before. What these data show is the reasons why people become poor when they enter poverty.

As you can see from this table, the obvious cause is that when earnings drop, people lose their job or for some other reason their earnings decline, that is the cause of 50 percent of all incidences of poverty or entry into poverty in this long, comprehensive, over time study of what causes people to be poor. However, for that 50 percent of our population, the male-headed households or individuals over 25 who are nonelderly and poor, 75 percent of all spells of poverty result from a decrease in earnings. That has to indicate that real economic growth, real job opportunities are the heart of the matter here.

If you look at the second line, I think this provides evidence of my thesis about the poor under age 25, the life cycle thesis. Nearly 16 percent of poverty results from young people leaving the home, then they are temporarily poor, but over time their income improves and they are no longer poor. Obviously another important contributor was the increase in the formation of female-headed households. That accounts for half of poverty in that group, and 11 percent of the incidence or entry into poverty overall.

The question then is if we know how people get into poverty in the first instance, what causes them to exit or leave. Table 17, I think, provides even more dramatic and critical evidence. Eighty percent of all spells or incidence of poverty terminate, people move above the poverty line when their earnings increase. They get a better job, or they get a job in the first instance, or another member of the family enters the work force. This is highly important for female-headed households. Fifty-six percent end their spells of poverty that way. But it is overwhelmingly true for male-headed household, 9 out of 10.

Now, this suggests that economic growth is important. However, I think it also allows us to focus on one final aspect of poverty, which is provided in table 18. And that is that the nonelderly poor population consists really of two distinct subgroups: Those who are persistently poor or permanently poor, and those who are only temporarily poor, poor for a year or two or three—transiently poor if I can use that term. What we find is that of all those who become poor at any time during this 10-year period, 41 percent were only poor for 1 year or less. And only a small fraction, 15 percent, were permanently poor as a result of entering the poverty ranks. But on the other hand, if you look at the second line, you see that 54 percent of poverty is accounted for by people who are permanently poor, at least as measured by this first-of-a-kind longitudinal over time survey.

Now this suggests that for that group, Government programs—how they are structured, whether or not they are adequate—is the critical variable. So even among the nonelderly we have a complicated picture. Economic growth will clearly help the half who are only temporarily poor and the half who are over 25 and in male-headed households or who are nonelderly unrelated individuals. Better Government programs, better targeting, more adequate incentive systems in our means-tested programs, I believe, can reduce the number who are either permanently poor or who are among the female-headed households—the part of the population that accounts for one-half of poverty over time. The other table that I have in the presentation simply duplicates the same results and conclusions by looking at AFDC households only. But the story there is the same as well. To help the people who account for most AFDC participation, we have to focus on improving our programs.

The other half seem to be temporary and they need to have better economic opportunities in order to reduce the incidence and reduce the length of time which they are poor.

Well, Mr. Chairman, I know that there is a lot of information here. However, I believe that by disaggregating this issue called the 34 million poor in this way, we can understand that in some cases, Government progams are critical. In other areas, among other groups, economic growth is paramount. If we can start to diagnose and break down the problem, and maybe overcome some of this sterile debate that we have on ideological grounds, we can better understand where we need to act in terms of Government policy to make the maximum gains in reducing all categories of poverty over time.

Thank you.

[The prepared statement follows:]

REVISED STATEMENT OF HON. DAVID A. STOCKMAN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Thank you for this opportunity to appear before your Subcommittee today to discuss the issue of poverty in America. Poverty is a subject about which no one in our country can fail to be concerned. It is, however, too little understood and [illegible]. I applaud your decision to hold these hearings and hope that they will get the attention from the press and public that they deserve.

The [illegible] policy debate about the issue of poverty is unfortunately plagued with sweeping ideological propositions and endless manipulation of the aggregate poverty count and trend numbers issued by the Census Bureau -- to the detriment of both comprehension of the problem and progress on its solution. Some advocates contend that insufficient economic growth is the sole source of the poverty problem while others insist with equal vehemence that income transfer program reductions have made the problem far worse. Likewise the aggregate statistics which tell us that 34 million citizens -- 15% of the total population -- were below the official poverty line in 1982 have been analyzed, decomposed, reconfigured and projected in so many different ways as to support every imaginable policy conclusion.

So let me suggest today a number of propositions that I hope will help transcend these incessant debating points and lead us to a better diagnosis of the problem and the multiple paths to remediation of the poverty that exists in our Nation today:

1. The poor are not a homogeneous group of our citizenry whose betterment depends exclusively upon more economic growth on the one hand, or more government programs on the other. There are distinct sub-groups whose condition results from different causes and must be remedied with different solutions.

2. The official poverty count based on money income substantially overstates the rate of poverty because it ignores $107 billion in in-kind medical, housing, food and other aid that tangibly raises the living standard of many low income families.

3. The same poor people are not always with us -- even though the same numbers seem to be. The degree of temporary poverty is greater than commonly believed -- meaning that the average number of 30 million poor people for the last 23 years has consisted of substantially different people every year.

4. The long-term trends and composition of the poverty population tell a significant but complex story. Poverty rates among the elderly have been drastically reduced due to the growth of our vast social insurance system. Poverty rates among female-headed households have not changed since 1959 despite a massive expansion of means-tested welfare; poverty rates for young people under age 25 living on their own have fallen despite the rise of the youth unemployment rate and the near total absence of large scale government programs to assist them; and poverty among the working age population (25-65), excluding those in female-headed families, has declined markedly but remains far too high.

5. Economic growth since 1970 has been too sporadic and weak to help those sub-groups of the poor who can benefit most from it and the vast expansion of transfer payments has been too scattershot and ill-targeted to reduce poverty among other sub-groups who have the strongest claims on the taxpayers' support.

II. Composition of the Poor

I have suggested that different kinds of poverty require different approaches to policy. While no categorization scheme is perfect, let me suggest that the official poor can be divided into four mutually exclusive groups: persons in households headed by

- the elderly,
- single females with a dependent,

o other adults age 25 to 64, and

o young people age 16 to 24 -- "young singles."

TABLE 1

POVERTY GROUPS AND POLICY APPROACHES

	Elderly	Female-Headed	Young Singles	Other Adults
Composition of Poverty: 1982				
Number of Poor People (thousands)........	3,751	11,286	1,349	18,012
Poverty Rate........	14.6%	42.1%	32.0%	10.4%
Share of the Poor...	10.9%	32.8%	3.9%	52.3%
Policy Relevance				
Economic Growth.....	irrelevant	significant	significant	critical
Social Insurance....	critical	limited	irrelevant	irrelevant
Means-Tested Benefits..........	secondary	critical	minimal	secondary

For each of the groups, the available policy approaches have different effects. For instance, for the 3.7 million elderly poor in 1982, economic growth is largely irrelevant since few of the elderly have any attachment to the workforce. For 11 million poor people in female-headed families, the means-tested welfare system is of critical importance. While it provides the assistance necessary for the poor to maintain an adequate standard of living, its structure is also imbedded with adverse incentives that may impede labor force attachment and promote dependency.

III. The Poverty Count: ~~The In-Kind Benefit Issue~~

Much has been made of the fact that the official poverty rate in 1982 was the same as it was in the mid-1960s. To some people, this fact reflects the failure of social welfare policies. To others, it implies a shredding of the social safety net. In large degree, however, it reflects problems in the way we measure poverty.

In deriving the official poverty counts, the value of noncash assistance such as Food Stamps, housing subsidies, and medical care is not included as income. Yet, these benefits do raise the recipient families' real income and, hence, their standard of living. That is the very purpose of these programs. The total exclusion of any value of noncash assistance when measuring the incidence of poverty is a key reason why measured poverty has not declined during the last decade.

Table 2 illustrates how the importance of noncash assistance in our means-tested transfer system has increased over time. In 1959, only 10.5 percent of means-tested transfer payments were in the form of noncash assistance. Most of this aid was acute health care for the indigent elderly and food under the commodity distribution program. By 1973, as noncash assistance expanded under the Medicaid program, the Food Stamp and Child Nutrition programs, and the several housing assistance programs, over one-half of all means-tested assistance was provided in the form of noncash benefits. In 1982, more than 70 out of every 100 dollars in means-tested assistance was noncash. When Medicare is included, total outlays in the form of noncash assistance reached $107 billion.

TABLE 2

TRANSFER PAYMENTS
(billions of 1982 dollars)

	Total		Noncash		Noncash as a Percent of Total	
	All Transfers	Means-Tested Only	All Transfers	Means-Tested Only	All Transfers	Means-Tested Only
1959	$ 73.2	$12.6	$ 1.3	$ 1.3	1.8%	10.5%
1966	113.0	20.2	6.8	6.8	6.1	33.8
1973	220.8	52.3	50.0	29.3	21.7	56.0
1982	362.3	78.8	106.9	56.4	29.5	71.6

The failure to count such a large expenditure of noncash assistance, not only causes a direct overstatement of poverty, but also may contribute to increases in measured poverty. If noncash programs contain any work disincentive, then they can only act to increase measured poverty. In light of these implications, it is hardly surprising that in 1982 measured poverty was higher than it was at the outset of the War on Poverty.

Why have in-kind benefits not been counted as income for the purposes of computing poverty? The method for determining the incidence of poverty pre-dates the existence of most in-kind transfer programs. Moreover, during the entire decade of the 1970s, data necessary to count in-kind benefits in determining a family's income were not available.

Data are now available, but they are of uncertain quality. The household survey used to compute the extent of poverty relies on voluntary responses by one household member. Comparisons between the survey responses and actual program data on recipients and benefits reveals a significant amount of underreporting in the household survey. Some measures of the underreporting in 1982 are provided in Table 3.

TABLE 3

UNDERREPORTING OF BENEFITS

Program	Percent of Benefits Not Reported	Estimated Benefits Not Reported in 1982 (in billions)
Social Insurance.......	15%	$38
Means-Tested Cash......	26	6
Means-Tested Noncash...	36	18
Total of Above.........	19	62
Total Means-Tested.....	33	24

In addition, even if all benefits were accurately reported, there would still be a question of how to value the in-kind benefits. This issue has been the subject of an extensive amount of research and has been addressed in some detail by other witnesses.

In the calculations that follow, noncash benefits received by families have been assigned their market value for illustrative purposes. Using this broader approach to income, I have recomputed the poverty rates for 1981 and 1982. Table 4 reports the results of these calculations.

TABLE 4

IMPACT OF NONCASH ASSISTANCE ON POVERTY RATES

	Official Poverty Rates	Adjusted for Noncash Assistance
1981.............	14.0%	8.5%
1982.............	15.0%	9.6%

The lesson to be drawn from Table 4 is clear. Substantial progress has been made during the last 23 years in reducing poverty. Contrary to press reports last July at the time the official poverty statistic was released, poverty is not nearly as extensive as it was at the outset of the War on Poverty. It is 15 percent in 1982 only when the $107 billion in noncash assistance provided during the year is valueless. When reported noncash assistance is counted as income, the rate is reduced to 9.6 percent. Were the $24 billion in unreported means-tested benefits included in the calculation, the poverty rate would be even lower.

IV. Economic Status of the Elderly

Over the past fifty years, the Nation has developed a vast social contract that has allowed older Americans to leave the work force voluntarily in ever increasing numbers. The Social Security system has matured, real increases in replacement rates were legislated over the 1968-1973 period, and post-retirement benefits were indexed for inflation. While the private pension system is not yet as mature as the Social Security system, effects of its encouragement by the government, unions, and industry are beginning to become noticeable, along with the results of government incentives for private homeownership. Several studies have demonstrated that the elderly have the same general economic well-being as the non-elderly, and, according to some measures, possibly better. Not surprisingly, as illustrated in Table 5, the poverty rate among the elderly has fallen a dramatic 60 percent since 1959 and in 1982 even dropped below the rate for the non-elderly.

REVISED TABLE 5

TRENDS IN CASH TRANSFERS AND POVERTY AMONG THE ELDERLY
(persons in thousands and 1982 dollars in billions)

Year	Number of Elderly Poor	Poverty Rate	Cash Social Insurance
1959	5,481	35.2%	$ 39.1
1966	5,114	28.5	73.5
1973	3,354	16.3	129.7
1982	3,751	14.6	194.6

While it is difficult to make precise statements about the impact of direct assistance in reducing poverty during the 1960s and early 1970s, it was during this period that the Social Security system began to reach full maturation. A more complete picture of the profound impact of social insurance and other assistance programs on elderly poverty is described in Table 6. This table examines the impact of social insurance, means-tested cash assistance and means-tested noncash assistance on the elderly poverty rate in 1982.

TABLE 6

IMPACT OF TRANSFER PAYMENTS ON POVERTY AMONG ELDERLY	
Poverty rate before transfer payments..........	55.1%
Poverty rate after transfer payment:	
o Social Insurance............................	7.9%
o Means-tested cash benefits.................	5.6%
o Means-tested in-kind benefits..............	3.7%

Before social insurance the poverty rate was 55.1 percent -- about the same as it was in 1967 (55.9 percent). Social insurance payments, principally retirement benefits, reduce this rate by 86 percent or 47.2 percentage points. Means-tested cash benefits (SSI) reduce it by another four percent of the original level and means-tested in-kind benefits by another three percent. From this viewpoint, government benefits move out of poverty 93 percent of the elderly who would otherwise be poor.

Table 7 illustrates the same point using the reduction in the poverty gap as its measure. It compares the poverty gaps for the elderly with the benefits reported in the CPS before and after transfer payments in 1982. The poverty gap before social insurance is $44.1 billion. Ninety-three percent of this gap is eliminated by social insurance. Another four percent of the gap is eliminated by means-tested benefits. A total of 97 percent of the pre-transfer poverty gap of the elderly is filled by government benefits.

TABLE 7

IMPACT OF TRANSFER PAYMENT ON ELDERLY POVERTY GAP IN 1982 (billions)	
Poverty gap before transfer payments	$44.1
Poverty gap after transfer payments:	
Social Insurance	3.0
Means-tested cash benefits	1.9
Means-tested in-kind benefits	1.4
Reported transfer payment amounts:	
Social Insurance	160.2
Means-tested cash benefits	2.9
Means-tested in-kind benefits	6.5
Total reported benefits	169.6

As both of the above tables clearly indicate, the network of social transfer programs benefiting the elderly has profoundly reduced the incidence of poverty among the elderly.

As a result of the recent actions by the Administration and Congress, the transfer programs for the elderly will continue to serve as a major tool for alleviating poverty among the elderly. The Social Securi* system has been placed on a sound financial footing. SSI ben..its for those suffering financial hardship have been raised and eligibility has been expanded. These reforms, combined with the maturation of the private pension system and increased sa 'ngs due to enacted tax reforms, will ensure continued improvements in the economic well-being of the elderly.

V. Divergent Poverty Trends Among the Non-Elderly Population

The last 23 years have seen significant changes in the non-elderly poverty population. Tables 8, 9, and 10 provide historical data on the three non-elderly groups. Note that:

- The large growth in the share of poverty accounted for by people in female-headed families does not result from an increase in their incidence of poverty but from the sheer increase in their numbers.

- In contrast, the young single and other adults groups have experienced significant reductions in their poverty rates. Virtually all of these reductions, however, occurred by 1973.

- For young singles, there were further reductions in the incidence of poverty after 1973 despite the strong secular upward trend in their unemployment rate.

- For all groups, but in particular the other adults group, there has been a considerable erosion of progress against poverty during the 1980s.

TABLE 8

POVERTY TRENDS AMONG PERSONS IN FEMALE-HEADED FAMILIES
(percents and thousands of persons)

	Persons in Poverty (thousands)	Share of Non-Elderly Poverty Population	Poverty Rate
1959............	5,243	15.4%	4[illegible].9%
1966............	6,500	27.8	42.2
1973............	7,909	40.3	39.5
1975............	8,656	38.4	39.8
1980............	9,852	38.8	38.5
1982............	11,286	36.8	42.1

TABLE 9

POVERTY TRENDS AMONG SINGLE INDIVIDUALS UNDER 25
(percents and thousands of persons)

	Persons in Poverty	Poverty Rate
1959....................	506	51.7%
1966....................	481	37.8
1973....................	1,015	33.8
1975....................	1,046	30.8
1980....................	1,275	27.2
1982....................	1,349	32.0

TABLE 10

POVERTY TRENDS AMONG PERSONS IN MALE-HEADED FAMILES AND SINGLE PERSONS 25 AND OVER (percents and thousands of persons)	Persons in Poverty	Poverty Rate
1959	28,260	19.1%
1966	16,415	10.3
1973	10,695	6.5
1975	12,858	7.8
1980	14,274	8.4
1982	18,012	10.4

VI. Long-Term Economic Growth and Non-Elderly Poverty

The trends in non-elderly poverty I have just outlined parallel changes in aggregate economic conditions. Table 11 compares the annual growth rate in per capita real GNP to the annual rates of change in poverty rates for the non-elderly including and excluding female-headed families.

TABLE 11

ECONOMIC GROWTH AND POVERTY			
	Annual Growth Rate		
	1959-66	1966-73	1973-82
Per Capita Real GNP..........	3.0%	2.4%	.9%
Poverty Rates of:			
Non-elderly.................	-6.4	-3.3	+4.0
Non-elderly Excluding Those in Female-Headed Families....................	-8.2	-5.7	+5.0

The economy grew at a rapid pace during the years 1959-66. Real GNP rose at an annual rate of 4.4 percent and on a per capita basis, at 3 percent. Matched by few periods in the twentieth century, this remarkable seven-year growth pulled the poverty rate for the non-elderly down at an annual rate of 6.4 percent. The rate excluding female-headed families was pulled down even faster.

The economic growth of the 1960s continued, albeit with one interruption, into the early 1970s. From 1966 to 1973, per capita real GNP continued to grow, although at a somewhat slower annual rate of 2.4 percent. The measured rates of poverty continued their downward trend, also at somewhat slower rates.

Throughout the remainder of the 1970s and the early 1980s, per capita GNP on average grew at the relatively sluggish rate of only .9 percent per year, and both poverty rates grew markedly. However, this period is better characterized as one of several wide swings in the business cycle. The critical importance of swings in the business cycle to non-elderly poverty is illustrated in Table 12. In each of the three recessions that occurred during the period 1973-1982, the poverty population rose significantly.

TABLE 12

THE EFFECTS OF RECESSION ON POVERTY

Recession Period	Change Per Capita Real GNP	Percent Changes in Number of Poor Persons: All Non-Elderly	Percent Changes in Number of Poor Persons: Non-Elderly Excluding Those in Female-Headed Families
1973-75	-3.6%	15.0%	18.7%
1979-80	-1.4	13.4	17.6
1981-82	-2.8	9.6	12.7

These patterns clearly suggest the importance of economic conditions to the incidence of non-elderly poverty, especially for those who do not live in female-headed families. The significance of economic growth for poverty should not be surprising. A three percentage point increase in GNP adds over $50 billion to incomes of individuals. Although this income is spread across the income distribution, the variations in poverty over the business cycle are ample evidence that the poor and near-poor benefit considerably from economic growth.

VII. Inadequate Targeting of Means-Tested Benefits

Sporadic economic growth, however, only partially explains the failure of poverty to decline during the last decade. The ineffective targeting of means-tested benefits is another significant factor.

To illustrate this inefficiency, I have computed measures of the pre-welfare "poverty gap." This gap represents the amount of means-tested expenditures necessary to raise all poor persons out of poverty. Table 13 compares the constant dollar poverty gap to the constant dollar amounts actually spent on seven major means-tested programs.

REVISED TABLE 13

INEFFICIENCY OF MEANS-TESTED TRANSFERS
(in billions of 1982 dollars)

	Pre-Welfare Poverty Gap	Means-Tested Transfer Payments*	Post-Transfer Poverty Gap
1970............	$39.3	$33.3	N.A.
1981............	$50.1	$81.0	$25.6

* Includes in-kind benefits

Relative to the social need, means-tested assistance has grown markedly. In 1981, expenditures were 60 percent more than necessary to statistically eradicate poverty. At the same time, fewer than one-half of those expenditures actually reduced the extent of poverty. The other half went to people who were not poor to begin with, or raised real incomes of some families far above the poverty line.

Some of this inefficiency is, of course, only apparent. People's incomes and living arrangements may change over the course of the year, while poverty is measured on an annual basis. And a small percentage of means-tested assistance is also devoted to those whose medical expenditures are sufficient to reduce their cash incomes, after these expenditures, to a level below the poverty line.

Nevertheless, much of this inefficiency is real. It stems in large measure from the proliferation of benefit programs and a lack of coordination among them. As Table 14 shows, in 1965, welfare recipients on average participated in one means-tested program. By 1981, they participated in three.

TABLE 14

MEANS-TESTED BENEFIT RECIPIENCY*
(persons in millions)

	1965	1980
Number of Recipients Getting 1 or More Benefits	8.7	35.2
Total Benefit Program Enrollment	9.5	116.0
Average Number of Benefits Per Recipient	1.1	3.3

* SSI, AFDC, Food Stamps, Housing, Medicaid, School Lunch, Student Financial Assistance, Refugee assistance, EITC, LIHEA.

Source: Office of Research and Statistics, Social Security Administration.

In 1981, this pyramiding of benefits resulted in some families who received assistance directed toward the needy having total incomes well above the poverty line. For example, while Section 8 rent contribution rules counted AFDC payments as income, they did not count the value of other aid such as Food Stamps. Similarly, the value of rental assistance and the value of energy payments were not counted as income for Food Stamp purposes. Hence, in the higher-benefit states, the full basket of cash and in-kind benefits could carry imputed values in the $10,000-$15,000 annual range.

It is no small wonder that the electorate demanded reform in the 1980 election to curtail the excesses of the system. And it is no small wonder that in 1981 Congress acted.

VIII. Entitlement Reforms: 1981-1982

As the members of this Committee know, the focus of the 1981 reforms was on the means-tested entitlement programs. Specifically, our objective was to improve the targeting and incentive structure of these programs and to reduce or eliminate benefits among those who are not in need. For example, we imposed gross income limits well above the poverty line in AFDC, Food Stamps, and the free and reduced price lunch/breakfast programs. Deductions in AFDC were restructured, and the assistance unit was expanded to recognize the contribution to family well-being of the income of all family members.

The impact of these reforms on program efficiency is described in Table 15. The percentage of means-tested benefits going to reduce the extent of poverty -- the target efficiency index --

rose from 49 to 58, a 10 percent increase. Fewer constant dollar benefits were spent in 1982. However, in real terms, benefits going to reduce the degree of poverty rose by 9 percent.

TABLE 15

IMPROVED TARGET EFFICIENCY OF MEANS-TESTED BENEFITS*
(billions of 1982 dollars)

	Total Benefits	Amount of Benefits Reducing Poverty	Target Efficiency
1981			
Cash	$16.9	$11.6	69%
In-Kind	32.9	13.0	39
Total	49.8	24.6	49
1982			
Cash	16.5	12.1	73
In-Kind	32.6	14.6	45
Total	49.1	26.7	54

* Included are only those AFDC, SSI, Food Stamps, free and reduced price school lunches, Medicaid and housing benefits individuals reported receiving. Target efficiency is the percent of expenditures going to reduce the poverty gap.

Source: Special tabulations on March 1982 and March 1983 CPS.

This improvement in target efficiency is reflected in the change in the proportion of people who were non-poor prior to receipt of means-tested benefits who received such benefits. Between 1981 and 1982, benefit rolls among the non-poor were reduced by six percent. Correspondingly, there was a one percent increase in the proportion of the poor receiving assistance in 1982.

Critics of the Administration and Congress have charged that this efficiency was achieved at the price of devastating the social safety net. That charge is simply not true.

If, indeed, the social safety net had been devastated, the increase in poverty between 1981 and 1982 should have been much larger than the increase in previous recessions. It was not. As Table 12 above shows, the increase in poverty between 1981 and 1982 was smaller than the increase in earlier recessions.

Critics also have charged that the reforms we enacted were unduly harsh on the working poor. That assertion, too, is untrue.

- o The proportion of households with any earnings and cash incomes below the poverty line who received means-tested benefits in 1982 was substantially the same as in 1981: approximately 50 percent.

- o The dire predictions of those who opposed the gross income cap and limiting of work disregards in AFDC also did not come true. Contrary to assertions that wage-earning recipients would quit their jobs to stay on welfare, the number of recipients who quit work or lost jobs and returned to welfare was the same both before and after the 1981 Reconciliation Act -- [illegible] percent. Indeed, the change produced the necessary incentive for the vast majority of working recipients to make the transition from welfare to self-support. Cases with earned income moved off the AFDC rolls twice as fast after the changes were made as they did before.

- And critics' rhetoric to the contrary, the income tax changes enacted in 1982, when fully implemented, will disproportionately benefit those with taxable gross incomes under $10,000. Taxes for these households will be reduced by 31 percent, a greater percentage reduction than for any other income class.

The impact of the 1981-82 reforms is perhaps best understood by looking individually at the major means-tested programs in turn.

- In AFDC, real benefits per recipient will hold level between 1981 and 1983. In contrast, during the previous Administration, when prices rose 45 percent in four years, real AFDC benefits per person fell 10 percent.

- In housing, the number of households receiving HUD subsidies will increase from 3,297,000 in 1981 to 3,723,000 in 1983, a 13 percent increase.

- In Medicaid, funding changes have precipitated a rethinking of programs along lines which are already rebounding to the benefit of the needy. The Intergovernmental Health Policy Project, which has been systematically surveying State Medicaid programs, outlines the strong contrast between 1981 and 1982 in their most recent report (April 1983). They note that out-of-control growth prior to the reforms of the last two years was forcing states to retrench, often to the disadvantage of recipients. In contrast, new flexibilities provided under the reforms have allowed states to increase services and add beneficiaries. Specifically, they note that:

-- "Nineteen Eighty-One can be characterized generally as a period of moderate retrenchment on the part of many State Medicaid programs and severe retrenchment for a few.

-- "Perhaps the most striking difference between the two years [1981 and 1982] is that even in the face of continued fiscal stress, a substantial number of States acted in 1982 to add new services, reinstate previously eliminated benefits, lift existing restrictions on access, or even increase payments to providers.

-- "Also in contrast to 1981, 1982 marked the beginning of a gradual shift in the focus of cost-containment activities away from the traditional short-term strategies, e.g., limitations on eligibility and services, reductions in provider payments, etc., to a concentration on more long-range, structural reforms in the organization, financing and delivery of Medicaid services."

o A similar rethinking of programs also seems to be taking place in the School Lunch program. While free lunches have remained free for children whose families have incomes below 130 percent of the poverty line, reforms enacted in 1981 reduced the subsidies for children from higher income families. As with any change in subsidies, these reforms probably affected behavior, causing some higher income families to decide the lunches were not worth their cost. In combination with enrollment declines, these behavioral changes resulted in a drop in the number of school lunches served between 1981 and 1982. As a result, schools apparently are recognizing they now are operating in a competitive environment. According to a recent article in The Washington Post (September 14, 1983), schools across the country are taking steps to make their lunches more attractive to students. A growing nationwide movement away from frozen lunch platters and a return to serving fresh foods, as well as cost-cutting measures such as bulk buying, use of computers to control inventories and to analyze costs and nutritional content of meals, and more effective use of labor are among the trends the article cites. These changes should benefit children of all income classes.

- And under Food Stamps, one in ten people in our country will receive benefits in 1983, the same percentage as in 1981 and 1982.

Viewed in their entirety, these reforms do not reflect the picture of devastation critics have charged.

IX. The Dynamics of Poverty and Additional Anti-Poverty Measures

The parallel between economic growth and poverty trends outlined at the beginning of my testimony suggests that economic growth is a major factor in combating poverty among the non-elderly. However, the non-elderly are a diverse population, including traditional male-headed families, female-headed households with children, and single youths and adults. It is reasonable to question whether all these groups will benefit from a dynamic economy.

Two new studies by Mary Jo Bane and David Ellwood of Harvard provide some answers to this question. One study examines why the non-elderly become poor and how they escape from poverty. The other examines the experience of women on AFDC. Both of these studies are based upon the longitudinal Panel Study of Income Dynamics. To my knowledge, they are unique in their approach. Rather than examining poverty and AFDC receipt over a fixed period of years or at a given point in time, they look at lengths of stay in poverty and on the AFDC rolls. This approach not only provides a more complete understanding of how much poverty and welfare receipt is transitory and how much is long term but allows the authors to estimate the extent to which poverty and AFDC participation begin and end as a result of various factors.

Bane and Ellwood's findings on the non-elderly population suggest that a strong economy <u>will</u> benefit most of the non-elderly in poverty. Tables 16 and 17 summarize their findings on factors precipitating and ending spells of poverty, classified by the type of household the person was in when his or her spell of poverty began.

- As can be seen, fully 50 percent of all spells of poverty began with changes in the earned income of the household, while 80 percent of all spells ended with an increase in earned income.

- Interestingly, the importance of earned income is strong for female-headed households as well as male-headed households. Changes in household earnings accounted for about 25 percent of entries and 55 percent of exits from poverty for both women and children in such households.

TABLE 16

FACTORS PRECIPITATING SPELLS OF POVERTY
(percent of persons or households)

		Households with Children	
	All Persons	Female Head	Male Head
Earnings Decrease... .	50.2%	25.1%	73.5%
Child Becomes Independent..........	15.6	19.6	11.3
Household Becomes Female Headed........	11.3	44.9	--
Other...............	22.7	10.4	15.3

Source: Bane and Ellwood: estimates using PSID data.

TABLE 17

FACTORS ENDING SPELLS OF POVERTY
(percent of persons or households)

		Households with Children	
	All Persons	Female Head	Male Head
Earnings Increase.....	80.3%	55.7%	92.2%
Marriage/Remarriage...	4.6	26.9	--
Other.................	15.1	17.2	7.5

Source: Bane and Ellwood: estimates using PSID data.

Table 16 also shows that about 15 percent of all spells of poverty begin with the movement of a young man or woman out of the parent's home into an independent household, indicating that poverty for some is probably a "getting started" phenomenon. Census data support this conclusion. They show that 23.4 percent of household heads under age 25 were poor in 1970. By 1975, when this group was five years older, their poverty rate had dropped to 10.3 percent. Economic growth will benefit these households, too. As jobs become more readily available and real wages increase, the process of "getting started" should be accelerated for those entering the labor force.

For a significant minority of the population who experience poverty, however, economic growth alone will not be enough. Again, Bane and Ellwood's work helps us understand why this is so.

Table 18 summarizes the results of their study of the non-elderly population. It shows that poverty for most people is transitory, but the few with very long lengths of stay in poverty account for the bulk of all poverty. They also represent the bulk of the poor at any time. For example, just over 40 percent of people who slip into poverty will be poor for a year or less, and they will account for 10 percent of poverty among the non-elderly. However, 15 percent of those who enter poverty will be poor for more than eight years, and they will represent 54 percent of the non-elderly poor.

TABLE 18

LENGTHS OF STAY IN POVERTY AND POVERTY SHARES

	1 Year or Less	1-2 Years	3-8 Years	More Than 8 Years
Expected Lengths of Stay in Poverty for People Entering Poverty...........	41%	18%	26%	15%
Share of Poverty Accounted for by People with Different Lengths of Stay in Poverty.........	10%	8%	28%	54%

Source: Bane and Ellwood: estimates using PSID data.

The results of Bane and Ellwood's study of women on AFDC, arrayed in Table 19, are similar to their findings on the poverty population. Most families' stays on the AFDC rolls are relatively short. However, most AFDC participation is accounted for by families who stay on the rolls for a long time.

TABLE 19

LENGTHS OF PARTICIPATION IN AFDC AND PARTICIPATION SHARES

	1 Year or Less	1-2 Years	3-8 Years	More Than 8 Years
Expected Lengths of Participation for Persons Entering AFDC..............	29%	19%	37%	15%
Proportion of AFDC Participation Attributable to Cases with Different Lengths of Stay............	6%	8%	41%	46%

Source: Bane and Ellwood: estimates using PSID data.

Our knowledge about why some people remain poor and some AFDC recipients stay on the rolls over time is imperfect. Nevertheless, we do have some insights.

Labor force attachment seems critical. A large body of research indicates earnings are a key factor in avoiding long-term poverty. Analyses by Coe and Rainwater, for example, show that among all potential sources of family income, the earnings component was the one which kept the largest percentages of people out of persistent poverty. Bane and Ellwood's study of AFDC mothers is consistent with this research. They find that one-half of all families who leave the AFDC rolls do so within two years and two-thirds do so within three. Similarly they find that those women who worked before going on AFDC are likely to have relatively short lengths of stay on AFDC. Interestingly, their data also show that two-thirds of the women who left AFDC as a result of earnings were mothers with pre-school children, and they conclude that having a pre-school child is not the deterrent to working one's way off welfare that many people think it is. They note, too, that those who left AFDC through earnings did so with a large jump in earnings rather than through gradual increases.

Divorce, separation, childbearing out of wedlock, and the simple fact of being born into a poor household also play a role in long-term poverty and AFDC receipt. We have known for some time that women and children in female-headed households represent a significant portion of the persistently poor. From Bane and Ellwood's work, we now know that fully 75 percent of all AFDC spells began with a relationship change which created a female-headed household. We know, too, that if a woman receives AFDC for at least two years, she and her children are very likely to be long-term welfare recipients. Their stay will be particularly long if the AFDC receipt was precipitated by the female head having a child.

Failure to enter the mainstream of American life also seems to play a role in persistent poverty and long-term participation in AFDC. By this, I simply mean that young and older adults whose behavior differs from that of most people in their age group are likely to be persistently poor or dependent on AFDC. Lack of labor force attachment, dropping out of high school, having many children, having children while unmarried, staying on AFDC for at least two years -- all of these factors are likely to result in long stays on AFDC according to Bane and Ellwood.

Finally, AFDC benefit structures may play a role in long-term welfare receipt. Bane and Ellwood find that women in the South have the shortest AFDC spells and are much more likely to leave

AFDC through earnings changes. In contrast, terminations as a result of earnings in the West are relatively uncommon, as are terminations through marriage in the Northeast.

All of these findings provide the framework for the Administration's policies for reducing poverty among the non-elderly.

Clearly, economic growth, which is the major goal of this Administration, will alleviate poverty for many households. And economic recovery is well underway. While unemployment is still too high, the recovery is taking hold:

- There has been a steady increase in the number of jobs available in our economy. Since December of 1982, civilian employment has grown by 2.9 million.

- Real earnings have begun to rise. There have been seven consecutive monthly increases in average weekly [illegible]nings, measured in constant dollars, for those on [illegible]rm payrolls. As of September, this [illegible] of earnings was up 3.2 percent over earnings measured a year earlier.

- Production has increased sharply during the past year. Real GNP rose 7.9 percent at an annual rate in the third quarter of 1983, and has risen steadily since the end of the recession.

- Industrial production in September was up 14.1 percent since November 1982.

- The index of leading indicators has increased for the past 13 months, pointing to continued healthy economic growth.

A variety of other Administration policies also will improve the well-being of these who now are in poverty or who would otherwise experience it in the future.

- Other witnesses have cited the appalling statistics on establishment and collection of child support obligations. Clearly improved child support enforcement is one means of improving the economic status of single-parent families. The Administration has moved forcefully on this front.

  -- We have established a program to withhold child support payments from the income tax refunds due to delinquent AFDC parents.

  -- We have proposed legislation to strengthen state child support programs. These reforms would mandate more effective state procedures for establishing and enforcing orders and provide performance bonuses to states based on their effectiveness in making collections on behalf of both AFDC and non-AFDC families.

- Meaningful job training can enhance attachment to the labor force. The new Jobs Training Partnership Act (JTPA), which replaces the discredited CETA program, should greatly improve the opportunities for the economically disadvantaged to gain private sector employment. Under JTPA, funds will be devoted largely to training rather than to stipends, as in CETA. In addition, emphasis will be on training the economically disadvantaged in skills needed in the local community, assuring not only that participants are employable but that they actually get jobs.

- Establishment of Community Work Experience Programs (CWEP) in AFDC and Food Stamps also will help ensure that labor force attachments are retained or gained by participants. While the Administration would prefer that these programs be made mandatory, we are heartened that so many states are implementing CWEP under the discretionary authorities provided in 1981. Similarly, we are working to encourage states to use job search programs for AFDC and Food Stamp applicants and recipients.

- For those who do work, the indexing of tax brackets, the zero bracket amount (ZBA), and the personal and dependent exemptions in 1985 will be a real boon. This reform, enacted in 1981, will help ensure that inflation does not erode the real incomes of low-income wage earners. Moreover, it will help place them on a more equal footing with higher income families who itemize their deductions. Itemized deductions are effectively self-indexing, while the ZBA and exemptions erode over time. With indexation, thus, the tax system will better recognize the needs of low-income wage earners.

Coupled with program reforms to better target assistance, which will free resources to increase aid to those truly in need, these policies will help us reach what I know is our shared goal -- a better life for all Americans.

Chairman RANGEL. Mr. Stockman, one of the most respected members of this committee has other leadership responsibilities. For those reasons, I recognize Mr. Conable.

Mr. CONABLE. Dave, I would like to thank you for appearing here and presenting such a remarkably thorough statistical analysis of poverty. I think it is going to be a very terminal kind of report that we are going to come back to many times and discuss extensively. It is going to require a good deal of analysis. Obviously you have put a great deal of thought into it and I think it is tremendously important that we have this kind of analysis before the committee. I would like to say one thing about you, also.

The Members of Congress who participated in the Social Security Commission and particularly in the final negotiations which resulted in the Commission's being snatched from the jaws of defeat, Members of Congress who participated in that got a good deal of publicity. You indicated in this report how important for the elderly the social insurance program is. I would like to say that your participation in those comparatively secret negotiations up in Jim Baker's basement, and in the back room at Blair House, were absolutely critical. Your contributions were very significant. I think you have not received recognition for the work you did in saving social security at a time when we were really in extremeness about it; and the fact is that I have often thought that you ought to have some recognition for that.

It is good to put it in the context of how important our social insurance program is to keeping our terribly dependent elderly out of poverty. I just wanted to put on the record the tremendous importance of your work in connection with that final commission recommendation, which happily the Congress accepted, following acceptance by the full commission.

Mr. Chairman, that is all I wanted to say.

Mr. STOCKMAN. Mr. Conable, if I can just respond. I appreciate your kind words, but I think you probably overestimate the importance of my work. I may have made some contributions in terms of ideas, but I didn't have any votes in terms of getting it done. That was the result of your leadership and that of the other Members of Congress who took a sensible plan and sold it in a very difficult circumstance.

Chairman RANGEL. It is your turn, Mr. Conable.

Mr. CONABLE. No, I have nothing further to say.

Chairman RANGEL. Well, it is a little surprising that after I struggle to get here to formulate policy that you move the action to the back rooms and basement of Jim Baker but as long as something was accomplished, I think that is the most important thing.

Mr. CONABLE. I think your vote was critical at a critical time. However, I am not sure your vote would have been applied to the same solutions we finally achieved had we not had a rather difficult time with the commission first. I would say the same thing about Mr. Pickle's role, it was absolutely critical.

Chairman RANGEL. Very good.

Mr. CONABLE. But I did want to mention that Dave Stockman played a key role in trying to hold the whole thing together and that that was important.

Chairman RANGEL. Thank you.

Mr. Stockman, I want to join with Mr. Conable in congratulating you for setting a framework for us to continue this dialogue. It really doesn't make that much difference in how much we differ and how you reached the conclusions.

I think what you have done for us is to allow us to know what formulas you used in reaching certain conclusions about the number of people that we are going to have to deal with, the causes as to why they entered poverty, and the different solutions to it on a national basis.

I don't know whether we are going to have that much of a problem with the definitions.

The problem is going to be as to where are the conflicts and how we can work more closely together in the areas that we agree upon. I think Mr. Conable stated that you made a great issue about the social programs as related to the aged.

Assuming that that logic follows, it would mean that decreasing those programs according to your thinking would have increased the number of people that would be termed "poor" or that the fact that you had this bottom line protection for them decreased the number of people in that category.

Some of us believe that the budget cuts by the same token in certain areas would have increased the number of people that would have toppled over into the poor.

Without debating now, and we hope that we can get together with you soon, you would have to agree that whether you have these broad categories such as the aged, that within that group there are a lot of people that are extremely poor because they are older, because they live alone and because they come from minority communities.

It would seem to me that once you have seen or pointed out to us how we have mismanaged, how we have not targeted, how we have used the wrong programs, it would give your presentation, or at least the perceptions of the administrations concerned, a better balance if at the same time you could look at the groups and say that in this particular category, of course, there are people that even if we did find a more efficient way, that the Administration and Congress has not come up with a program to deal with their particular needs no matter how much we argue as to where they are.

Some of the programs that you have indicated succeed then because you have suggested targeting.

It implies for your statistical data that a lot of people were receiving monies they shouldn't have received prior to this administration and because of the new formula that you have taken the same amount of money and have assisted more people.

We know on the committees that Mr. Ford and I sit on that some of the formulas that you have used have been State formulas that have a different concept as to who was poor and who was not poor, and when you adopt below poverty standards for the State and say that is the Federal program, you may have helped your statistical data in saying that you have done more with less.

But it doesn't help us when we listen to the people that come from those communities that find themselves crushed in a formula. Time is of the essence and I want the other committee members to ask questions, but I guess the bottom line is that no matter how you measure it, we do have more people considered poor today than we have had before. So it is of national concern.

You don't talk about budget cuts increasing that number. I guess when you talk about unemployment, you meant that for economic recovery in a positive sense, instead of talking about the number of people that are poor because of a failure of having a recovery.

And I am not placing blame. I am just saying they are out there no matter whether we have a Democratic or Republican President, they are poor because they are not working, and whether it is temporary or not, we have an obligation from the Federal Government, not Presidents and the Congress, but the Government, to at least reach out and tell them that we care.

I hope that since you have, in my opinion, given us a major document as to how you see the statistics, that you would allow our joint committee to review this and either in public hearings or in Jim Baker's basement, get together and see what we can do to deal with the problems of those people where there is no dispute, that they are out there and not being assisted.

Mr. Ford.

Chairman FORD. Thank you, Mr. Chairman.

I would agree with you and the Public Assistance Subcommittee certainly will take this document and go through it and try to piece together some answers and also require some additional information from you, Mr. Stockman.

I think it goes without saying that these are areas that we are concerned about. I think poverty has increased no matter how we measure it. I think you, Mr. Stockman, would agree with that and the prime reason for this increase is governmental policy.

I think we would all agree with that. Tax policy has imposed a substantial burden on the poor. We understand that.

Poverty will not be reduced significantly as the economy improves. We have seen the administration talk about the economy improving, but yet and still that poverty rate is continuing to—will continue to rise. I think further governmental action is required in order to reduce that poverty level. I think you indicated on table 4, we talked about the poverty rate being 15 percent, and if the in-kind benefits were counted, I think we see that, according to your table there, it would be 9.6 percent.

We all will agree that you know that chart and that table would be about correct. But, at the same time, when you talk about the 20 million people who are below the poverty level, you express the concern. But in your testimony, Mr. Stockman, you didn't give us any concrete solutions to responding to the needs of those 20 million people who are in poverty.

I am certainly one who would like to know just how we, as legislators in the Public Assistance Subcommittee on this full Committee on Ways and Means, what are those things we can be doing in order to address the problems for the 20 million people that you addressed, and the 9.6 percent.

Also, your methodology assumes that since single elderly individuals receive 67 percent of the poverty threshold in medical benefits, can anyone live on that 33 percent or that $1,500 difference annually that we are talking about?

And, if so, could you explain to the committee how those elderly individuals can live on the $1,500 per year?

Mr. STOCKMAN. Well, Mr. Ford, I don't think I was suggesting that elderly can live on $1,500 per year. I was suggesting that——

Chairman FORD. Medical benefits we were talking about, medicare——

Mr. STOCKMAN. Yes, that is the value of the medicare benefit. Now, I do note two things: One——

Chairman FORD. That poverty level is, what is it for individuals, $4,600?

Mr. STOCKMAN. It is $6,500 for two, so I believe it is about $4,600 for an individual. That is right.

Chairman FORD. Taking in the medical benefits we are talking about 67 percent. So 33 percent of that would be around $1,527.

Mr. STOCKMAN. That is correct.

Chairman FORD. How can one survive on that, Mr. Stockman?

Mr. STOCKMAN. Well, you are making a different point than I am. The point that I am making, if I could, is that the elderly obviously have a high incidence of illness. They need medical care, and they need insurance protection against it. What I am suggesting is what medicare is worth in terms of the insurance protection. You certainly couldn't live easily even on $4,000 if you had no medical care at all or no medical insurance protection.

Chairman RANGEL. Would the gentleman yield?

Mr. STOCKMAN. It is a value. That is all I am saying.

Chairman RANGEL. Let's try to maximize where we don't have a problem. You are not suggesting that because of the reimbursement rate to doctors and hospitals that we should attach that to determine whether an old person is poor? You don't mean that?

Mr. STOCKMAN. No, I am not suggesting that.

Chairman RANGEL. So when we try to determine who is poor and you include in that the value of the insurance policy, it is not helping us in determining what that old person's needs really should be?

Mr. STOCKMAN. Well, Mr. Chairman——

Chairman RANGEL. There are a lot of people that would rather not live a long period of time if indeed they are going to be dependent and miserable during that time.

So, to extend life without improving the quality of that life is not something I hear old people asking for, and so when you throw the medical bill in and tell somebody that this doesn't make you as poor as it appears with other statistics, it is difficult to see what we are going to do here.

Mr. STOCKMAN. Well, I think maybe that is another debate about whether or not the poverty line measure we use now is adequate. It is $9,600 a year for a family of four, and it is based on the notion of what is a minimum diet, how much does it cost, multiply it by three point something, to take care of other standard-of-living needs like medical and housing and the other basic necessities of life.

Chairman RANGEL. So when the——

Mr. STOCKMAN. Now, it may be, Mr. Chairman, that the multiplier, which is 3.1, I believe, is too low to take into account all the nonfood items that would comprise a minimal standard of living, or maybe it is too high. But I am saying that officially, ever since 1964, that is the way the Government has measured poverty.

Mr. MATSUI. Will the chairman yield?

Mr. STOCKMAN. Now, if you assume then that you need three times the cost of the minimum diet to cover housing, medical, and the other essential barebones components of a minimal standard of living, then having the protection on the medical side through medicare insurance clearly does help in meeting that threshold. That may be arbitrary, but we all use it because that is what we have designated for the last decade and a half as one kind of measure of poverty.

It is not the only measure. There is a quality dimension. There is a whole variety of other dimensions other than pure money income or money income and in kind equivalent.

But when we are talking about millions of people in a big society and trying to get some way to get an angle and measure of the problem, we are going to have to have some arbitrary standard.

Maybe we can improve the calculation of the poverty line. It could be too high or too low, but we are going to have to count the medical benefits that we provide, however we resolve the underlying issue of what it means.

Chairman FORD. Let me yield to Mr. Matsui at this time.

Mr. MATSUI. Thank you, Mr. Chairman.

I think Mr. Stockman, that you perhaps misunderstood both chairmen's questions. You were saying at this time that you are not suggesting that medical benefits, if they are included, should be used in calculating whether an individual is poor. Is that what you said? You answered no to that question. I want a yes or no answer. Is that what you are saying?

Mr. STOCKMAN. No, I didn't say that.

Mr. MATSUI. That is exactly right because in your so-called scholarly testimony and your document that Mr. Conable thinks so highly of, you are using as a central premise the notion that in-kind benefits must be included in the definition of poverty. I think the question that both Mr. Ford and Mr. Rangel asked dealt with the fact that if in-kind medical benefits are counted, over $3,000 are applied to a senior citizen's income in determining the poverty rate. So that individual is left with $1,500——

Mr. STOCKMAN. No, that is not correct.

Mr. MATSUI. You are.

Mr. STOCKMAN. We absolutely are not, Mr. Matsui.

Mr. MATSUI. Yes, you are.

Mr. STOCKMAN. We are not attributing $3,000 of value to medicare.

Mr. MATSUI. You have said in your testimony that there are only 950,000 poor elderly in America.

Mr. STOCKMAN. That is right.

Mr. MATSUI. Then you have to be including that in there.

Mr. STOCKMAN. It is included, but the value is not——

Mr. MATSUI. Mr. Rangel has more than that in his district.

Mr. STOCKMAN. It is included, but the insurance value was not $3,000. I can supply that statistic for the record, but I think it is about $1,100.

Mr. MATSUI. I think your report, frankly, is a sham and I think it is based upon erroneous statistics and conclusions.

I yield back.

Chairman FORD. Mr. Stockman, we would like for you to submit for the record at a later time, if you don't have the information today, so we will have it as a part of the record, whether or not the medical costs or medical benefits to the elderly, how that is derived and how that is counted as it relates to the elderly——

Mr. STOCKMAN. Well, I can tell you that. We have been around the bush here. I will submit details for the record, but we are counting the insurance value of medicare. The insurance value of medicare——

Chairman FORD. Which is——

Mr. STOCKMAN. Which the committee knows all about because you spent lots of time working on it, saying it is important; that the elderly can't survive without it; that it is a critical component of the support system; that is what all you say up here and it is true. Medicare has about a $1,500 value. That is, if we didn't have the medicare entitlement, an elderly person would have to find $1,500 in cash somewhere to buy equivalent protection for part A and part B. For you, Mr. Matsui, to sit here and say that that is of no value shouldn't be counted, doesn't do any good—which is what you implied in your comment on my testimony—I know you don't mean it because usually you are more careful and balanced in your view of things.

Mr. MATSUI. Also Mr. Stockman.

Mr. STOCKMAN. It just doesn't parse.

Now, I think we ought to try to find over time how to get people more medical care so the things that aren't covered today are covered under medicare. But that is a health care system problem.

Mr. MATSUI. If I may, Mr. Chairman, what about the individual who doesn't have medical expenses for that 1-year period that you are using, and the individual makes $3,000, or has $3,000 in other in-kind services? That person, according to your statistics, would be——

Mr. STOCKMAN. Well, Mr. Matsui, you are playing games with the statistics. What about the person who has a $50,000——

Mr. MATSUI. No——

Mr. STOCKMAN. Wait a minute. It is absolutely irrelevant.

Mr. MATSUI. Answer my question.

Mr. STOCKMAN. Illness is not a chronic condition, it is an episodic condition for the most part among most elderly. That means in some years they spend zero dollars or nearly so on health care and in another year, in the extreme, they spend $50,000.

Do you want to say 1 year they are not poor and the next year they are poor if their average income is $5,000? The answer is no. That is why you have to treat it statistically in terms of its insurance value.

Otherwise, in those years in which people are ill, and if we didn't treat it as an insurance value, you would have great fluctuations in the statistics and great distortion in their meaning.

Chairman FORD. Mr. Matsui, let me claim my time back so I can go on and the chairman can yield to the other members of the committee.

Mr. Stockman, I have one final question as the chairperson of the Public Assistance Subcommittee. Just tell us how much did the budget reductions increase the poverty gap between 1981 and 1982.

As chairman of the subcommittee, I have seen proposals that have been submitted to the Congress and we have worked tirelessly on the committee in wrestling with all of the AFDC cuts and other cuts in the social programs; programs like title XX and others that relate directly to the poor and those who are under the poverty line. I would just like to know from you, do you have for this committee information you would like to submit later?

We will certainly go through the document which we have received today and the testimony you have given us, but I would just like to know how much did the budget reductions increase that poverty gap.

You talked about the 9.6 percent or 20 million people who are below the poverty line. We did not, I did not hear a clear defined definition as to how we would try to wrestle with the problem in the future. I have witnessed a continuation of proposed budget cuts in the social programs and I have not seen anything that has been significant, that has been submitted to us from the administration to respond to those yields of poverty in this society.

Mr. STOCKMAN. Mr. Chairman, there is a lot of information that I will submit on the poverty gap that is changed from 1981 to 1982, but you have to recognize it is a matter of interpretation.

The poverty gap results from all forces combined—how many people have jobs; whether inflation is going up or not going up; whether transfer payment programs are expanding or contracting; whether they are being targeted properly. All those things will determine that final number. How much remaining income deficit or deficiency is there after everything the economy does and everything the government does would be needed to bring people up to poverty?

Now, that didn't change from 1981 to 1982. It was about $33[1] billion both years. It didn't change. But there were changes in programs and vast changes in the economy. To sort all of these things—we will do our best. I have tried to say in my testimony that between 1981 and 1982 more of our means-tested benefits, $2 billion more in 1982, went to those below poverty than it did in 1981, despite the cut in the aggregate program.

I am sure your staff will find other ways to determine the—interpret the data——

Chairman FORD. We were told that number went up about $4 billion in 1981 and 1982 in the budget reduction.

Mr. STOCKMAN. That I will submit for the record; our numbers in constant dollars. The gap did not increase.

[The information follows:]

The post-means-tested poverty gap in 1981 was $25.6 billion (1982 dollars). In 1982, it was $24.4 billion. These gaps reflect social spending as measured in the census survey.

Chairman FORD. All right.

---

[1] See [illegible] p. 28[illegible]

Mr. STOCKMAN. The gap might have gone up slightly due to increase in inflation, but that isn't an——

Chairman FORD. Inflation?

Mr. STOCKMAN. The inflation rate was down but dollars bought less in 1982 than 1981, about 7 [10] percent less.

Chairman FORD. We would——

Mr. STOCKMAN. Numbers we have for the remaining poverty gap after everything are $32.9 [11] billion in 1981, $32.6 [11] billion in 1982 in constant 1982 dollars.

Chairman FORD. We sure would welcome any additional information in that area, Mr. Stockman.

Yield back the balance of my time, Mr. Chairman.

Chairman RANGEL. Mr. Matsui, would you like to complete your questioning?

Mr. MATSUI. Yes. Thank you very much Mr. Chairman.

Mr. Stockman, on page 16, your table 11, you indicate and try to justify that economic growth will result in a reduction of poverty.

I suppose that is true, all of us, Democrats and Republicans, liberals and conservatives alike would like to see economic growth.

There is no question that in fact it will probably reduce the poverty rate somewhat, but your graph indicates that from 1959 to 1966 we have had a significant reduction in the poverty rate for both nonelderly and elderly. From 1966 to 1973, even though we had a slight reduction in GNP, we did have again a reduction in poverty rates in both those categories.

Then from 1973 to 1982, since we only had a growth rate of less than 1 percent, we have had dramatic increases in the rate of poverty. You don't take into consideration however, in your testimony or in the written part of the testimony, the fact that at that same period of time, from 1959 to 1966 and from 1966 to 1973, there was a rather dramatic expansion of Government programs, transfer payments as you were talking about earlier in your testimony, that went to both the nonelderly and elderly poor.

Could that have something to do with the fact that poverty in this country had decreased during the earlier two periods that you referred to?

Mr. STOCKMAN. Well, Mr. Matsui, first the numbers here do not include the elderly. The burden of my testimony was that the enormous growth in income transfers to the elderly over the entire period is what accounts for the disappearance or dramatic reduction in their poverty. What I am saying is that among the elderly, Government social insurance supplemented by the other programs is the reason why the poverty rate has gone down and it is the reason why, as a society, we have these programs.

Now, you are focusing on the nonelderly. I would simply point out that in the first period there was very little growth in income transfers to the nonelderly. During the second period, 1966 to 1973, the growth rate picked up, but the massive explosion of these programs—and I will submit the numbers in terms of dollars, rates of increase, whatever you want to measure—occurred from 1973 to 1981, at the very period the rate of poverty was going up, rather

See Notes on p. 286

than down, and going up, as you have pointed out, at a substantial rate.

The biggest growth occurred in the third period.

Mr. MATSUI. Now, as far as your figures are concerned, and your statistics, according to the graph that we have in our committee report on this issue, it appears frankly that the dramatic rise in the growth in poverty occurred from 1979 on.

The poverty rate increased dramatically during the term of the President that currently serves in the White House. The 1973 to 1979 period indicates a pretty constant leveling of poverty, is that correct?

Mr. STOCKMAN. No, Mr. Matsui. I am sorry you chose to formulate it in that way. Poverty started rising as a rate and in absolute numbers in 1978, and from 1978 to 1981 nothing this administration did had any effect—in 1981 because changes were not legislated until fiscal year 1982.

The number of poor people rose from 24 million to 32 million or there was an 8 million increase in the number of poor between 1978 and 1981. Now, I think that is due to three factors.

One, inflation went through the ceiling during that period, from about 5½ percent up to 13 and 14 percent, when it finally peaked out in 1980. That has two effects. Number one, it hurts people on AFDC because AFDC isn't indexed, and so during that period AFDC benefits declined in real purchasing power by 10 percent.

Second, the poverty rate is indexed for the CPI. In other words, we established the poverty level way back in 1969, I think it was, and the only thing we do every year is index it for the change in the CPI.

Now, what happened during that 1978 to 1981 period when we had the inflationary blowoff, and you know this well from your work in other areas, is that the CPI was over measuring inflation because of the home mortgage component, and you remember what was happening to mortgage rates and home prices during that period.

So, as a result I think we have a bit of a statistical overstatement of the degree to which poverty rose in the late seventies and early eighties because of the fact that the poverty threshold is adjusted by the CPI.

Clearly it was inflation reducing real incomes, plus the CPI increasing measured poverty that is important during that era.

The third thing: Economic growth was strong in 1977, good in 1978, and then it just petered out in 1979, 1980, and 1981. As a result, the unemployment rate rose. People in the 50-percent category of age 25 and older, the poverty rate for them went way up. That accounts for most of the increase.

So between inflation, the CPI measure and the disappearance of economic growth, you have 8½ million poor people from 1978 to 1981. The poverty rate went from 11 to 15½ percent.

Now, to correct that whole mess, unfortunately we had to go through a recession. Now, there may be some around here who know magic ways to cause inflation to go away when the economy is bent out of shape as badly as it was by 1980 or 1981 in this coun-

[illegible]

try. But most economists in the middle of the stream, most people who understand what was going on, agree that some kind of correction in our monetary policy and in the course of our economy unfortunately had to occur if we were to get back to low inflation and steady economic growth.

Nobody wanted that, but it would have happened if your candidate in 1980 were elected just as it happened when President Reagan was elected. We had to go through unfortunately, a recession. That did drive up the poverty rate in 1982, but I would be happy to take an invitation to come back here and testify next spring, because I am absolutely confident that the poverty rate is going to decline dramatically for 1983 for two reasons.

One, in 1983 inflation has disappeared and we are not going to get this distortion in the measure.

Second, 3 million more people got jobs, real incomes were rising, and the recession was receding behind us. In that 50-percent category of working age people, the rate of poverty is going to come down.

Mr. MATSUI. I hope you do come back in the spring of next year, Mr. Stockman, and testify, because I would like to see if your predictions are any better than they were in 1981 when you testified before this very same committee.

If you recall when you presented the President's economic recovery program, you didn't talk about the fact that our country would have to go through a recession; that we would have to have 10½-percent unemployment rates. In fact, you were saying that by having those massive tax cuts and cutting social spending, we would in fact have an unemployment rate in 1984 of 6.5 percent.

You made a number of predictions that we would have economic growth all of 1982 and 1983. So I hope you do come back in the spring of next year and show us that instead of being inaccurate as you have been over the past 2½ years, that your predictions will have a little bit more accuracy to them and perhaps we can all be very happy in that spring period.

Chairman RANGEL. Mr. Anthony?

Mr. ANTHONY. Thank you, Mr. Chairman. And Mr. Stockman, welcome back before the committee. I would like to call your attention to your testimony before this committee during the 97th Congress.

I am looking at part 1 of 3. I would like to read just one paragraph. This is in regard to Mr. Matsui's question concerning your prognosis for the following year, and your offer to come back in the spring.

This is a quote:

> When you have a period in which more than $100 billion is spent by the Federal Government than was planned, it certainly has to be a very negative, a very adverse, a very discouraging signal to the financial markets.

In the latter part of your testimony you state that huge Federal deficits will create disturbances in the financial markets, and will have a negative impact on inflation and economic growth. If nothing dramatic has happened by this spring, you will have the opportunity of saying that instead of having a deficit of $100 billion over a 2-year period, there will be a $400 billion deficit. This would represent a fourfold increase.

If you have a fourfold increase over something that you said was going to be "very negative, very adverse, and very discouraging," then I would like to know how you can return in the spring and say that there is improvement.

I will look forward to your testimony.

Having said this, I just have a few simple questions.

Do you agree that poverty has increased?

Mr. STOCKMAN. I think I have indicated that in my testimony.

Mr. ANTHONY. Does the administration plan any legislation to reduce that poverty increase?

Mr. STOCKMAN. I think I tried to explain fully how I think we reduce it in each of the four categories, and all of them are related to the central policy of this administration, as well as the Congress, in terms of what we have been attempting to do.

Mr. ANTHONY. I am going to read another segment from your testimony, in which you state:

> Second, we must provide adequate and sufficient funding to maintain that social safety net of programs designed to protect the elderly, the veterans, the unemployed, the poor, the disabled and the blind who have all had firm commitments on a bipartisan national consensus basis for more than 40 years.

In anticipation for today's hearings, the CBO prepared for me data examining the major legislative changes in human resources programs since January 1981. This is the great economic recovery program that you are talking about, the one that is going to get us out of the recession and slow this deficit down. The report shows total outlay changes from 1982 through 1985 as a percent of program outlays. For example, the following has occurred in non-means-tested programs; social security down 3 percent; civil service retirement down 3 percent; unemployment insurance down 7 percent.

However, in the means-tested programs, those programs that are definitely geared toward helping the elderly, the veterans, unemployed, poor, disabled and the blind, the following has occurred: AFDC down 13 percent, and that's not taking in consideration the 30-percent cut in benefits in Arkansas; food stamps down 13 percent; child nutrition programs down 28 percent; title XX down 22 percent.

So I go back now to my last question that I asked previously. You are in the process of rewriting proposed agency budgets.

When the President presents his budget in January 1984, are we to assume then that the administration will continue on the same track, and that non-means-tested programs will again go untouched and that the next year's budget will propose that means-tested programs sustain the severity of the cuts that CBO indicates they have received in the past?

Mr. STOCKMAN. Well, you have read a lot of statistics, but I am not sure what they prove or their relevance to the discussion here.

You seem to be saying we haven't cut non-means-tested benefits, social insurance, enough. Well, I haven't seen a lot of leadership from your side of the aisle or you in particular to do anything about some of the excesses that are built into medicare and—

Mr. ANTHONY. Would you yield at that point?

Mr. STOCKMAN. I want to finish my answer.

As soon as you and 219 others volunteer, it is obvious that we can do something to reduce the deficit, improve the solvency of the trust funds by tightening up medicare and by having some kind of limitation on cost-of-living increases.

Mr. ANTHONY. Would you yield at that point?

Mr. STOCKMAN. Yes.

Mr. ANTHONY. You specifically said Members of Congress and then you said "you," pointing to me. Would the administration support the efforts of a bipartisan group of which I am a member? I recently attended a press conference, stating for the record that I would be willing to cut 2 percentage points of non-means entitlement programs, while at the same time cutting 2 percentage points off the indexation of taxes. Would you support this proposal this year if we put it on the floor?

Mr. STOCKMAN. Well, I obviously, Mr. Anthony, can't speak for the administration and the President.

Mr. ANTHONY. Would you, as David Stockman, personally?

Mr. STOCKMAN. Well, I am not going to give private advice in public, but I will——

Mr. ANTHONY. Then don't criticize me for not offering some suggestion when I have publicly supported a 2-percentage point cut. And do you know where 67 percent of those cuts in spending would come from? Out of social security. These cuts are a fairly hot political issue. So don't look at me and criticize me for not being willing to offer some solutions to the Congress or to the Nation.

This administration does not have the courage to publicly accept its responsibility and say that something has to be done. And you say that I have quoted you a lot of statistics. You gave me a warmly conceived package that I have not had a chance to study and that would likely take a statistician the rest of the year to analyze. You say we have a perceived problem. Conversely, the most of the members of this committee think that we have a real problem.

I will just close with one admonition. You have got a chart on page 15 of your prepared testimony. I suggest that you mimeograph that chart, send it to all the States and ask them to send it out with all the means-tested program checks. You have stated that fewer constant dollar benefits were spent in 1982; however, in real terms benefits which serve to reduce poverty rose to 9 percent. I can tell you, people in my State who are dependent on these programs don't understand that you have helped them 9 percent.

You have got a selling job to do so I would suggest you take a look at that chart and send it down there to them.

Chairman RANGEL. Mrs. Kennelly.

Mrs. KENNELLY. Thank you, Mr. Chairman. Mr. Stockman, very nice to meet you, and I appreciate your taking the time to separate the AFDC group into two parts.

We often just look at the problem as women with children. However, I have looked on page 30 of your remarks, and it says interestingly enough, the data—and I am talking about Bane and Elwood—show that two-thirds of the women who left AFDC as a result of earnings were mothers with preschool children, and they concluded that having a preschool child is not the deterrent to working one's way off welfare.

Then, further down in the next paragraph, you say, we know, too, that if women receive AFDC for at least 2 years, she and her children are very likely to be long-term welfare recipients. So I can see we are going to have to look at these figures and try to put some faces on them. Your charts show with consistency that half the poor people are women with children. With your statement and the studies you receive, do you come to the conclusion that maybe means-tested programs aren't the answer, and the answer, rather could be more increased child care centers and increased training for women because they have only low level job skills, or are you so pessimistic when you look at this issue and see the consistency from 1959 through 1980 that we are going to have to increase AFDC benefits because in real terms they have gone down by 36 percent and we are talking about children?

Have we got answers to this other than to say the figure remains constant and those women are poor and those children are poor?

Mr STOCKMAN. Well, I think you have raised a ve[illegible] question.

I tried to addre[illegible] out not obviously in enough dep[illegible] my testimony.

I only say this tentatively because this is all new information and deserves stud[illegible] by experts, and I am not one of them.

But, as I look at it, what it says is that even among the AFDC population, there are really two distinct groups. There is one group that is temporarily on due to earnings decline or household breakup, but they exit the AFDC rolls within a year or two, and are back into the mainstream supporting themselves or in intact households.

There it seems to me your point about child care for that group, the in and out, the temporary participants in the program, the temporarily poor, if you will, for that group it seems to me anything that can facilitate finding a job, holding a job, improving skills and therefore capability in the market will be very helpful.

For those, on the other hand, that these numbers reveal are permanent long-term, chronic, it seems to me they need more income, and one of the things that we are suggesting is that just because they are on AFDC 10 years doesn't mean the number of fathers declined over that 10 years. The fathers are all still there. We do know what the rate of child support obligation fulfillment is abysmally low, and that we need better public policy in this country to make sure that that potential source of increased income is made available.

There are a lot of other things you could say.

Mrs. KENNELLY. What about numbers of children?

Mr. STOCKMAN. I am talking about mothers and children.

Mrs. KENNELLY. Numbers of children. Obviously if there is one child, you might get a parent or friend to take the child. If you have two, you might go into long term. Does the study have any number?

Mr. STOCKMAN. Yes, I think there is one dramatic number. It is a large family problem. Among female heads of households with large families, I believe it is five or six children, 9[illegible] are poor.

Again, that group has to have a different answer than in many of the other cases we are talking about. We have got to stop swinging 34 million size numbers at each other and get down into there and find out what the unique characteristics and sources of the problem are and how public policy, whether it is better economic growth or a better welfare system, could help improve each individual type of situation.

Mrs. KENNELLY. I think that is something we agree on. I know you are late.

Where do unemployment benefits fit in? I didn't hear it mentioned.

Mr. STOCKMAN. It is in here. This would be in my calculations. The Census Bureau measures that as a cash benefit. So that is in the Census Bureau statistics as a transfer payment.

Mrs. KENNELLY. Most of your figures are according to the Census figure. And I have heard comment that this makes the figures misleading, because a person can go in and out within a year and he or she could be working half the year and then go on AFDC and this puts the figure up much higher than it should be. It doesn't remain constant. Maybe Census figures should not be used.

Mr. STOCKMAN. I wish we had better data. I wish we had monthly figures. And we do in a very limited sample. But in terms of looking at poverty over time, I believe annual numbers are adequate, because it is sort of a random statistical phenomenon that some people are temporarily poor one year. If they become permanently poor, you will measure them next year or the year after. If it is only very temporary, they will not be picked up.

Mrs. KENNELLY. Child support enforcement. When a person is married, then gets divorced, we see their income goes way down suddenly. Yet it gets counted that that person that year is not on poverty. They were living with the husband, well supported, then it is gone. We can argue about that.

Thank you.

Chairman RANGEL. Mr. Guarini.

Mr. GUARINI. The one thing that has concerned me is the fact I understand that statistically they never included medical health services before. Of course, you include health services which are growing so fast and so expensive as to distort what the poverty level line is.

Is it not a fact that this is a new criteria that has been added in this administration in determining what the poverty line level is?

Mr. STOCKMAN. No, it is not in the poverty line measure. That is, as I said before, based on a convention established in the 1960's in which we take, what does it cost to have a minimum diet? We multiply it times three; we get a number for a family of four that is $9600.

Mr. GUARINI. These are all statistics. But in the real world——

Mr. STOCKMAN. What I am saying is that when we go out and survey the population to determine how many are under $9,600 and how many are over, the only thing we could consider is their cash income. And what I am suggesting is that in measuring the population against this standard, we have got to include in addition to the cash the in-kind benefits that they receive.

We can argue about whether it should be dollar for dollar, 50 cents on the dollar, 75. But you would agree in principle I believe that we should include that in measuring their total personal income.

Mr. GUARINI. I understand.

But health care service is the most burgeoning part of our budget, and it could really help to distort statistics when you compare today's statistics with those of 10, 20 years ago. If you took those kinds of numbers out, you would end up with a whole different set of charts, I assume.

In the 1984 budget cuts, will you come forward with any programs that will deal specifically with the chronically unemployed, the elderly, the young people who are highly unemployed, the four groups that you mentioned that you had broken down into categories? Are you going to come forward and give us some specifics as to how we can help these groups? Or are we just going to have categoric cuts again?

Mr. STOCKMAN. Well, as I tried to explain here, without going back into a lot of detail, I believe our policies across the board are designed to address and ameliorate the problem in these four categories. You may differ in your judgment of that.

Mr. GUARINI. In other words, you won't have any specific program, except we should retrain and we should—we will eventually get a strong economy and that will put the people back to work.

Mr. STOCKMAN. We have probably 200 or 300 specific programs that address one or another of these groups.

Mr. GUARINI. New ideas, new concepts?

Mr. STOCKMAN. I don't think the problem is new ideas. I think our problem is getting more improvement or value out of what we already have.

Mr. GUARINI. Therefore, we can expect cuts in existing programs, is that correct?

Mr. STOCKMAN. Well, in some of them, yes. In others, no. We will try to make a judgment as to where it is appropriate. We do know the deficit is too big.

Mr. GUARINI. What program do you increase where we have problems?

Mr. STOCKMAN. We will have that in January. That is revealed in our budget for 1984. I don't expect it will change a lot in 1985. It is pretty clear after 3 years where we stand in terms of programs that we have wanted to preserve, those that we wanted to change.

Mr. GUARINI. Now, in discussing the poor's plight, have you ever done any studies as to distribution of wealth in our country as regards what has happened regarding the various tax programs we have had in the last 3 years as to the effect that it has on distribution of wealth.

Is it true that the rich are getting richer and the poor are getting poorer and that the line between the two is becoming much clearer? As an example, I know that in 1983, according to CBO, if a person was near the poverty line of $10,000, he would have a net loss under the Tax Code of $140, whereas if he had $80,000 income, he would have a net gain of $13,800.

Now, aren't tax laws so structured and isn't our economy so going in the direction of the polarization of the wealthy and the poor?

Mr. STOCKMAN. Well, I think it depends on what you want to believe. If you want to believe that the rich are getting richer and the poor are getting poorer, I can give you some statistics to prove it. If you want to believe something else, I can show you some pretty solid evidence that is not the case at all.

You are talking about great areas of debate among scholars as to how you measure the distribution of income, what do you count as income? There are multiple answers.

Mr. GUARINI. We have been able to talk about what is poverty. Can we talk about what is wealth? That is the other side of the coin. We have only so much water in this glass. We have to distribute it to the people of our country.

Mr. STOCKMAN. That is not true. I disagree with that. I disagree with that metaphor entirely. The wealth of this country is not stationary or static. It has been expanding steadily over time. And that is the primary factor that reduces the number of people who in an absolute sense are poor.

What we need to do is make sure that the water level in your glass is rising, as strongly as we can get it happening. In the last two quarters it has risen at 8.5 percent. Now, that is going to do a lot of good.

Mr. GUARINI. You are talking about GNP. People back home that don't have food on the table, that cannot pay their rent, that don't have enough for clothing, health care, whatever, they don't understand all these statistics, because they are living in the real world. They say "Washington is 10 square miles of fantasy surrounded by the real world." I go home every weekend. I see real abject poverty out there; people are hurting and hurting very, very badly. There are homeless people wandering the streets without shelter over their head, much less food to eat.

W[illegible] of programs are we going to have with those kind of pe[illegible] support a White House conference for the homeless a[illegible] this country which is being proposed?

[illegible]MAN. I am not very keen on White House conferences, judg[illegible] the results of most of them we have had in the past. There [illegible] a lot of talk; there is a lot of handwringing. I am not sure they lead to any solutions. We have a different vocabulary here. You say what are you doing?

Well, take the homeless person. Take the steel worker——

Mr. GUARINI. There are two million homeless, wandering the streets as you and I are talking right now.

Mr. STOCKMAN. We could talk for hours in here about all the different programs that we have, whether these people would be eligible, if they are not, what could be done to make them eligible? That point is we have such a vast structure of programs that I don't believe we need any more. I believe we need to look at what we have and make sure that it does a better job.

Mr. GUARINI. If the gentleman would yield.

Low-income housing is being cut out in our country.

Mr. STOCKMAN. That is not just right.

Mr. GUARINI. No low income housing is being built in our country. We have vouchers and things that are going to create housing. It doesn't create housing. It makes the situation worse.

Mr. STOCKMAN. We could debate that forever. We do have [illegible] more units, subsidized units, today, helping people who don't have housing, than we got here in 1981. Now, that is up. But if you want to consider it down, I guess you are entitled to.

Mr. GUARINI. Do you think that Government should play a role in stimulating the various needs that we have in our economy, or do you think that it should be laissez faire?

Mr. STOCKMAN. Well, obviously Government has a role.

Mr. GUARINI. All right. In other words, assuming that you were living in the 1930's, would you think that it would be necessary to have pump priming and WPA and CCC and RFC and those kinds of programs to get our Nation moving ahead, or would you be against it?

Mr. STOCKMAN. Well, after looking at the record of history, I would be against it. There were more people unemployed in 1939 after they did all that than there were in 1933.

Mr. GUARINI. You would let the banks fail.

Mr. STOCKMAN. No. I would have done something different. Clearly the problem in the 1930's was monetary policy, the international financial situation, protectionism, trade barriers, and a lot of things.

But there is no evidence, and most scholars would believe that all that shuffling around that was done by Harold Ickes and the others really didn't solve much of the problem economically, but it did socially. It provided relief for people who had no jobs. And I am for that.

Mr. GUARINI. Are you willing to say that people today in this country are better off than they were 3 years ago?

Mr. STOCKMAN. I think so.

Mr. GUARINI. Are you willing to say that we are winning the war against homelessness and the hunger?

Mr. STOCKMAN. Yes.

Mr. GUARINI. We are coming from a completely different direction. I invite you to visit my district sometime and see what the real world is.

Thank you.

Chairman RANGEL. Mr. Pickle.

Mr. PICKLE. Thank you, Mr. Chairman.

Mr. Stockman, it is good to see you again. Your testimony is always important and usually helpful to us. And it is good to see you back with us.

In preparation for this hearing, our staff put together a little booklet in which they pointed out that social security cuts the poverty rate about 71 percent, or 9.3 million aged. That is an enormous amount of people.

Our staff also points out that 90 percent of the people or the families receiving social security benefits aren't necessarily poor families or poor people. And, therefore, they have concluded that in-

[illegible]

creases in social security benefits per se, do not necessarily reduce the poverty level or that it was not the most efficient way.

Now, with that statement, which I concur with in general, I must say, though, that I assume that that does not include cost of living, because without the cost of living a lot of people would be shoved into poverty and, therefore, if that statement basically is correct, I assume you would agree that would not include the cost of living, that that should be kept intact.

Mr. STOCKMAN. That is correct.

Mr. Chairman, I will offer a caveat. There is an issue with which you are more conversant than anybody—the proper index for the cost of living. But it is clear if we didn't have an index on benefits, each year more elderly would be poor.

Mr. PICKLE. What I am trying to get at, and I would agree with that, is that the cost of living is a very important part of both the social security program, and other programs, like AFDC, because they must somehow keep pace with inflation.

Now, this is really the question I am trying to get at. The proposal being made by some members of this committee that we ought to now do something about the entitlement programs, and that we ought to find some way to control entitlements, basically through cost of living. One proposal has been that we would have a CPI minus 2 percent.

Now, with your background of saying yes, it is important that the cost of living should not be part of the social security cut, it has to be kept as active as possible, how do we balance that with some attack or some approach to the entitlement program, which is one of the largest expenditures in the entire Federal budget?

Mr. STOCKMAN. Well, Mr Pickle, I think there is nothing that is ever absolute. What I intended to say, and I think you are saying, is that over a substantial period of time you do need indexing that will maintain the purchasing power of the benefit. But I also said that the CPI may not be the best measure of the cost of living.

And we do know, and I think most people agree, from 1979 to 1982, the benefits were over-indexed; they were indexed too much by the linkage of the CPI. And we know that people coming into the system in the 1980's have a higher replacement rate as a result of some erroneous changes made back in the early 1970's, which will be corrected when the 1977 amendments are fully effective.

So I think in some limited sense, for a limited period of time, to help bring this whole thing under control and to help insure the solvency of the social security fund, some restraint, not elimination, not deep cuts, but some temporary restraint on the COLA which will not undermine——

Mr. PICKLE. Would you make any recommendation what that would be?

Mr. STOCKMAN. I am not going to do that today. That is something that you would have to——

Mr. PICKLE. It is very important to members of this committee and Members of Congress, and the administration, to consider what approach we can take, if we get into this area.

Now, I come back to the basics. You say yes, cost of living must be maintained for social security, for the AFDC, perhaps some adjustment for SSI. Now, you say it is important. Now, at the same time you say, yes, perhaps we ought to make some adjustment on the indexing or CPI.

Now if you don't take the position that you support the CPI minus two, would you consider, would you comment on the recommendation that we have made and enacted into law in the social security program that we would give the CPI less wages and prices, based on the CPI.

Now, that is in the law. Could that be the approach to take for everyone? Or do you have a suggestion? We must get into this area. I am trying to find out what is the best way to go.

Mr. STOCKMAN. Well, Mr. Pickle, I cannot recommend anything here today as official policy. But we have looked at all kinds of variations—lesser of wages or prices, CPI minus, a floor under which no CPI would be recognized, the first percent, or whatever. There are a lot of ways to do it.

I think it is not a matter of technicalities. It is a matter of political consensus. Unless we have a political consensus, we shouldn't try to do anything because we are simply going to get the old people of this country worried for no good reason if we have a noisy debate down here about who is trying to help them or hurt them. You know that. And you were instrumental in overcoming that debate in the 1983 major bipartisan package.

So what I am saying here is, yes, there are a number of restraints that could be applied as soon as both parties and the speaker are willing to sit down and agree to something.

Mr. PICKLE. Thank you, Mr. Chairman.

Chairman. RANGEL. Mr. Thomas.

Mr. THOMAS. Thank you, Mr. Chairman.

Mr. Stockman, I have enjoyed some of the rhetoric that has been expended here today. I won't ask you whether or not you would support Lincoln in terms of his design to hold the Union together. But in terms of some statements that you have made, I think we really have often times definitional problems.

Your statement, for example, that economic growth would reduce poverty. I would agree with that, if my friends would agree that we could have a constant definition of poverty. But what happens is as economic growth increases, and as the quality of life of people changes through that economic growth, our definition of poverty changes, because I think if you take a classic profile of a poverty family today and examine the material goods that they have in that condition of poverty that they would be classified as middle income in the late 1940's or early 1950's. And, as a matter of fact, they would have various materialistic goods that were unattainable by anybody in an earlier period of time.

So, I wish you luck in arguing economic growth is going to reduce poverty, because as you are working to increase the economic growth through the programs you are advocating, there are others who are changing the definition of poverty, and they are somehow able to stay ahead of you.

But perhaps my biggest concern is the makeup of those people in poverty. Because, as I look at statistics and information presented to me, and granted we would like to have something other than census and maybe we ought to go out and operate on an anecdotal basis or what I have seen in my district—as a matter of fact, I can tell you a story of an automobile dealer who was absolutely shocked when a fellow came in to him in response to his advertisement for custodial services and the gentleman simply walked in and said: "Let's not beat around the bush; if you can give me $14,000 net I will go to work; if not, I will stay on the program I am on," because it would take that much money calculated to put him ahead, rather than to continue to do nothing.

But instead of anecdotal stories or telling you to come and visit my district so you can get a feel for what is going on, let's take a look at the makeup of those people who are poor. And this is probably the thing that concerns me most, because when you examine the benefits available under the programs we now have in effect, more and more you see single-parent families headed by women.

George Gilder in a book, "Wealth and Poverty," written in 1981, I think, puts it very clearly. Let me just give you a couple of brief paragraphs.

> Any girl is offered an irresistible solution by the U.S. Government to her present condition. It presents her at age 16 a chance for independence in an apartment of her own, free housing, medicine, legal assistance and a combination of payments and food stamps with several hundred dollars a month. It is a package far beyond the earning capacity of any of her male acquaintances, and it is offered without any requirement of work. There is only one crucial condition. She must bear an illegitimate child.

When you examine almost a 70-percent increase in single-parent families during the last decade, and that such families now constitute 19 percent of all families with children, then you begin to examine those numbers in particular. The increase in separation is of particular concern.

Bruce Chapman, former Director of the U.S. Census Bureau, said:

> Among black families, where there are 225 separated persons per 1,000 married persons in 1981, the figure was up from 172 per thousand in 1971. For whites, the increase was from 21 to 29 per 1,000. Nor can one rationalize easily the growing number of out-of-wedlock parents that as a proportion of all births rose from 5.3 percent in 1960 to 17 percent in 1979. Among whites, the increase was from 2 percent in 1960 to 9 percent in 1979, while for blacks, the number rose from 22 percent in 1960 to 55 percent in 1979.
>
> Four out of 10 of all out-of-wedlock births moreover are to teenagers. One result of such a surge in divorce, separation and out-of-wedlock births then has been a concurrent rise in single-parent families, 90 percent of them, as I said, maintained by women.

Mr. Chapman argues that long-term improvement of the inner-city culture depends on delegitimatizing out-of-wedlock births and legitimatizing marriage, even within the welfare system.

My concern, Mr. Stockman, is the attempts and direction by your administration to address what I consider one of the fundamental problems of poverty in this country, and that is a welfare system where knowingly or unknowingly, wittingly or unwittingly, we are insidiously adding to those individuals on poverty.

And I think we should talk about those people who through no fault of their own wind up homeless, unable to care for themselves. But what specifically are we looking at in terms of programs to reverse what over the last decade has been in my opinion one of the most significant factors in increasing the makeup of single individuals on poverty, and that is a system which encourages people to be under the poverty level in the United States, because as a matter of fact, it pays to be poor

Mr. STOCKMAN. Mr. Thomas, I guess the answer that I would give to that question is that it has been apparent to almost everybody from the right to the left, no matter what your view on things, that the AFDC program per se needs basic realinement structurally and the incentives for family breakup are apparent and damaging and so forth

And so ever since 1968, when the Heineman commission, that President Johnson commissioned, reported, we have been trying to bring about a generic change in the AFDC basic means test system. Nixon tried with FAP one year, and had FIP another year, and Carter tried with the better jobs and incomes program.

And what has unfortunately happened is that we have never been able to come up with a design that instilled enough confidence among a broad enough range of people in the Congress and elsewhere that it would be better to get it enacted.

So, here we are 15 years later stuck with the same system. The evidence has mounted as to the damaging effect, and we talked about it this morning. But I don't think we are any closer to a fundamental generic replacement than we might have been during 1970 when FAP was debated. And that is because there are knotty, difficult problems of social policy trying to design a different system—in terms of cost, in terms of incentives, in terms of equity, in terms of regional considerations.

So, we obviously ought to be incensed about what we have now, but we ought to be somewhat patient with the fact that some of the best minds among our scholars and in the Congress and in the administration or executive branch of Government have been debating and working on this for 15 years, and we just don't have a solution.

Mr. THOMAS. Do you think the climate helps or hurts when more and more wages of common labor are far below the benefits of AFDC, medicaid, food stamps, public housing, public defenders, leisure time, and all the other goods and services of the welfare state. Does that help or hinder?

Mr. STOCKMAN. I think it hinders.

Mr. THOMAS. To the degree we continue the present policy, we are going to have a more difficult time.

Mr. STOCKMAN. No, I think we have made a number of changes that are designed to reduce that problem. For instance, we have said that you cannot be eligible for AFDC if your income exceeds 150 percent of the standard of need or you are not eligible for food stamps if your income exceeds 130 percent of the poverty line. We have attempted to get Congress to count some of the in-kind benefits in eligibility determinations for programs. This has been occasionally accepted, mostly rejected.

So, we are trying to deal with that problem of pyramiding benefits that you are talking about. I think we have made some progress. But I think there are obviously more steps that could be taken if we could get them enacted.

Mr. THOMAS. You indicated on page 33 that you have established a program to withhold child support payments from the income tax refunds due delinquent AFDC parents. Do you think the single-family parent problem is greater in the United States, and given the statistics regardless of color of those who are single parents, primarily women below the poverty level, that the administration might not want to focus on a program to withhold child support payments from the income tax refunds of those individuals who are not on AFDC?

Mr. STOCKMAN. Well, that is something that is being debated downtown. We think the most clearcut case to do it is among the AFDC households where clearly there is missing child support and income that could be available that is not now being collected. The people who run the tax system in the IRS are very worried about using it as a universal mechanism to collect child support because that is not the intention of our voluntary income tax system. I think there is a pretty good debate there.

In any event, the most important thing we ought to do is collect moneys for welfare mothers who need it the most.

Mr. THOMAS. Well, but oftentimes you are trying to get blood out of a turnip in that situation, and the very fact that a family splits up and a mother has the child produces a poverty situation where the other parent is relatively well off, and it is a non-AFDC situation. I would simply ask you in those discussions to understand if we do think government is a useful tool in society, one of the fundamental corrections that we can make is to examine the role of the Federal Government in attempting to mitigate the problem of the family destruction rather than promote them with the programs we have.

Mr. STOCKMAN. Mr. Chairman, I am now truly late for a meeting.

Chairman RANGEL. This is going to wrap it up.

It is interesting to see how the numbers of unemployment have swelled as a result of these generous welfare programs. But one thing is clear. You have given us enough to work with. We don't know whether we are going to take the committee around the country to take a look at these new poor or those people that find themselves unemployed and hungry.

But we will take you up on your challenge to meet with you in the spring. But we hope before then, Mr. Stockman, that you would be kind enough to suggest to us in a legislative way, what Federal programs you would supp[illegible] to give additional assistance to certain subgroups of the poor.

The general impression we get from this administration is that you want to leave all of these decisions up to local and State government. I hope that you would be able to come back in the future with legislative proposals. Because with all the reform that you are talking about, all we see is budget reduction, and we don't see any legislative proposals that would target aid groups of people that you agree need more assistance.

So, that it would be helpful if we could get a little more specific, because I don't think you argue at all with the fact, and as we return to our communities, we do find more poor people, we do find m[illegible]ed people, we do find more older people that have [illegible] it. And it would be helpful to the administration an[illegible]n and certainly to the Congress if you made specific [illegible]ns.

With that, I want to thank you and hope that you would accept questions from the committee that would relate to the document that you presented to us.

Mr. STOCKMAN. I would be happy to, Mr. Chairman.

Chairman RANGEL. I hope that we can have exchanges without the formal hearings to see how we can come up with legislation that could better focus in on those groups we are talking about.

Mr STOCKMAN. OK.

Chairman RANGEL. Thank you.

NOTES

As noted below, figures were subsequently changed in some sentences. Those sentences should now read as follows:

1 From $73 billion to $362 billion, a fivefold increase in real terms, in total benefits of all kind—in-kind and cash, social insurance and means tested—made available

2 By 1966, when in-kind benefits were only a marginal phenomenon, $7 billion a year in constant purchasing power, the poverty rate was 15 percent.

3 In constant dollars it only provided $39 billion worth of support in 1959. In constant dollars, the cash social insurance provided $195 billion in 1982.

4 Then if we add in the supplementary support that comes from means-tested cash benefits, mainly SSI, the rate drops to 5.6 percent of the elderly who are poor.

5 Now, to put this perhaps more tangibly into perspective let me just say, without our transfer payment system there would be 17 million poor people in elderly families in this country.

6 If you look at the line 1981, what that says is that if somebody handed out $50.1 billion in 1981 to those who were officially below the poverty line as measured by census, all poverty would disappear; everyone would be brought up to the poverty line with $50 billion.

7 And after we had made all of those benefits available through a variety of different programs, the income deficiency, the amount needed to bring everyone up to the poverty line, is still $26 billion.

8. We went ahead and spent $81 billion through more than a dozen major programs, and we still had a lot of poor people left, and we still had income deficiency in terms of moving everyone up to at least the poverty line of $26 billion.

9. It was about $25 billion both years.

10. The inflation rate was down but dollars bought less in 1982 than 1981, about 6 percent less.

11. Numbers we have for the remaining poverty gap after everything are $25.6 billion in 1981, $24.4 billion in 1982 in constant 1982 dollars.

12. One, inflation went through the ceiling during that period, from about 7 percent up to 13 and 14 percent, when it finally peaked out in 1980.

13. So between inflation, the CPI measure and the disappearance of economic growth, you have 7 million poor people from 1978 to 1981. The poverty rate went from 11 percent to 14 percent.

14. We do have over 400,000 more units, subsidized units, today, helping people who don't have housing, than we got here in 1981.

[Subsequent to the hearing the following exchange of letters occurred:]

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

November 17, 1983

The Honorable David A. Stockman
Director
Office of Management and Budget
Room 252 Old Executive Office Building
Washington, D. C. 20503

Dear Mr. Stockman:

On behalf of the Subcommittee on Oversight and the Subcommittee on Public Assistance and Unemployment Compensation, we wish to thank you for testifying during the joint hearing, held on November 3, 1983. Your statement was important in aiding the Subcommittees examine the cause and impact of the recent increases in the poverty rate.

Attached are several questions which we would like answered for the record. Your response by December 12, 1983 would be helpful.

Again, we appreciate your testimony.

Sincerely,

Harold Ford

HAROLD FORD
Chairman, Subcommittee on Public Assistance and Unemployment Compensation

Charles B. Rangel

CHARLES B. RANGEL
Subcommittee on Oversight

FR/wpl

Attachment

1. Define the programs and the dollars for each program which equal $187 billion on page 2.

2. Your analysis in Table 1 is useful. To aid our understanding, split "Other Adults" into the following categories: (1) Individuals or families receiving disability income (workers' compensation or disability insurance), (2) Families with children, (3) Single or couples where all members of the family unit are age 55 or older and (4) Other. If a family falls into more than one category, assign it to the first category fitting the description.

3. Define programs listed in Table 2 under "all transfers" and "means-tested only". Develop the data from 1974 to 1981.

4. Does the 9.6 percent in Table 4 compare to the 6.6 percent number for 1979 listed in Technical Report 50 from the Census Bureau. If it differs, what is the value for 1979 that is comparable? What is the average amount of combined medicare and medicaid values for an elderly single individual, an elderly couple and an AFDC family with two children for the United States and for each state. Recompute Tables 4, 6 and 7 without medicare and medicaid.

5. Regroup Table 10 for the categories outlined in question 2.

6. In Table 13, what is the per capita transfer growth (Disability, Workers' Compensation, AFDC, etc. but not including health programs) for the time periods listed in the table.

7. Add 1975, 1980, and 1982 to Table 13.

8. Recompute the above Table 13 without medicare and medicaid.

9. Recompute Table 13 as defined in question 7 indexing health benefits to CPI - Medical care and all other benefits to CPI.

10. Add 1980 to Table 15.

11. Recompute Table 15 defined above without medicare and medicaid.

12. Recompute Table 15 as defined in question 10 indexing health benefits to CPI - Medical care and all other benefits to CPI.

13. An analysis done by the staff of the Joint Committee on Taxation indicates that taxes for families with poverty level earnings have substantially increased, as a percentage of income. At the same time taxes for families

with earnings nine times the poverty level are decreasing. Does the Administration have proposals that would reduce the tax burden of families below poverty? If so, what are they; if not, why not?

14. What is the aggregate amount of federal income and payroll taxes paid today in comparison with 1977 or 1978 by families and individuals with incomes below poverty? Below 125 percent of poverty?

[illegible] In early 1981 you testified in fron of this Committee [illegible]

> "The social safety net must be adequately funded. This includes cost of living protection for the elderly, and protection for the unemployed, the poor and veterans."

Would you agree that adequate funding for the social safety net would require that AFDC benefits keep pace with inflation.

16. Dr. Gottschalk testified in regard to poverty rates of female-headed families that "we remain pessimistic that economic growth per se will have a large impact on their poverty rates. Our pessimism is based on the small poverty reduction experienced by this demographic group during the high growth period of the late 1960's and early 1970's."

In light of that evidence, what assurances can you give that high growth will reduce the poverty of female-headed families significantly?

17. From 1970 to 1983 the purchasing power of AFDC benefits declined by more than 30 percent. Should the Federal government encourage states to keep AFDC benefits levels up with inflation?

18. In your testimony, you place great emphasis upon a healthy economy being able to lower the poverty rate. What assurance do you have that once a mother with two or three children obtains a job, that job will pay enough wages to put her and her family above poverty?

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

DEC 2 [illegible]

Honorable Charles B. Rangel
Chairman, Subcommittee on Oversight
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Honorable Harold Ford
Chairman, Subcommittee on Public
Assistance & Unemployment Compensation
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Charlie and Harold:

In accordance with your request of November 17, 1983, enclosed are responses to the questions you asked me to answer for the record following my testimony on poverty in America.

I welcomed the opportunity to testify before your Subcommittees, and I hope you find the enclosed material useful.

Sincerely,

David A. Stockman
Director

Enclosure

December 9, 1983

RESPONSE OF DAVID A. STOCKMAN TO QUESTIONS OF THE HOUSE WAYS AND MEANS SUBCOMMITTEES ON OVERSIGHT AND ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION

Question 1

Define the programs and the dollars for each program which equal $107 billion on page 2.

Answer

The $107 billion in in-kind income not counted in measuring poverty is as follows:

FY 1982 IN-KIND BENEFITS NOT COUNTED AS INCOME
(dollars in billions)

Medicare	$50.4
Medicaid	32.4
Housing Assistance	8.0
Food Stamps	11.0
Child Nutrition and Commodities	3.5
Low-Income Home Energy Assistance	1.7
	$107.0

Questions 2 and 5

Your analysis in Table 1 is useful. To aid our understanding, split "Other Adults" into the following categories: (1) Individuals or families receiving disability income (workers' compensation or disability insurance), (2) Families with children, (3) Single or couples where all members of the family unit are age 55 or older and (4) Other. If a family falls into more than one category, assign it to the first category fitting the description.

Prepare Table 10 for the categories outlined in question 2.

Answer

Tables 1 and 10 were developed using Census data which are regularly tabulated but not published. We do not have the data on hand to respond to your questions, but you should be able to obtain them directly from the Bureau of the Census.

Question 3

Define programs listed in Table 2 under "all transfers" and "means-tested only." Develop the data from 1974 to 1981.

Answer

"Means-Tested Transfers" include AFDC, SSI and predecessor programs, Medicaid, Food Stamps and Commodity Distribution programs, Child Nutrition, Housing Assistance and Low-Income Home Energy Assistance.

"All Transfers" includes the means-tested transfers listed above, Social Security and Railroad Retirement, Federal Employees Retirement and Insurance, Unemployment Assistance, Veterans Compensation and Pensions, Black Lung, and Medicare.

The requested data for 1974-1981 are shown below.

TRANSFER PAYMENTS IN CURRENT DOLLARS
(billions)

	Total		Non-Cash	
	All Transfers	Means-Tested Only	All Transfers	Means-Tested Only
1974	$122.2	$28.8	$27.7	$16.4
1975	153.9	35.3	35.8	21.0
1976	178.9	40.7	42.9	25.1
TQ	46.6	10.5	11.2	6.4
1977	198.1	45.7	50.0	28.5
1978	212.7	48.7	56.1	30.9
1979	235.0	53.9	65.3	36.2
1980	277.3	63.2	78.2	43.2
1981	327.3	76.3	95.8	53.4

Questions 4, 8, and 11

Does the 9.6 percent in Table 4 compare to the 6.6 percent number for 1979 listed in Technical Report 50 from the Census Bureau. If it differs, what is the value for 1979 that is comparable? What is the average amount of combined Medicare and Medicaid values for an elderly single individual, an elderly couple and an AFDC family with two children for the United States and for each State. Recompute Tables 4, 6 and 7 without Medicare and Medicaid.

Recompute the above Table 13 without Medicare and Medicaid.

Recompute Table 15 defined above without Medicare and Medicaid.

Answer

Details on the methodology we used in valuing in-kind benefits are contained in the enclosed technical note, and a discussion of our methodology in relation to that in Census Technical Report 50 is below.

As indicated in the technical note, insurance values were assigned to Medicare enrollees and Medicaid recipients. (Medical expenditures made on behalf of an individual were not assigned to that individual, as such a methodology would result in the sickest people being classified as the highest income people.)

o The values assigned to Medicaid recipients in each State are equal to the average benefits provided to the categorically eligible populations in that State. As categorical eligibles use fewer services than the medically needy, this technique captures only about 50 percent of Medicaid costs and excludes the bulk of nursing home care. A list of the values used is attached.

o The Medicare value assigned is a nationally uniform $1,526.

We do not have the data on hand to redo Tables 4, 6, 7, 13 and 15 without Medicare and Medicaid. However, we do have information relevant to the basic question that seems to underlie your inquiries, i.e., does the assignment of medical benefits result in large numbers of elderly people with very small cash incomes being called non-poor?

A total of $40.8 billion was assigned to persons in elderly-headed households for Medicare and Medicaid coverage in 1982. Less than 12 percent of this total was counted as reducing the $44.1 billion pre-transfer poverty gap. Medicare counted against the $44.1 billion gap is slightly less than $4 billion and Medicaid is less than $.5 billion. Thus, medical benefits account for about 10 percent of the reduction in the pre-transfer poverty gap. The greatest reduction in reported pre-transfer poverty among the elderly, therefore, results from cash transfers not from medical insurance. Medical care by and large seems to work at the margin, edging those close to the poverty level above the line, rather than being the largest and most critical component of the poverty calculations.

The 9.6 percent poverty rate in the testimony is similar but not fully comparable to the 6.6 percent rate for 1979 in Technical Report 50. There are substantial differences in data and costing concepts between our market values and those used in Technical Report 50.

For example:

o In our estimates of rental subsidies we distinguish between elderly and non-elderly families, which Technical Report 50 does not. Because elderly families are smaller than non-elderly families, the units they rent are smaller and of lesser value. Taking these differences into account makes our estimate of the rental subsidy to an elderly family about 25 percent lower than to a non-elderly family with the same income. In contrast, in Technical Report 50 elderly and non-elderly families receive identical subsidies.

5. Our estimates of market insurance value for Medicaid exclude the high costs of medically needy persons who essentially self-select into the program. Technical Report 50 includes the expenditures of this group in calculating insurance value, and as a result it assumes values more than twice as high as we would per State for the elderly.

For Medicare, we are not able to compare our methodology to that in Technical Report 50 due to ambiguities in the Report. The Report gives three different market insurance values for Medicare for the elderly (including institutional benefits): on page 56, it is described as $1,243; in Table 14 (page 76), it is shown as $1,011; and in Table D-2 (page 121), it is shown as $910.

Our 9.6 percent poverty rate was calculated on a person-by-person basis by assigning a market value to each in-kind benefit reported received by each person in the CPS sample. To calculate the various poverty rates for any given year requires the collection of data unique to that year to set market values for each benefit. Different programs also must be written to handle the data for each year as the CPS format varies over time. We have done simulations only for 1981 and 1982 and so do not know what post in-kind income poverty rate would result from calculations for 1979.

Question 6

In Table 11, what is the per capita transfer growth (Disability, Workers' Compensation, AFDC, etc., but not including health programs) for the time periods listed in the table.

Answer

Shown below is Table 12 with data added on per capita real growth for all transfers excluding health and for all transfers excluding health and retirement benefits. As Table 11 deals with the non-elderly, the latter per capita numbers probably are best suited for your purposes.

ECONOMIC GROWTH, POVERTY AND TRANSFERS
EXCLUDING HEALTH PROGRAMS

	Annual Growth Rate		
	1959-66	1966-73	1973-82
Per Capita Real GNP	3.0%	2.4%	.9%
Poverty Rates of:			
Non-Elderly	-6.4	-2.3	+4.0
Non-Elderly Excluding Those in Female-Headed Families	-8.2	-5.7	+5.0
Per Capita Real Transfers Excluding Health	4.3	7.5	3.5
Per Capita Real Transfers Excluding Health & Retirement Benefits	-1.1	7.8	2.4

Questions 7 and 10

Add 1975, 1980, and 1982 to Table 13.

Add 1980 to Table 15.

Answer

As noted above, calculations of poverty rates for a given year requires data collection and modeling unique to that year. We have calculated rates only for 1981 and 1982, so we cannot add 1975 and 1980 to Table 13 nor 1980 to Table 15. Table 13, with 1982 data added, is below.

INEFFICIENCY OF MEANS-TESTED TRANSFERS
(in billions of 1982 dollars)

	Pre-welfare Poverty Gap	Means-Tested Transfer Payments	Post-Transfer Poverty Gap
1970	$39.3	$33.3	N.A.
1981	50.1	81.0	25.6
1982	54.1	78.8	27.4

Questions 9 and 12

Recompute Table 13 as defined in question 7 indexing health benefits to CPI - Medical care and all other benefits to CPI.

Recompute Table 15 as defined in question 10 indexing health benefits to CPI - Medical care and all other benefits to CPI.

Answer

With the exception of the second column in Table 13, all of the numbers in these two tables are derived from computer simulations. The second column in Table 13 contains budget numbers. Were these numbers adjusted using the MCPI for Medicaid and the CPI for all other benefits, the values would differ from those previously provided as shown below:

	Means-Tested Transfer Payments (in billions of 1982 dollars)	
	As Adjusted in the Testimony	Adjusted Per Your Request
1970	$33.3	$33.5
1981	81.0	82.5
1982	78.8	78.8

The total benefit, gap, gap reduction and target efficiency numbers are derived by doing person-by-person calculations in the computer using income and benefit data in current dollars. The current dollar totals so derived are then put into constant dollar terms for purposes of comparing results among years. In the simulations, thus, benefits are not indexed from some base but reflect their actual values in the year being examined. There is, therefore, no basis for changing the values in the simulations. If you would like the current dollar results from the simulations, we would be glad to provide them.

Question 13

An analysis done by the staff of the Joint Committee on Taxation indicates that taxes for families with poverty level earnings have substantially increased, as a percentage of income. At the same time taxes for families with earnings nine times the poverty level are decreasing. Does the Administration have proposals that would reduce the tax burden of families below poverty? If so, what are they; if not, why not?

Answer

As the JEC staff study points out, inflation has caused income tax thresholds to fall below the poverty line. With enactment of the Economic Recovery Tax Act of 1981, the universally applicable provisions used to exempt low-income persons from Federal income tax -- the zero bracket amounts and personal exemption -- will be indexed effective in 1985. Consequently, inflation will no longer erode the value of these provisions, pushing entry points into the tax system lower and lower in real terms.

The Administration currently is reviewing its fiscal policy in preparation for submission of the FY 1985 budget to the Congress. Any new Administration proposals, thus, will be announced early next year after the 98th Congress convenes.

Question 14

What is the aggregate amount of Federal income and payroll taxes paid today in comparison with 1977 or 1978 by families and individuals with incomes below poverty? Below 125 percent of poverty?

Answer

We have not done any simulations of tax liabilities to determine the tax burdens on families in poverty as defined by the Census. The only recent study of this type of which we are aware covers 1976 and 1980. A copy of this study, done by the Census Bureau, is enclosed.

Questions 15 and 17

In early 1981 you testified in front of this Committee that

> "The social safety net must be adequately funded. This includes cost of living protection for the elderly, and protection for the unemployed, the poor and veterans."

Would you agree that adequate funding for the social safety net would require that AFDC benefits keep pace with inflation.

From 1970 to 1983 the purchasing power of AFDC benefits declined by more than 30 percent. Should the Federal Government encourage States to keep AFDC benefit levels up with inflation?

Answer

As is evident from our Federalism proposals, the Administration believes that primary responsibility for the non-elderly, non-disabled poor should rest with the States. Assistance in moving out of poverty is provided to this population through job training, employment, social services, economic development, child support enforcement and other programs which for the most part are administered by the States. We believe that States are in the best position to understand how these programs and AFDC interact and can be coordinated to ameliorate poverty given unique State and local circumstances.

Because inflation does reduce the value of AFDC benefits, however, the Federal Government can play a significant role in ensuring recipients well-being through sound fiscal policies which help keep inflation under control.

Questions 16 and 18

Dr. Gottschalk testified in regard to poverty rates of female-headed families that "we remain pessimistic that economic growth per se will have a large impact on their poverty rates. Our pessimism is based on the small poverty reduction experienced by this demographic group during the high growth period of the late 1960s and early 1970s." In light of that evidence, what assurances can you give that high growth will reduce the poverty of female-headed families significantly?

In your testimony, you place great emphasis upon a healthy economy being able to lower the poverty rate. What assurance do you have that once a mother with two or three children obtains a job, that job will pay enough wages to put her and her family above poverty?

Answer

Recent studies by Bane and Ellwood discussed in my testimony suggest that economic growth should benefit female-headed families. For example, their findings show that increases in earnings accounted for 55 percent of all movements out of poverty for women and children in female-headed households. Earnings increases result from both wider availability of jobs and real wage growth, both of which economic growth should enhance.

Nevertheless, it seems clear that female-headed households are a diverse group and that economic growth alone may not meet their needs. As I indicated in my testimony, we need to ensure that the wide variety of programs designed to help the poor move out of poverty work as well as possible. Significant strides have been made in this regard in the last two years. To cite only one example, Federal job training programs have been significantly restructured to help ensure the disadvantaged are trained for meaningful, permanent jobs in the private sector. We look forward to further reforms which will help female-headed families, such as enactment of the improvements in the Child Support Enforcement program we proposed this year.

QUESTION 4, TABLE A: CY 1982 MEDICAID VALUES
(dollars)

Annual Average Expenditure per Categorical
Cash Assistance Recipient - Medicaid FY 1982

	AFDC Aged	AFDC Child	Adult
Alabama	$769	$290	$763
Alaska	1,985	339	935
Arizona	0	0	0
Arkansas	1,074	254	668
California	799	321	794
Colorado	2,531	333	955
Connecticut	1,008	339	783
Delaware	2,069	353	734
District of Columbia	4,034	672	1,481
Florida	1,013	290	661
Georgia	1,068	326	922
Hawaii	1,781	340	856
Idaho	786	360	729
Illinois	2,183	429	923
Indiana	3,662	303	1,002
Iowa	1,608	395	910
Kansas	2,038	413	943
Kentucky	795	250	650
Louisiana	1,351	355	863
Maine	1,269	301	734
Maryland	1,845	407	857
Massachusetts	1,736	413	772
Michigan	1,787	316	881
Minnesota	3,862	384	812
Mississippi	845	259	563
Missouri	807	323	657
Montana	1,762	318	841
Nebraska	2,592	426	814
Nevada	1,226	521	1,104
New Hampshire	583	258	452
New Jersey	2,179	377	807
New Mexico	895	334	853
New York	2,844	563	1,050
North Carolina	1,266	325	699
North Dakota	2,645	566	808
Ohio	2,519	385	943
Oklahoma	1,685	240	456
Oregon	2,255	346	665
Pennsylvania	2,530	309	691
Rhode Island	3,024	321	667
South Carolina	871	202	643
South Dakota	1,849	441	813
Tennessee	980	461	817
Texas	1,293	352	1,041
Utah	2,723	317	919
Vermont	1,604	307	627
Virginia	1,757	318	812
Washington	914	374	838
West Virginia	827	210	458
Wisconsin	1,940	454	855
Wyoming	1,728	364	869

Source: HCFA. Annual Statistical Reports from States.

March 3, 1983

TECHNICAL NOTE ON SPECIAL CPS TABULATIONS
IN MAJOR THEMES AND ADDITIONAL DETAILS

Purpose

"Major Themes and Additional Budget Details Fiscal Year 1984" contains analyses in the overview on means-tested individual benefits based on special tabulations on Bureau of Census data. This note explains the data base and methodology used for these tabulations.

Overview

Special tabulations were done on the March 1982 Current Population Survey (CPS) public use file available from the Bureau of Census. These tabulations employed the poverty levels, money income concepts and reporting unit definitions* used by Bureau of Census in various publications series, including Money Income of Households, Families and Persons in the United States, Characteristics of the Population Below the Poverty Level and Characteristics of Households and Persons Receiving Selected Non-Cash Benefits. The findings in the tabulations on cash incomes (with two minor exceptions which very slightly increase the number of poor persons) are the same as those in existing published and unpublished Bureau of Census tabulations or that the Census would generate if the Bureau made more detailed recipiency and poverty level counts.

In addition, tabulations were done using the Census poverty levels and reporting unit definitions but counting in-kind as well as cash income. Values were assigned to in-kind government benefits whose recipiency was reported in the CPS. These values were based on government cost.

Survey data on recipiency of cash and in-kind income were used without adjustments for undercounts, and dollar amounts of cash income were also used as reported, without adjustments.

Current Population Survey

The CPS is the monthly survey from which population, labor force, and unemployment estimates are made by Bureau of Census and Department of Labor for the United States. Each March, supplementary questions on income in the previous year are added to the survey. This March survey is used by Bureau of Census for annual estimates of income, demographic characteristics and poverty status of the U.S. population.

*For ease of discussion "Major Themes" material uses the terms "families" and "households" as an inclusive term for Census-defined families and unrelated individuals. However, counts were done using Census reporting unit definitions, with two minor exceptions (explained below).

More specifically, the March CPS:

* Covers the civilian, non-institutional population. Persons in institutions (e.g., nursing homes, hospitals, or jails) in March are excluded, as are persons who died during the preceding year. Members of the Armed Forces living off-post or with their families on-post are included, but all other members of the Armed Forces (service persons on-post without families) are excluded.

* Covers the 50 States and District of Columbia. Residents of the territories and Americans overseas are excluded.

* Has a stratified cluster-sample of over 60,000 households. Sampling errors are relatively small, i.e., 0.27 percent of an estimated of 100,000 persons or families or 100,000 ±527 at a 95 percent level of confidence, and the response rate (completed interviews) is over 95 percent.

Social and demographic characteristics, such as family composition or age, are reported as of the March survey. While the survey unit is the household -- all occupants of a housing unit -- published data and tabulations usually are reported in terms of (1) families and unrelated individuals or (2) persons. A Census family consists of two or more related persons (related by blood, marriage or adoption) living together in the same household. A Census unrelated individual for poverty counts is a person age 15 or over not living with a relative. Census households may have more than one family or may consist of one or more unrelated individuals or of families and unrelated individuals. Persons in families plus unrelated individuals plus persons age 14 or younger not living with relatives equal total persons in households.

Income is reported for the previous calendar year and covers income of all persons age 15 and over in the survey. The income information is money income before taxes or deductions, and it includes all private sources, such as earnings, profits, child support and alimony, and public sources, such as Social Security, worker's compensation, unemployment benefits, and cash welfare benefits. Proceeds from sale of property or loans or one-time amounts such as tax refunds, inheritances, or insurance settlements are excluded. Educational benefits such as private scholarships, GI Bill or Pell Grant benefits are also excluded.

With the exception of earnings and Food Stamps, no questions are asked in the CPS which allow determination of the length of time during the year that a particular type of income was received. If income from a given source is received for only part of a year, that fact is reflected in the dollar total reported by the survey respondent but is not separately indicated. For example, a family with earnings for six months, on welfare for three months and on Social Security for three months would report all three types of income, but there would be no data on how long they received each. The reported number of persons or reporting unit receiving a particular type of income thus includes anyone who received such income at some time during the year ("ever-ons"). Because people go on and off some government programs, "ever-on" figures may be higher than the average number of persons and reporting units receiving a type of income in any given month. Average income or benefits calculated from CPS data reflect the average number of months for which the income or benefit is typically received; that is, for a program where the average participation period is 10 months, the number of recipients reported on the CPS will be 120 percent of the average monthly caseload and the average benefit reported on the CPS will be 83 percent of the annual benefit.

The March CPS now includes questions on recipiency of some types of in-kind income: Medicare, Medicaid, Food Stamps, free and reduced price school lunches, regular school lunches, housing assistance, workplace-related group health insurance, workplace-related pension coverage, and services from CHAMPUS, VA, or military health care systems. Most of these questions are asked of all persons age 15 or over, but some questions (lunches, Food Stamps, and housing) are asked only for the household. In addition, questions are asked about the number of children usually eating school lunches; the number of persons covered, the number of months of participation, and the total amount received for Food Stamps; and which persons were insured under workplace-related group health plans.

As in most surveys, there is some underreporting by surveyed persons in the CPS, which is due to a combination of factors: unwillingness or inability to provide information, difficulty in recalling income amount accurately (especially if small or intermittent), and misclassifying the source of income or benefits, e.g., confusing Social Security and SSI. Overall, almost 90 percent of money income is reported in the CPS, at rates ranging from 97 percent for wages down to 45 percent for property income. (Table 1 shows the latest comparison by Bureau of Census of independent estimates of income with CPS-reported income by source.) The underreporting of income leads to some overestimate of numbers of families and persons below the poverty level. Three different researchers who have adjusted the CPS for underreporting in different years* found that these adjustments, alone, reduced the reported poverty level by at least two percentage points.

Recipiency of in-kind government benefits suffers from underreporting also. The degree of underreporting for various benefits resembles that for cash income. Reported recipiency in the CPS ranges from 97 percent of independent estimates for Medicare down to 77 percent for Food Stamps. Table 2 shows the latest comparison by Bureau of Census of independent estimates of in-kind benefit recipiency with CPS-reported recipiency by benefit.

Valuation of in-kind government benefits

To include in-kind benefits in tabulations, values were assigned for each benefit reported by each recipient. Benefits for which values were assigned are Medicare, Medicaid, Food Stamps, free and reduced price school

*CBO, "Poverty Status of Families Under Alternative Definitions of Income," 1977; Smeeding and Moon, "Valuing Government Expenditures: The Case of Medical Care Transfers and Poverty," 1979, Institute for Research on Poverty; Hoagland, "The Effectiveness of Current Transfer Programs in Reducing Poverty," 1980.

lunch, and housing assistance. No values were assigned for workplace-related group health insurance, workplace-related pension coverage for regular school lunch or services from CHAMPUS, VA, or military health care systems, primarily because data are not available to do most of these valuations and because difficult conceptual issues on the valuation of some (most notably pension contributions) have not been subject to much discussion. Their addition to this analysis would reduce the proportion of program recipients in poverty. The recipiency as reported in the CPS was used without any adjustment for non-reporting. Recipiency was simulated in one instance -- children of adult Medicaid recipients -- because the Medicaid question is not asked of persons under 15, and no children are reported as Medicaid recipients on the CPS.

The values assigned were based on government cost. The valuation method in no case resulted in more in-kind income than actual program benefit payments. Table 3 compares the totals resulting from assigned values with totals for actual government payments. Values were assigned as follows:

• Medicare. Insurance value was calculated as reimbursements in FY 1981 for HI and SMI, net of SMI premium payments, per enrollee. Administrative costs were not taken into account, although insurance premiums normally include overhead. Separate calculations were made for aged and non-aged enrollees. Reimbursements during FY 1981 probably represent expenses incurred for an interval three to six months earlier because of the billing lag. In light of the rate of increase in medical costs, the cost estimate is probably conservative. Enrollee figures were average annual, reflecting the normal full-year duration of Medicare enrollment.

• Medicaid. Insurance value was calculated as vendor reimbursements in FY 1981 per categorically eligible Medicaid recipient as shown in Medicaid statistical reports. Administrative costs were not taken into account, nor was any adjustment made for the difference between Medicaid fee schedules and reimbursements and usual private insurance reimbursement levels. Separate calculations were made for the aged, blind and disabled (ABD) SSI population, AFDC adults and AFDC children in each State. Zero values were used in Arizona, which had no Medicaid program in 1981. The ABD value was assigned to persons receiving SSI, non-SSI recipients 65 or over, and non-SSI recipients under 65 with no children, who are unlikely to be on Medicaid as AFDC-type recipients and are assumed to be ABDs. The AFDC adult and children values were assigned to AFDC recipients and own and some related children, and to non-AFDC, non-SSI recipients with children. Expenditures for categorical eligibles (only) were used as the basis for determining insurance value to exclude the adverse selection occurring in other groups eligible for Medicaid, who must seek benefits rather than having them conferred automatically in conjunction with cash benefits. This methodology, for consistency, would require that benefits be assigned to non-participants who are income-eligible for non-cash categorical or medically needy Medicaid coverage. However, no such assignment of benefits was made, which accounts for much of the understatement of Medicaid benefits in tabulations. Additional understatement results from the lack of recipiency information for children in non-AFDC families ("Ribicoff children"), who are not identified in the CPS, and for the institutionalized, who are not covered in the CPS.

The fiscal year basis and billing lag contribute to some understatement of CY 1981 incurred government costs, as for Medicare. In addition, expenditures shown in the statistical reports from which the values were drawn historically have been understated. Recipient figures are on an "ever-on" basis, that is, persons receiving benefits at some time during the year; both reimbursements and recipiency therefore reflect part-year participation. The CPS question asks if the person is "covered by" Medicaid, not if he or she received benefits, and theoretically those responding are enrollees not just recipients of benefits. To the extent that non-recipient enrollees responded "yes," the use of recipient data results in an overstated value. Reportedly only 85 percent of enrollees are benefit recipients -- receive reimbursed services during a year -- but no data on costs by enrollee categories are available.

° Food Stamps. Value was calculated as the face amount of coupons received reported by reporting unit times 1.4. The multiplier brings the CPS value for average bonus per person up to the actual program level and brings the average participation period up to nine months. The adjustment to the CPS reported amounts and duration was made because the reported amounts per recipient were very low compared to actual program data on benefits per recipient for CY 1981.

° Free and Reduced Price School Lunch. Value was calculated as the average CY 1981 payment per free meal multiplied by the average number of meals served each child during a school year. The reduced price value assigned is $50 per year lower than the free lunch value. Because the CPS question does not distinguish between free and reduced price lunch recipients, the free lunch value was used for all free and reduced price recipients, resulting in an overstatement of in-kind income by $50 per year for approximately 15 percent of these recipients or almost 800,000 households. CPS tabulations show this many households containing children who receive free or reduced price school lunches to be above 200 percent of the poverty level on a conventional cash income basis so that overestimates affect the tabulations published little, if at all.

° Housing Assistance. Value was calculated as rental value in FY 1981 less 25 percent of cash income adjusted for average deductions and disregards. Separate calculations were made for aged (62 and over) and non-aged, as well as for public housing benefits and Section 8 rent subsidy. The rental values were based on the operating plus capital cost of public housing and the Section 8 contract rents paid in FY 1981 adjusted for the average apartment size rented to aged and non-aged families. The average deductions and disregards were derived from special tabulations on tenant profile data done by HUD. The public housing values were assigned to families who stated they lived in a public housing project. Section 8 values were assigned to families who did not live in a public housing project but stated that part of their rent was paid by Federal, State, or local government. Some families receiving somewhat lower subsidies were probably included as Section 8 recipients in the published tabulations as a result.

Tabulation Specifications

Conventional demographic and poverty definitions were employed in the tabulations. The specifications were the same as those used in Bureau of Census poverty tabulation with two exceptions. The exceptions are as follows: (1) the poverty rate is one-tenth of one percent higher than in Census tabulations on poverty, because about 200,000 unrelated children under age 15 with no reported income, excluded by Census in tabulating poverty, were included as poor unrelated individuals; and (2) the count of poor families is 200,000 higher than on Census tabulations due to the inclusion of poor unrelated subfamilies. The members of these subfamilies are included in Census counts of poor persons but the families are excluded in Census counts of poor families.

Bureau of Census rules and definitions were used to determine poverty status of reporting units and persons:

- Poverty status for each Census family was computed by comparing the total income of all family members with the Census poverty level for that family size for 1981.

- Unrelated subfamilies and unrelated individuals had their poverty status computed separately.

- The poverty status of a person is always the same as the poverty status of the reporting unit of which he or she is a member.

Tabulations were done on persons and on reporting units which included Census unrelated subfamilies, families, unrelated individuals, and unrelated persons under 15 years of age.

The Census poverty level matrix for 1981, as published in Money Income and Poverty Status of Families and Persons in the United States: 1981 (Advance Report) page 31, was used. These poverty thresholds include revisions and simplifications which slightly increase the number of poor families compared to previous years. The poverty level used for a family of four was $9,287; 150 percent of this level is $13,930.

March 2, 1983

TABLE 1 -- COMPARISON OF CPS MONEY INCOME TOTALS FOR CY 1979 WITH INDEPENDENT ESTIMATES
(Dollars in Billions)

	Independent Source	CPS	CPS as % of Independent Source
Total Money Income	--	$1,573.2	--
Total Income, Independent Estimate	$1,740.4	1,549.4	89.0%
Earned Income	1,345.4	1,293.3	96.1
Wages & Salaries	1,215.3	1,183.7	97.4
Non-Farm Self-Employment	104.2	93.9	90.1
Farm Self-Employment	25.9	15.7	60.6
Non-Earned Private Source			
Private Pensions	26.3	19.6	74.5
Interest, Dividends & Rents	186.2	84.0	45.1
Social Security & Railroad Retirement	98.7	89.7	90.9
Government Retirement	32.2	28.1	87.3
Unemployment, Workers Comp & Veterans' Payments	32.1	20.3	63.2
AFDC	12.3	9.5	77.2
SSI	7.2	5.0	69.4
Income Without Independent Estimates	--	23.7	--

Source: Current Population Reports, Series P-60, No. 132, July 1982.

March 2, 1983

TABLE 2 -- COMPARISON OF CPS IN-KIND BENEFIT RECIPIENCY ESTIMATES FOR CY 1979 WITH INDEPENDENT ESTIMATES OF RECIPIENTS
(Thousands of Persons)

	Independent Source	CPS	CPS as % of Independent Source
Medicare	27,081	26,197	96.7
Medicaid	20,794	18,136	87.2
Food Stamps	22,800	17,549	77.0%
Face Value of Food Stamps (millions of dollars)	$6,260	$4,922	78.6
Free and Reduced Price School Lunch	11,607	10,339	89.1
Housing Assistance (thousands of households)	2,688	2,573	95.7

Source: Current Population Reports, Series P-60, No. 136, January 1983.

NOTE: Census has adjusted all independent source estimates to exclude the territories. In addition, the independent source estimates for Medicaid and Medicare were adjusted to exclude institutionalized persons and those who died during the year.

March 1, 1983

TABLE 3 -- COMPARISON OF TABULATED IN-KIND BENEFIT TOTALS FOR CY 1981 WITH ACTUAL PAYMENTS
(Dollars in Billions)

	Actual Payments	Tabulated Value	Tabulated as % of Actual
Total	$87.5	$69.7	80%
Medicare	40.0	38.2	95
Medicaid	29.3	15.0	51
Food Stamps*	10.1	8.9	88
Free & Reduced Price School Lunch	2.5	2.5	100
Public Housing Benefits**	2.4	1.9	79
Section 8 Rent Subsidy**	3.2	3.2	100

*Excludes territories.
**Estimate of calendar year based on fiscal year data.

Chairman RANGEL. We will take a 10-minute break and then come back and hear from the Assistant Secretary for Planning and Evaluation, Robert Rubin.

[Recess.]

Mr. MATSUI [presiding]. May the hearing please come back to order.

At this time, we would like to call to the witness table the Honorable Robert J. Rubin, Assistant Secretary for Planning and Evaluation of HHS. Dr. Rubin, would you like to submit your testimony for the record and perhaps you can summarize your written testimony, as we would be happy to receive it.

STATEMENT OF ROBERT J. RUBIN, M.D., ASSISTANT SECRETARY FOR PLANNING AND EVALUATION, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Dr. RUBIN. Thank you very much, Mr. Chairman.

I think Mr. Stockman has described, to a very large extent, the administration's position. There are just some highlights I would like to point out.

Clearly the existence of poverty in American society is troublesome to everybody. Since many of the programs of our Department impact on those who are poor, it is appropriate that we talk about the distribution of poverty and about some of the things that the Department is doing to assist those in poverty.

As you know, the Census Bureau reported in 1982 that 15 percent of all Americans lived in poverty. However, this 1982 increase continued a trend that had begun in 1979 under the prior administration.

This administration's policy for reducing poverty is twofold. First, we believe a sound, growing economy is an essential element to reduce poverty and improve the economic well-being of all our citizens.

Second, for those who are unable to provide for themselves, the Federal and the State governments must maintain public assistance programs that assure that every American can maintain a decent standard of living.

In the late 1970's, as we all know, the economy was bleak, inflation nearly rampant, and the value of welfare benefits declined rapidly as the cost of living skyrocketed. The President made economic recovery his first priority, and with the help of the Congress, set out to reverse the failed policies of the past.

But before the impact of those policies could be felt, as Mr. Stockman articulated, many Americans had lost their jobs or suffered a substantial reduction in income.

I should point out we and most other economic forecasters expect that the poverty rate in 1983 will be lower than the poverty rate in 1982. Indeed this committee has heard testimony in that regard, I believe just 2 weeks ago.

However, the reason for this expectation has perhaps been overlooked; we expect a lower poverty rate largely because the President's program for economic recovery is working.

The annualized inflation rate for 1983 is 3.7 percent, a low for the past 11 years. Unemployment has been declining the increase in poverty, we believe, since 1978, is due almost totally to the poor performance of the economy in that period. Professors Danzinger and Gottschalk, who testified before this committee 2 weeks ago, found that the large reductions in poverty from 1967 to 1974 were due in equal part to increases in earnings and other private income and to transfer payments.

The small reduction in poverty between 1974 and 1978 was due mostly to improvements in earnings from private income. Similarly, the increase in poverty since 1978 is due to the decrease in the real value of earnings and private income.

Clearly the most direct way to reduce poverty is through employment.

This administration is committed to helping welfare recipients obtain the necessary job training and experience to obtain jobs and therefore reap the benefits of economic recovery. To this end, we have promoted State use of job search programs. Many States now require employable adults to participate in these programs.

Second, this administration established the community work experience program, CWEP, in which States have the option of requiring AFDC recipients to participate in a work experience program in return for receiving their grants.

Twenty-two States now have these programs. CWEP provides an opportunity for welfare recipients who have never worked or have been out of the labor market for a long period of time to establish good work habits and gain work experience.

Finally, we are encouraging States to take the AFDC grant that would be paid to the family and use it to subsidize the wages of the family head for a limited period of time. Under this grant diversion program employers agree to hire the participant at full wages at the end of the subsidy period.

While the programs that I just mentioned are currently optional, our administration has proposed to make participation in job search programs mandatory for those receiving AFDC benefits.

I should add that this mandatory program is now before the Congress. It would, in addition, require all States to establish work experience programs for AFDC and food stamp recipients.

Now, our proposals are not geared to welfare recipients alone. This past year the Congress passed the Administration's Job Training Partnership Act, which creates a new program for job training of the disadvantaged. This program, which is now under way in all our States, is designed to help all disadvantaged workers, including those displaced by new technology, which is a growing number of the unemployed.

Although the programs I have just discussed will help welfare recipients prepare themselves for jobs that can make them self-supporting, obviously a strong economy is necessary to assure that stable jobs with opportunities for advancement are available once this training is completed.

Under the policies of this administration, the real wages of American workers increased in 1982 for the first time in 4 years.

Mr. Stockman has talked about the effect of inflation and its relationship to poverty, I would like to give you an example. If we look at the level of benefits to families entirely dependent on

AFDC and other public assistance, from 1970 to 1983 the purchasing power of these benefits declined by more than 30 percent.

In fact, if the 12.4-percent inflation rate of the Carter administration had continued, the value of benefits would have declined 21 percent between 1981 and 1983 alone. Because of the lowered inflation rate, this decline was cut to 6 percent.

I will mention only in passing because I think it is important to note that only cash income is considered when measuring poverty. In 1982 benefits under the major means-tested in-kind programs totaled about $56 billion, more than double the $24 billion spent for the cash welfare programs of AFDC and SSI.

In addition, since 1970, spending in real dollar terms for in-kind programs increased 325 percent while spending on cash benefits declined slightly. Excluding these in-kind benefits underestimates the overall effect on the poverty rate of those other government programs directed toward low income persons.

Given this important caveat, I think there is another major reason for the increase in the poverty rate: the striking increase in the number of single-parent families headed by women.

In 1970 there were 6 million female-headed families. The numbers reached nearly 9.5 million in 1982. The proportion of all families headed by women was 11.4 percent in 1970 and rose to 15.4 percent in 1982.

However, while the aggregate number and proportion grew dramatically, the likelihood of this family being poor increased only slightly.

In 1970, slightly under one-third of female-headed families were poor. In 1982 this rate was just slightly over one-third and this at a time when spending on the poor had risen dramatically.

The key factor contributing to the poverty of female-headed families is the lack of child support from absent fathers.

In 1981 child support orders existed for less than 60 percent of families with absent parents, roughly 5 million out of an 8.4 million person base.

The full amount of support was paid in only 47 percent of these cases, leaving over $4 billion of support due the children of this country. To address this problem, this Administration has proposed legislation that will encourage the States to pursue and collect support payments more aggressively.

I would like to point out that this committee has been very helpful with that legislation. Indeed, I think we are moving toward a bipartisan approach on the child support enforcement problem.

The Department also asked to address the effect of our AFDC changes on the poverty rate in testimony today.

During the 1970's, AFDC developed into a program which provided permanent income supplements to families with low income workers. The monthly income disregard of 30 plus one-third of earnings that was in effect from 1969 to 1981 was, as you will recall, originally intended as an incentive for AFDC recipients to get a job and to help make the transition from welfare to work.

This intent, unfortunately, was never fulfilled. The percent of families leaving welfare due to earnings declined.

The changes returned the 30 plus one-third disregard to its original purpose of providing a transitionary period for those returning to work. As modified, it applies only during the first 4 months of work.

As you know, many critics are concerned that that change would lead vast numbers to quit their jobs and live entirely on welfare. Evidence from a national sample of welfare recipients studied by the Research Triangle Institute and indeed, from a sample of Wisconsin recipients as well, suggests that the critics were totally and completely wrong.

In the Wisconsin study, 80 percent of the recipients who lost all benefits and 60 percent of the recipients whose benefits were reduced were working at the same job 13 to 17 months after the change in benefits.

In addition, recipients who lost all AFDC benefits and were not receiving assistance, 13 to 17 months later, realized average wage increases of 10 to 17 percent at a time when unemployment in Wisconsin was rising.

In all, about 408,000 families lost eligibility and another 300,000 had reduced benefits as a result of changes in AFDC rules.

What is not frequently remembered is that this led to about a billion dollars worth of savings for both the States and the Federal Government.

These changes freed funds that could be used to increase assistance and indeed, since October 1981, when OBRA took effect, 25 States have increased their AFDC standards.

Government aid obviously should not substitute for jobs for people capable of working. We need to strengthen the economy so jobs and advancement opportunities are available.

For welfare recipients, we need strong work programs. For women raising children on their own, we need to make sure absent fathers fulfill their basic parental responsibility to support their children.

With fewer relying on governmental assistance, those benefits to those people who need them would be increased without placing additional strain on government resources.

If there are any questions left that Mr. Stockman hasn't answered, I would be happy to attempt to answer them.

[The prepared statement follows:]

STATEMENT OF ROBERT J. RUBIN, M.D., ASSISTANT SECRETARY FOR PLANNING AND EVALUATION, DEPARTMENT OF HEALTH AND HUMAN SERVICES

The existence of poverty in American society today is troublesome to us all. Because some of the programs administered by HHS are in large part designed to alleviate the plight of our Nation's poor, we welcome the opportunity to discuss the serious issue of poverty in our country today.

The Census Bureau reports that in 1982, 15 percent of Americans lived in poverty. The increase in 1982 continues the trend begun in 1979 under the prior Administration. Although poverty continued to increase in 1982, the rate of increase declined—despite the recession—over that or the previous two years. This Administration, this President, and this Secretary of Health and Human Services want to stop the increase in poverty during our tenure. Our policy for reducing poverty is twofold. First, we believe that a sound growing economy is the essential element to reducing poverty and improving the economic well-being of all Americans. A strong economy will produce jobs that provide income to those capable of working. Employment not only provides immediate income but ensures the long-run potential for improving a family's standard of living. Second, for those who are unable to provide for themselves, the Federal and State governments must maintain public assistance programs that assure that every American can maintain a decent standard of living.

Let me emphasize that we believe that public assistance should not be used as an alternative to work. For those unable to obtain jobs, public assistance should provide temporary support as well as work experience and training to enable employable recipients to become self-supporting. In my testimony I will discuss (1) how the poor can benefit from an improved economy, (2) what can be done to reverse the trend of a growing number of poor female-headed families and (3) why the changes made in the Aid to Families with Dependent Children (AFDC) program are not an important factor in the increase in the poverty rate for 1982.

ECONOMIC GROWTH AND POVERTY

The economy is the backdrop against which all public policy must be made. In the late 1970's, the scene was bleak. Investment and productivity were down while inflation ran rampant. Job opportunities dwindled. The value of welfare benefits declined rapidly as the cost of living skyrocketed. For example, from 1975 to 1980, the real value of AFDC benefits declined 16 percent, although the nominal value rose 29 percent.

By 1981, when Ronald Reagan took office, the country was entering a severe recession. President Reagan made economic recovery his first priority and, with the help of Congress, set out to reverse the failed policies of the past. However, profound changes in economic policy take time, more than any of us would like. Before the impact of those policies could be felt, many Americans had lost their jobs or suffered a reduction in income. The poverty statistics for 1982 reflect this overall recessionary hardship.

We expect the poverty rate in 1983 to be lower than the 15 percent rate in 1982, largely because the President's program for economic recovery is working. The turnaround began in the second half of 1982 and continues at this time. Inflation has been brought under control. The annualized inflation rate for 1983 is 3.7 percent—an 11-year low. During 1982, two million Americans were newly employed. Unemployment has been declining since December, 1982. Without the leadership of the President, economic recovery would not have begun as quickly and the suffering caused by the recession would have been substantially greater.

The importance of economic growth and low inflation in reducing poverty cannot be overstated. The increase in poverty since 1978 is due almost totally to the poor performance of the economy in that period. Research by Sheldon Danziger and Peter Gottschalk, who testified before your Committees two weeks ago, demonstrates this relationship. They found that the large reductions in poverty from 1967–1974 were due in equal part to increases in earnings and other private income and to transfer payments. The small reduction in poverty between 1974 and 1978 was due mostly to improvements in earnings and private income. Similarly, the increase in poverty since 1978 is due to the decrease in real value of earnings and private income. Danziger and Gottschalk note that the poverty reducing impact of eleven years of growth (1967–1978) in earnings and private income was cancelled by three years of rapid economic declines (1978–1981).

Clearly, the most direct way to reduce poverty is through employment. The Reagan Administration is committed to helping welfare recipients obtain the necessary job training and experience to obtain jobs and reap the benefits of economic recovery. To this end, the Administration has established several new programs. First, we have promoted State use of job programs for AFDC and Food Stamp applicants and recipients. As part of the Reagan program, Congress enacted legislation that permits States to require AFDC applicants to participate in job search. Many States now require employable adults to participate in these programs which motivate and train participants to secure jobs. Ten States already have established job search programs and an equal number are considering doing so.

Second, this administration established the Community Work Experience Program (CWEP) in which States have the option of requiring AFDC recipients to participate in a work experience program in return for receiving their grants. Twenty-two States now have these programs. Others have participated in similar demonstration programs for Food Stamp recipients. We believe CWEP provides an opportunity for welfare recipients who have never worked or who have been out of the labor market for a time to establish good work habits and gain work experience that will help them to find and keep a job.

Finally, the Administration is encouraging states to experiment with programs to divert welfare grants to wages—called "grant diversion." These programs permit a State to take the AFDC grant that would be paid to a family and use it to subsidize the wages of the family head for a limited period of time. Employers agree to hire the participant at full wages at the end of the subsidy period. This program provides training, work experience and a guaranteed transition into a job.

While the programs I have discussed are currently optional for the States, the Administration has proposed to make participation in job search programs mandatory for all AFDC applicants and recipients. The package now before the Congress also would require all States to establish work experience programs (CWEP) for AFDC and Food Stamp recipients.

We have requested permanent authority to permit States to use grant diversion in place of the current authority that permits these programs only in conjunction with a demonstration.

The Administration's alternatives are not geared to welfare recipients alone: the Job Training Partnership Act (JTPA) enacted last year, creates a new program for training the disadvantaged for jobs. Unlike its predecessor, CETA, which created many public service jobs, JTPA emphasizes short-term training to enable participants to obtain jobs. Welfare recipients must be served in proportion to their numbers among the disadvantaged population. This program, now underway in all States, is designed to help all disadvantaged workers—including those displaced by new technology.

Although the programs I have just discussed will help welfare recipients prepare themselves for jobs that can make them self-supporting, a strong economy is necessary to assure that stable jobs with opportunities for advancement are available once the training is complete. Moreover, for those who have succeeded in making the transition from welfare to work, a healthy economy is necessary for them to maintain their standard of living. Under the policies of this Administration, the real wages of American workers increased in 1982 for the first time in four years.

In addition, for low-income persons—whether workers or those who are unable to work—a low inflation rate is essential to retaining their purchasing power. Especially for these persons, the reduced inflation rate achieved by the Reagan Administration has been extremely important. In the absence of benefit increases, reduced inflation limits the erosion of benefits. If the inflation rate of 12.4 percent in effect in the last year of the Carter Administration had not been abated, the poverty threshold would be higher and it is likely that the number of persons below the poverty level would be greater.

As an example of the beneficial effects of this reduction in inflation. Consider the level of benefits to families entirely dependent on AFDC and other public assistance. From 1970-1983, the purchasing power of AFDC benefits declined more than 30 percent because inflation increased the cost of living substantially beyond the means of State and local governments to keep pace. The largest decline occurred between 1977 and 1981 when the real value of benefits fell 21 percent. Since 1981, the value of benefits has continued to decline, but the 6 percent reduction was considerably smaller than for any other recent two-year period. In fact, if the 12.4 percent inflation rate of the Carter Administration had continued, the value of benefits would have declined 21 percent rather than 6 percent between 1981 and 1983.

Before proceeding to discuss other possible reasons for the increases in the poverty rate, I would like to make one observation concerning the rate itself: only cash income is considered when measuring poverty, the value of non-cash benefits is ignored. In 1982, benefits under the major means-tested in-kind program of Food Stamps, child nutrition, Medicaid, housing assistance and energy assistance totaled $56 billion. This is more than double the $24 billion spent for the cash welfare programs of AFDC and SSI. Furthermore, since 1970 spending in real terms for in-kind programs increased 325 percent while spending on cash benefits declined slightly. This tremendous growth in in-kind programs has had a positive effect on the living standards of many low-income Americans. Excluding these benefits underestimates the overall effect on the poverty rate of government programs directed toward low-income persons. In releasing the 1982 figures, the Census Bureau noted that if in-kind benefits were included, there would be 12 to 42 percent fewer poor people, depending on the way the benefits are valued.

RISE IN FEMALE-HEADED SINGLE-PARENT FAMILIES

Given this important caveat, I will turn now to another major reason for the increase in the poverty rate: the striking increase in the number of single-parent families headed by women. In 1970, there were 6 million female-headed families. By 1980, this number increased nearly 50 percent to 9 million and reached nearly 9½ million in 1982. In relative terms, the proportion of all families headed by women was 11.4 percent in 1970 and rose to 15.4 percent in 1982. Also over this period, the divorce rate rose from 47 to 100 per 1000 married couples and the percent of births to unwed mothers increased from 11 percent in 1970 to 17 percent in 1979. While the aggregate number and proportion of single-parent families headed by women grew dramatically, their likelihood of being in poverty increased only slightly. From 1970 to 1980 slightly under one-third of this type of family was poor. In 1981, this rose to 34.6 percent and rose again in 1982 to 36.3 percent. This indicates that although most individual female-headed families are not losing ground in their struggle to stay out of poverty, the number of such families living in poverty will continue to increase as a direct function of their increasing proportion of the general population.

A key factor contributing to the poverty of female-headed families is the lack of child support from absent fathers. A recent Census Bureau study showed that in 1981, child support orders existed for less than half of the families with absent parents (4 million out of 8.4 million). Of those 4 million families with support orders, the full amount of support due was paid in only 47 percent of the cases.

Nearly $4 billion of support due to children went unpaid. If support orders were obtained for the 4.8 million families that do not have them, the amount of support paid would increase substantially.

To address this problem, the Administration has proposed legislation that will encourage States to pursue and collect support payments more aggressively. Our proposal would require States to use collection practices that have proven effective in order to ensure that money due as ordered is paid.

In addition, our child support proposal changes the Federal financing of the program to reward States with good programs and high levels of collections. The amount of the incentive payments available to States would increase and would be based *both* on how much support States collect and the efficiency of the State's operation. Also, for the first time, States would receive incentive payments based on their efforts on behalf of non-welfare children.

With enactment of these proposals, we expect that child support payments for both welfare and non-welfare children will increase. For welfare children, we expect a 60 percent increase in collections from 1982 to 1986 and for non-welfare children the amount of support collected should double from $1 billion in 1982 to $2 billion in 1986.

AFDC CHANGES

I have discussed the economy and the rise in single-parent female-headed families in reference to the increase in poverty. Now I would like to turn to the issue of the effect on the poverty rate of the Reagan Administration's changes in social programs, in particular the AFDC program.

The changes enacted in OBRA and TEFRA were directed at reducing benefits to families with other sources of income that were not being counted, but which could reasonably be expected to be available for the families' use.

Departing from its basic purpose to assist families with no means of support, AFDC had developed into a program which provided permanent income supplements to families with a low-income worker. The monthly income disregard of $30 plus one-third of earnings that was in effect from 1969 to 1981 was intended as an incentive for AFDC recipients to get a job and to help families make a transition from welfare to work. This intent was never fulfilled. With the disregard in place, the number of families with earnings did not increase. The percent of families leaving welfare due to earnings declined. Furthermore, the permanent nature of the disregard created a serious inequity. Because the disregard was available only to persons who began working while their families were receiving AFDC, similarly situated families who had never relied on welfare were not eligible. The OBRA changes returned the $30 plus one-third disregard to its original purpose of providing a transition period for welfare recipients beginning to work. As modified, the disregard applies only during the first four months on the job. The families affected by this change all had other sources of income.

Many critics of OBRA charged that the AFDC earned income disregard changes would lead welfare recipients to quit their jobs and rely entirely on welfare. Such behavior would increase government cost as well as the problem of long-term welfare dependency. Evidence from a national sample of welfare recipients studied by the Research Triangle Institute and from a sample of Wisconsin recipients studied by researchers at the University of Wisconsin suggests that the critics were totally wrong. For example, in the Wisconsin study, 80 percent of recipients who lost all benefits and 60 percent of recipients whose benefits were reduced were working at the same job 13 to 17 months after the change in benefits.

One should note that this job tenure was occurring when Wisconsin's unemployment rate increased from 8.7 percent to 13.5 percent and then fell to 10.2 percent. In both the Wisconsin and national samples, less than 18 percent of those who lost benefits were receiving AFDC payments a year later; this is no greater than the rate at which welfare recipients who left the rolls returned in the year prior to the OBRA changes. In addition, the Wisconsin recipients who lost all AFDC benefits and were not receiving assistance 13 to 17 months later, realized average wage increases of 10 to 17 percent.

Other changes to assure that all income and resources would be counted had a similar effect. Families unfairly advantaged by the old rules lost benefits and program equity was improved. In all, 408,000 families lost eligibility and 299,000 lost benefits as a result of the OBRA changes. The changes saved the Federal and State governments about $2.0 billion in 1983.

These changes affected families most in need in the following ways: They freed funds that could be used to increase assistance to those who have no choice but to rely on government assistance. Since October 1981 when OBRA took effect, 25 States have increased their AFDC need or payment standards.

Before concluding, I also would like to note that the 1982 report on poverty in America contains some very good news. The poverty gap between the elderly and all other Americans has been closed. In 1982, the elderly were no more likely to be in poverty than the non-elderly. One reason for this relative improvement is that the elderly are not affected by a poor economy because they are generally not employed. In most cases, elderly persons rely on government payments such as Social Security and Supplemental Security Income for at least a portion of their incomes. As you know, these are indexed to the cost-of-living which protects beneficiaries from any real loss in benefits. Data just available show that for in April 1979, 68 percent of elderly families in a given month would have been poor without government aid. Cash payments (primarily Social Security and SSI) reduced the poverty rate to 24 percent and, with the addition of in-kind benefits, to 7 percent.

Government assistance is essential to assure that those who generally cannot work to support themselves, including many elderly, do not live in poverty. But, for people capable of working, government aid should not substitute for jobs. Rather than expanding government programs to help families in which there is an adult who can work, we need to strengthen the economy so that jobs and advancement opportunities are available to those workers. For welfare recipients, we need strong work programs that prepare recipients both to enter the job market and to become self-supporting. For women raising children on their own, we need to assure that absent fathers fulfill their basic parental responsibility to support their children.

If we can accomplish these goals, government assistance will rightfully be targeted to those who are not capable of working and have no other private means of support. With fewer people relying on governmental assistance, benefits could be increased without placing additional strain on government resources.

I believe we all share the same ultimate goal—that no person in this country live in poverty. However, every benefit has its cost. With a dragging economy, everyone suffers. Conversely, a strong economy benefits everyone. Economic recovery, which this Administration is accomplishing, is the foundation on which a reduction in poverty can be built. It is the Administration's goal to restore the economy to vibrant health—and to make sure that all our citizens can partake of this national well-being.

Mr. MATSUI. Thank you very much, Dr. Rubin. The child support enforcement provisions, what is the estimate of HHS that from the change in the law, from the change in the enforcement mechanism, realistically? How many people will go off the so-called poverty roll as a result of this?

Do you have statistics on this?

Dr. RUBIN. We don't have precise numbers because what we are really looking at are the numbers of people who are not on AFDC who do have child support orders and don't get the payments. Those are numbers that are very hard to capture.

We think there will be clearly an avoidance of putting people back on AFDC, but how many people would bump up against the poverty line is something we do not know with certainty.

As was discussed earlier this morning, there are clearly people who are not on AFDC, but are below that poverty line. The degree to which they would go above that poverty line with child support aid we have just not estimated due to the lack of information necessary to do so.

Obviously though we have $4 billion out there. That has to go a long way toward helping those folks.

Mr. MATSUI. But you have no statistical information at this particular time?

Dr. RUBIN. No.

Mr. MATSUI. In terms of what the reduction in the poverty rate would be with this change in the law?

Dr. RUBIN. No, we don't. We would be making relatively uninformed guestimates that I am sure everybody would poke holes in.

Mr. MATSUI. OK. As far as the study that was done by the Research Triangle Institute, and we had testimony yesterday, I believe it was, or the day before yesterday, regarding that study, did it take into consideration the change perhaps in the quality of life of the family that went off welfare and stayed off welfare? Was that a component of the study?

Dr. RUBIN. Not directly, no, but indirectly it clearly had to.

When you have only 15 percent of the people who are taken off welfare as a result of these changes going back on welfare later, and of those who went back, about 47 percent were off the welfare rolls 2 months later, it seems to me that those individual families or individual recipients made a very calculated judgment as to the quality of their life.

If they perceived that the quality of their life was so poor that they needed to go back on welfare, it is clear that they would have. I think rather than having you or me make some judgments ex post facto of the quality of their life, I think it is important to note that these people made the judgments themselves and chose to stay off welfare for whatever reason.

So I think that is fairly convincing evidence, at least to me, that those people, while perhaps not totally satisfied with their condition, chose to stay off welfare.

Mr. MATSUI. Yes, I was—your comments are well taken. I was just wondering, however, about the mother who stays with her employment and has a loss of AFDC benefits, which also results in a loss of medicaid coverage. Or the employer who does not have insurance, or perhaps he does have insurance, but there is a copayment or deductible. So she decides, because she doesn't want to be on welfare, not to receive any assistance because of the stigma attached. Instead she decides perhaps to delay her children's health checkups, and doesn't take the child in for preventive treatment.

I wondered if the study dealt with that because I think it is a critical area. I agree with the general thrust of your comments. What about those people, though, that may decide to postpone certain benefits, not for themselves, because you are right, they are adults and should make those informed choices, but for their children who were not able to make an informed judgment?

Dr. RUBIN. I would like to make two observations, one factual and one philosophical.

The factual observation is that you do not need to be on AFDC to receive medicaid. Indeed, many States have medically needy programs. We do not know the extent to which those people who are no longer on AFDC and who are working would still qualify for medicaid benefits. In your example that concern would be alleviated because those people would fall under the medically needy standard.

The second is, and I think that as a physician it certainly has been driven home to me, is that the primary instinct of a mother to her children is to provide care for them. In my experience, if the mother felt that the child was being deprived of a needed medical service, she would quit her job and make sure that her child got that service one way or the other.

Mr. MATSUI. If they are aware of the problem. Oftentimes they are not aware of it because it is a preventive area rather than one in which symptoms are obvious.

I agree with you that a mother who is aware of her children's health problems undoubtedly would make that hard choice. Either stay on welfare or perhaps find a second, third, or fourth job. Sometimes, however, preventive care might be overlooked.

Dr. RUBIN. Absolutely.

Mr. MATSUI. That would be my concern. I wonder if the study included that? Perhaps if you do further studies or research in this area, you might want to explore that subject, and even other areas that perhaps I am overlooking at this time.

Dr. RUBIN. We are taking a look at the quality of life issue. However, for all the reasons I have described, and you have articulated, it is very difficult to quantify. It is subjective and anecdotal.

Mr. MATSUI. In your testimony you have indicated that the economic recovery in good economic times will result in a reduction of the poverty rate. I think everybody would have to agree with that statement.

Mr. Stockman made that observation as well. One area, however, and you have discussed this, is the female head of household families.

According to Mr. Stockman's table number 8, on page 14, the poverty rate was 44.9 percent in 1959 and did decrease somewhat until 1980. Then it went up, 1982, to 42.1 percent.

It seems that the poverty rate is reasonably constant for these female-headed families. This is during hard times and also during good times, as 1959 to 1966 and 1966 to 1973 was a period of growth as we all recognize.

But the poverty rate did not decrease by much for this particular category of people.

Now, assuming that we do have economic recovery and assuming that it is lasting, will these people find jobs? Will we see a dramatic decrease in the poverty rate of these single female-headed families, or is this something we have to live with and, if so, why? And this is the second question:

What would you and the administration propose to do about these people at this time?

Dr. RUBIN. Well, I had probably even less opportunity than you to look at Mr. Stockman's testimony, but it seems to me that if you look on page 4 and his table No. 1, his point about female-headed families is that while economic growth is clearly a significant factor relative to the poverty rate, the critical factor really is means-tested benefits and targeting. For most of the female-headed families, we are really talking about aid to families with dependent children.

What the administration is seeking to do, and I think has succeeded to a large extent with the changes enacted under OBRA, is to better target those funds. As a result of the OBRA changes, we are now taking care of roughly 200,000 families that are below the poverty line; more than we did prior to the changes in OBRA.

Indeed, about 93 percent of the people now on AFDC are below the poverty line whereas prior to OBRA it was roughly 84 percent.

In answer to your question, what we are trying to do is to target our means-tested programs, which are of critical importance to those people who are below the poverty line, rather than continue the helter-skelter approach of the past.

We are making some progress, and I think that is the direction in which we would like to continue to move.

Mr. MATSUI. Yes. I am somewhat puzzled, I guess, because since the administration came into office, those means-tested programs have been cut. AFDC was reduced by 13 percent in real terms, food stamps by 13 percent, child nutrition 28 percent, and title XX 22 percent.

It seems to me that we would be more concerned to keep those programs at levels at least constant in view of the fact that this is a group that appears to be somewhat unaffected by changes in economic conditions. I guess that this is a question of philosophy more than it is a question of——

Dr. RUBIN. As I pointed out, the probability of a female-headed family being poor is the same today—roughly speaking—as it was in 1970. Indeed, virtually all of the programs that you mentioned, with the exception of AFDC, came into place after 1970.

Mr. MATSUI. That may be, but it is quite possible that the poverty rate for this category would have gone up if those additional programs such as food stamps, title XX and child nutrition did not come into being and become law.

So it is quite possible that by instituting and by adopting these programs, we were able to keep that poverty rate constant. I guess it is a question of semantics and that is frankly a question of how you want to draw your conclusions.

Dr. RUBIN. I agree with that. Poverty certainly would have gone up had we not had the ability to better target our resources. I think that is evident. That was the major thrust of the OBRA changes, and, indeed, continues to be the thrust of what the administration is seeking to do.

Mr. MATSUI. Well, I won't go into the tax changes and how they affected people because undoubtedly that is not your area of expertise. So I guess that is all I have.

In view of the fact that I am the only one left to hear the last witness, I want to thank you very much, Mr. Rubin.

For the record I am supposed to ask if any members present would like to ask you questions. Undoubtedly none would.

31-496 O-84 21

If any member would like to, in addition, send questions to you, you undoubtedly would have no objection to responding to them in writing as well?

Dr. RUBIN. That would be fine.

[The questions and answers follow:]

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

November 17, 1983

Robert J. Rubin, M.D.
Assistant Secretary for Planning and Evaluation
Department of Health and Human Services
200 Independence Avenue S. W. - Room 415-F
Washington, D. C. 20201

Dear Dr. Rubin:

On behalf of the Subcommittee on Oversight and the Subcommittee on Public Assistance and Unemployment Compensation, we wish to thank you for testifying during the joint hearing, held on November 3, 1983. Your statement was important in aiding the Subcommittees examine the causes and impact of the recent increase in the poverty rate.

Attached are additional questions for the record. We would appreciate receiving your response by December 12, 1983.

Again, we appreciate your assistance.

Sincerely,

Harold Ford
Chairman, Subcommittee on Public Assistance and Unemployment Compensation

Charles B. Rangel
Chairman
Subcommittee on Oversight

Attachment (1)

31-496 O - 84 - 22

1. In your testimony, you indicate that from 1970 to 1983 the purchasing power of AFDC benefits declined by more than 30 percent and that it was beyond the means of state and local government to to keep pace. Why shouldn't the Federal government encourage states to keep AFDC benefits levels up with inflation?

2. In your testimony, you mention that AFDC benefit levels have not kept pace with inflation. To what extent, has this increased poverty among female-headed families?

3. Is this not an important factor in explaining why poverty is so high among female-headed families.

4. In your testimony, you place great emphasis upon a healthy economy being able to lower the poverty rate. What assurance do you have that once a mother with two or three children obtains a job, that job will pay enough wages to put her and her family above poverty?

   Is it not true that there were about 400,000 female-headed families in 1982 working full-time, but who were still in poverty?

   Would you not agree that some governmental assistance should be given to those families?

   What percentage of the females working today have a wage rate greater than $4.00 per hour? Greater than $5.00 per hour? Greater than $6.00 per hour? Greater than $7.00 per hour?

5. At the beginning of the Reagan Administration there was much talk about safety nets. Should children in families where both parents are unemployed have such a safety net?

   Should not the Federal government mandate AFDC benefits for children in families where both parents are unemployed?

6. To what extent, did these OBRA reductions in AFDC increase the poverty rate? You mention in your testimony that these reductions saved the Federal and state governments $1.1 billion. Is it not true that welfare plus earnings put many of these families slightly above poverty and that without the government's assistance, many of these families are below poverty?

7. Do you agree that a mother who works ought to have more total disposable income than a mother who does not? Are you aware that as a result of the reductions enacted in 1981, many families with no earnings can have more net disposable income than families with earnings of $400 to $500 a month?

8. Do you consider it fair that a family with $6,000 of earnings could lose some $1,700 in governmental assistance? Is it a fair government policy that changes the rules of a government program that dramatically and takes large amounts of income from low income families?

9. What evidence do you have that participants in Community Work Experience Program (CWEP) will be able to obtain a job at a greater rate than those without CWEP experience?

10. Dr. Gottschalk testified in regard to poverty rates of female-headed families that "we remain pessimistic that economic growth per se will have a large impact on their poverty rates. Our pessimism is based on the small poverty reduction experienced by this demographic group during the high growth period of the late 1960s and early 1970s."

In light of that evidence, what assurances can you give that high growth will reduce the poverty of female-headed families significantly?

11. On the basis of data from the 1979 Survey of Income and Program Participation, compute the amount of benefits from all the various income transfer programs (both means and non-means tested) received by families and individuals below poverty. These calculations should be done with and without inclusion of health benefits.

DEPARTMENT OF HEALTH & HUMAN SERVICES

DEC 19 1983

The Honorable Charles B. Rangel
Chairman
Subcommittee on Oversight
Committee on Ways and Means
U.S. House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

I appreciated the opportunity to testify on November 3, 1983, before the joint hearing of the Subcommittee on Oversight and the Subcommittee on Public Assistance and Unemployment Compensation.

Enclosed are my answers to your additional questions for the record. I am also sending a copy of this letter with enclosures addressed to Congressman Ford.

Again, thank you for the chance to discuss the causes and impact of the recent increase in the poverty rate.

Sincerely,

Robert J. Rubin, M.D.
Assistant Secretary for
Planning and Evaluation

Enclosures

Question 1

In your testimony, you indicate that from 1970 to 1983 the purchasing power of AFDC benefits declined by more than 30 percent and that it was beyond the means of State and local government to keep pace. Why shouldn't the Federal government encourage States to keep AFDC benefits levels up with inflation?

Answer

The Federal government encourages States to keep up their AFDC benefits by matching State spending based on State per capita income. The Federal reimbursement levels range from 50% to 78% with those States having a lower per capita income receiving the highest level of reimbursement. It has been beyond the means of States to keep benefits current because the very high inflation in the late 1970s lowered the real value of those benefits substantially.

When this Administration took office we established economic recovery as our top priority. As a result of our policies, inflation declined dramatically. The improved economy will enable States to increase benefits by reducing welfare expenditures and increasing tax revenues. This Administration also made changes in AFDC eligibility to target benefits to those most in need. These improvements enabled 32 States to increase benefits since July 1980.

Question 2

In your testimony, you mention that AFDC benefit levels have not kept pace with inflation. To what extent, has this increased poverty among female-headed families?

Answer

From 1975 to 1982 the Consumer Price Index (CPI) increased 79 percent while the maximum AFDC benefit for a family of four in the various states increased, on average, only 30 percent. Using data from the March 1983 Current Population Survey (CPS), we have compared actual measures of poverty based on cash income for female-headed families in 1982 with those that might have been observed if AFDC benefit levels in effect in 1975 had been indexed to the CPI. Because of time and data limitations, our method is a rough simulation that gives a general idea of the magnitude of the effects of indexation. Indexing AFDC benefits from 1975 to 1982 might have reduced the 1982 poverty rate among female-headed families from 52.4 percent to 51.1 percent. Moreover, indexation might have resulted in a 1982 poverty gap for such families of roughly $15.2 billion rather than the observed $17.2 billion.

These estimates were derived by inflating annual AFDC benefits reported in the CPS by state-specific adjustment factors based on maximum AFDC benefit levels for a family of four. For each state, the adjustment factor is the percentage increase in the maximum 1982 benefit for a family of four that would be required to fully offset the increase in the CPI since 1975.

Several considerations should be kept in mind when interpreting these results. First, we were unable to simulate the reduction in labor force participation that might have occurred among AFDC families if benefits had increased by the amount of the CPI increase. The resulting reduced earnings would have tended to increase poverty among AFDC families. Second, the simulation is based on families who actually received AFDC during 1982, so we were unable to include those additional families that would have been eligible with inflated 1982 benefit levels. Finally, it should be noted that the unit of observation for our analysis is the family, with related subfamilies being considered distinct families and not part of primary families. For example, an AFDC family residing in the home of the grandparents is considered a separate family and not part of the grandparents' family.

Question 3

Is this not an important factor in explaining why poverty is so high among female-headed families?

Answer

The lack of indexation of AFDC benefit levels contributed only slightly to the high rates of poverty among female-headed families and should not be regarded as a major factor in explaining such high poverty rates. Even if benefit levels were fully indexed, the poverty rate among female-headed families would remain much higher than the national average. Our rough estimates indicate that implementation of full indexation in 1975 might have reduced the 1982 poverty rate among female-headed families by only 1.3 percentage points (from 52.4 percent to 51.1 percent).

Question 4

In your testimony, you place great emphasis upon a healthy economy being able to lower the poverty rate. What assurance do you have that once a mother with two or three children obtains a job, that job will pay enough wages to put her and her family above poverty?

Is it not true that there were about 400,000 female-headed families in 1982 working full-time, but who were still in poverty?

Would you not agree that some governmental assistance should be given to those families?

What percentage of the females working today have a wage rate greater than $4.00 per hour? Greater than $5.00 per hour? Greater than $6.00 per hour? Greater than $7.00 per hour?

Answer

According to Census figures, 224,000 women who headed families worked full time in 1982 yet had incomes below the poverty level for their size families. This is 6.8 percent of all women who headed families and worked full time. It compares to a poverty rate of 3.5 percent for all families with a full-time worker.

Although there are no assurances that a full-time worker will earn enough to keep her family above the poverty level, the potential for escaping poverty is greater for a working woman than for one who relies on AFDC. Generally, a family that relies entirely on public assistance will not receive enough income to exceed the poverty line. On the other hand, a woman who works full time and earns $4 an hour has income in excess of the poverty level for a family of three. An increase to $4.75 an hour would provide earnings in excess of the poverty rate for a family of four. In 1982, 65.7 percent of female workers who reported their earnings as hourly wages earned more than $4 an hour. Further, 44.3 percent had hourly earnings of $5 or more, 34.8 percent had an hourly wage of $6 or more and 28.4 percent earned $7 or more per hour.

Families with low incomes are eligible for government assistance under a variety of programs. For example, a mother who earns $581 a month (the minimum wage) and has two school-age children would qualify to receive $110 a month in food stamps. Her children could receive free breakfasts and lunches valued at $80 a month. In 30 States, the family could be eligible for Medicaid under the optional medically needy program, depending on the State's income eligibility limits and the family's medical expenses. Other programs for which the family may qualify are social services under the State block grant programs, low income home energy assistance and housing assistance. In addition, the mother can receive $32 a month as advance payment of the earned income tax credit as well as a tax credit for 30 percent of her child care expenses up to the amount of her Federal tax liability (or $15 a month for this example).

Question 5

At the beginning of the Reagan Administration there was much talk about safety nets. Should children in families where both parents are unemployed have such a safety net?

Answer

The Unemployed Parent (UP) component of an Aid to Families with Dependent Children (AFDC) program is a State option and we believe it should remain so because States finance up to 50% of the cost of AFDC. The Federal government encourages States to provide a safety net for children by matching 50 to 78% of each State dollar spent on both the AFDC program and the AFDC-UP program. The AFDC-UP program is already serving 283,000 families in 25 States, including most of the high-benefit States. These States have 68% of the basic AFDC caseload nationally.

Question 6

To what extent, did these OBRA reductions in AFDC increase the poverty rate? You mention in your testimony that these reductions saved the Federal and state governments $1.1 billion. Is it not true that welfare plus earnings put many of these families slightly above poverty and that without the government's assistance, many of these families are below poverty?

Answer

We have no information concerning the effects of the OBRA changes on the poverty rate, although the changes were targeted on people with other means of support. From simulations based on the 1979 Characteristics of AFDC Recipients Survey, 12.1 percent of the pre-OBRA AFDC caseload had income (including food stamps) above the poverty line. Following the OBRA changes, 5.3 percent of the caseload was above the poverty level. Of those families who lost eligibility because of the OBRA changes, an estimated 89 percent had incomes above the poverty level pre-reform.

Although many families with earnings no longer qualify for AFDC, other government aid is available. A mother with two children who works full time at the minimum wage qualifies for food stamps that bring her income above the poverty level. In addition, other benefits are available, as illustrated in the answer to question 4. Furthermore, in some states, this family would continue to qualify for AFDC. Other families who lost AFDC eligibility have made up the lost benefits by working more and, in fact, we expect many recipients will increase their earnings in response to the changes and as the economy improves. A study of Wisconsin AFDC recipients who lost all AFDC benefits as a result of OBRA and were not receiving assistance 13 to 17 months later, found that they had realized average wage increases of 10 to 17 percent.

Question 7

Do you agree that a mother who works ought to have more total disposable income than a mother who does not? Are you aware that as a result of the reductions enacted in 1981, many families with no earnings can have more net disposable income than families with earnings of $400 to $500 a month?

Answer

Under some circumstances it is possible that a family with earnings could have less disposable income--gross income less taxes and work-related expenses--than a family just relying on AFDC and food stamps. This occurs infrequently, however. When this anomaly does occur, it is usually in the income range of $400 to $500 per month. At a full-time minimum wage job a woman earns about $581 per month, well above this range. Administration policy is to encourage full-time employment that provides economic self-sufficiency.

It is also important to note the Administration's firm belief -- one that I think is shared by a large majority of Americans -- that employable recipients should not be given the choice of working to support themselves or collecting welfare. For this reason, we strongly support mandatory participation in Community Work Experience Programs (CWEP) and would urge the Congress to enact our proposed workfare legislation.

Question 8

Do you consider it fair that a family with $6000 of earnings could lose some $1700 in governmental assistance? Is it a fair policy that changes the rules of a government program that dramatically and takes large amounts of income from low income families?

Answer

The change in the AFDC program that would have caused a loss of the magnitude described was the four month limit placed on the disregard of $30 plus 1/3 of earnings. Although families who lost benefits due to this change may have viewed it as unfair, the actual effect of the change was to redress a serious inequity in the law between AFDC families and other low-income families.

The intent of Congress in establishing the $30 plus 1/3 disregard was to provide an incentive to parents with families receiving AFDC to find jobs and become self-sufficient. The disregard did not accomplish its purpose. During the thirteen years during which the provision applied, the percentage of working recipients did not increase. The percent of case closings due to earnings actually dropped.

Rather than provide an incentive to become self-sufficient, the disregard became a permanent income supplement. In 1981, families in all States continued to be eligible for AFDC if they had full-time earnings at the minimum wage. In 18 States, families with $15,000 or more in annual earnings remained eligible. Because the disregard applied only to earnings of persons who began working while receiving AFDC, other families, with similar incomes, were not only ineligible for aid, but paid taxes to provide benefits to others. The four month limit on the $30 plus 1/3 disregard removed this inequity from the program.

Question 9

What evidence do you have that participants in Community Work Experience Program (CWEP) will be able to obtain a job at a greater rate than those without CWEP experience?

Answer

We believe CWEP will help participants to obtain jobs because it provides job references, training, potential job leads, maintenance of existing job skills, and improved morale and self-esteem. There has been a high rate of voluntary participation in CWEP and a high degree of cooperation by participants. There has been a growing State interest in the program since it was instituted in October of 1981. Presently 22 States are voluntarily particpating in CWEP. Several States have reported their job placement rates with CWEP are above the rates they experienced with the Work Incentive (WIN) program.

In particular, although we recognize that information from a rigorously controlled experiment is not yet available, several States have supplied us with figures which indicate CWEP is a success. Michigan reports an 82% job placement rate increase with CWEP and WIN demo over WIN. Oklahoma, California, Iowa, and West Virginia, among others, report placing at least 20% to 30% of their CWEP participants in regular, unsubsidized employment. Officials for Utah's Work Experience and Training (WEAT) program report that 17% of those selected for participation had their cases closed prior to assignment because they found full-time employment. Of those who were actually assigned, 34% obtained employment after their assignments.

Question 10

Dr. Gottschalk testified in regard to poverty rates of female-headed families that "we remain pessimistic that economic growth per se will have a large impact on their poverty rates. Our pessimism is based on the small poverty reduction experienced by this demographic group during the high growth period of the late 1960s and early 1970s."

In light of that evidence, what assurances can you give that high growth will reduce the poverty of female-headed families significantly?

Answer

We are more optimistic than Dr. Gottschalk because of several recent trends that were not evident during the period of high growth on which he bases his conclusion-- the late 1960s and early 1970s.

Formerly, job opportunities and earnings of women lagged far behind those of men. Women were more likely to be responsible for children and fathers provided little child support. Frequently, they relied on welfare benefits that provided incomes less than the poverty level.

Recent trends indicate a changing picture. Increases in labor force participation of women with preschool children, higher educational attainments, decreasing sex discrimination, greater access to child care, and increases in shared custody of children will lead to more and better work opportunities for women that will allow them to increase their earnings and reduce their poverty rate. This is especially true considering the vigorous economic growth that we are experiencing.

In addition, the Administration is pushing legislation that would produce much stricter enforcement of child support decrees. This legislation, which was passed unanimously by the House in November, also would increase women's incomes.

Question 11

On the basis of data from the 1979 Survey of Income and Program Participation, compute the amount of benefits from all the various income transfer programs (both means and non-means tested) received by families and individuals below poverty. These calculations should be done with and without inclusion of health benefits.

Answer

We computed these benefits for families that were pre-transfer poor as of April 1979. The total transfers are shown below for different family types:

	Total Transfer to Pre-Transfer Poor in April 1979 ($ million)	
	Excluding Medicare and Medicaid	Including Medicare and Medicaid
All Families	$7,083	$8,808
Elderly Families	5,917	5,948
Single-Parent Families	851	1,001
Two-Parent Families	516	621

Note: The actual breakouts reflect further discussions with Committee staff. The attached paper and supplementary tables describe these estimates in more detail.

Filling the "Poverty Gap"

APPENDIX D

SUPPLEMENTARY TABLES FOR HOUSE WAYS AND MEANS COMMITTEE REQUEST

December 1983

TABLE 34: Effect of Transfers on Poverty, April 1979 — All Families
(Excludes Medicare and Medicaid)

Transfer Program	Total Transfers ($ million)	Average Monthly Transfer per Recipient Family ($)	Percent of Total: to Pre-Transfer Poor	Percent of Total: Used to Alleviate Poverty *	Percent Poverty Gap Filled	Percent Poor, Post-Transfer
No transfers................	0					29.1 **
All cash transfers..........	10441	340	63.3	41.6	62.4	16.7
Food Stamps and housing assistance................	592	85	78.8	74.2	6.3	26.4
Cash welfare, Food Stamps, and housing assistance...	1792	182	82.7	72.8	18.6	27.4
All transfers ***	11033	338	64.2	42.6	67.5	15.6
Social security (SS).......	7624	339	63.5	41.0	44.9	19.2
SS & Food Stamps (FS)......	8024	304	64.3	42.6	49.1	18.8
SS & cash welfare (CW).....	8825	328	66.4	44.9	56.9	18.0
SS & other non-welfare cash transfers...........	8532	343	62.1	40.0	50.0	18.5
Food Stamps................	400	77	79.5	75.3	4.5	28.7
FS & cash welfare...........	1600	190	83.4	73.9	17.0	27.9
FS & all cash transfers....	10641	341	63.9	42.6	66.3	16.4
Cash welfare...............	1200	179	84.6	75.3	13.0	28.2
Housing assistance.........	192	73	77.1	74.2	2.0	29.0
Other non-welfare cash transfers................	907	300	50.2	38.1	5.0	28.5

NOTES: Total poverty gap = $6.96 billion; total families = 86.62 million.

* Counts only the part of the indicated transfer used to bring a family's income up to the poverty level.
** Pre-transfer poverty rate.
*** All cash transfers, Food Stamps, and housing assistance.

SOURCE: ISDP Wave 2 tabulations.

Table 6A. Effect of Transfers on Poverty, April 1979 — Elderly Families
(Excludes Medicare and Medicaid)

Transfer Program	Total Transfers ($ million)	Average Monthly Transfer per Recipient Family ($)	Percent of Total to Pre-Transfer Poor	Percent of Total Used to Alleviate Poverty *	Percent Poverty Gap Filled	Percent Poor, Post-Transfer
No transfers	0					66.4 **
All cash transfers	6290	374	68.1	42.0	87.4	24.4
Food Stamps and housing assistance	96	58	91.3	90.0	2.9	66.2
Cash welfare, Food Stamps, and housing assistance	341	122	92.0	87.0	9.83	67.7
All transfers ***	8636	377	68.5	42.1	89.2	22.7
Social security (SS)	5796	353	66.8	41.9	80.4	28.2
SS and veteran's pensions	5949	361	67.3	41.4	81.7	27.0
SS and SSI	6015	359	67.8	42.9	85.5	26.6
SS, SSI, and Food Stamps	6051	361	67.8	43.1	86.4	26.4

NOTES: Total poverty gap = $3.02 billion; total families = 17.57 million.

* Counts only the part of the indicated transfer used to bring a family's income up to the poverty level.
** Pre-transfer poverty rate.
*** All cash transfers, Food Stamps, and housing assistance.

SOURCE: ISDP Wave 2 tabulations.

TABLE 7A: Effect of Transfers on Poverty, April 1979 — Single-Parent Families
(Excludes Medicare and Medicaid)

Transfer Program	Total Transfers ($ million)	Average Monthly Transfer per Recipient Family ($)	Percent of Total to Pre-Transfer Poor	Percent of Total Used to Alleviate Poverty *	Percent Poverty Gap Filled	Percent Poor, Post-Transfer
No transfers	0	---	---	---	---	46.2 **
All cash transfers	765	262	81.8	67.5	41.9	41.7
Food Stamps and housing assistance	269	106	83.5	76.0	17.0	44.5
Cash welfare, Food Stamps, and housing assistance	736	248	89.6	79.3	47.3	39.0
All transfers ***	1034	279	82.3	67.9	56.9	36.4
AFDC	42[illegible]	224	93.0	84.8	28.9	44.8
Food Stamps	206	104	84.1	79.9	13.4	45.6
Other cash transfers	300	248	72.0	51.3	12.5	45.2
Housing assistance	63	70	81.6	74.4	3.8	47.1
AFDC and Food Stamps	626	263	90.1	81.1	41.2	43.2
AFDC, Food Stamps and other cash transfers	971	286	82.3	66.8	54.1	40.0
AFDC, Food Stamps, and housing assistance	689	239	89.3	79.7	44.6	41.3

NOTES: Total poverty gap = $1.23 billion; total families = 7.22 million.

* Counts only the part of the indicated transfer used to bring a family's income up to the poverty level.
** Pre-transfer poverty rate.
*** All cash transfers, Food Stamps, and housing assistance.

SOURCE: ISDP Wave 2 tabulations.

TABLE 8A. Effect of Transfers on Poverty, April 1979 — Two-Parent Families
(Excludes Medicare and Medicaid)

Transfer Program	Total Transfers ($ million)	Average Monthly Transfer per Recipient Family ($)	Percent of Total to Pre-Transfer Poor	Percent of Total Used to Alleviate Poverty *	Percent Poverty Gap Filled	Percent Poor, Post-Transfer
No transfers..................	0	---	---	---	---	9.3 **
All cash transfers..........	1097	305	38.[illegible]	24.8	36.3	7.2
Food Stamps and housing assistance................	131	105	69.6	62.1	10.8	8.6
Cash welfare, Food Stamps, and housing assistance...	328	201	73.2	53.9	23.6	8.0
All transfers ***	1226	296	42.0	28.1	45.9	6.6
Food Stamps (FS)...........	111	102	71.2	64.3	9.5	8.9
Food Stamps & AFDC........	224	175	76.3	62.8	18.8	8.5
FS & all cash transfers...	1208	301	41.7	27.9	44.8	6.8
Other cash transfers.......	835	321	36.2	23.4	26.0	7.9
Social security...........	368	354	27.7	17.5	8.6	8.7

NOTES: Total poverty gap = $0.75 billion; total families = 24.60 million.

* Counts only the part of the indicated transfer used to bring a family's income up to the poverty level.

** Pre-transfer poverty rate.

*** All cash transfers, Food Stamps, and housing assistance.

SOURCE: ISDP Wave 2 tabulations.

FILLING THE "POVERTY GAP": MULTIPLE TRANSFER PROGRAM PARTICIPATION

by

Daniel H. Weinberg*

June 1983
revised, December 1983

* Office of Income Security Policy, U.S. Department of Health and Human Services.

Note: The author would like to thank Thomas Gustafson, Martin Holmer, Maurice MacDonald, Gene Moyer, Anthony J. Pellechio, Howard Rolston, Frank Sammartino, and Timothy Smeeding for comments and suggestions, Ruth Fu and Cheta Phang for computer programming, and Carol Iverson for graphics. The views expressed in this paper are those of the author and should not be construed as necessarily representing the official position or policy of the Department of Health and Human Services or any office within the Department.

[illegible] MULTIPLE TRANSFER PROGRAM PARTICIPATION

Improved administration and intelligent modification of the welfare system requires a better understanding of interactions and overlaps between existing programs. The U.S. transfer system includes many programs with disparate goals ranging from providing cash assistance or food, shelter, and medical care for the needy to those servinga social insurance function (e.g. earnings replacement). Why does the transfer system consist of so many pieces with no clearly defined goal? The reason is simple—transfer programs have been designed independently (for the most part) to meet the needs of particular population groups and therefore have different eligibility criteria. McDonald (1983, p. iv) summarizes three positive and four negative aspects of such an unstructured approach:

Positive

- o Benefits can be effectively targeted to recipients with a special need or subject to a special risk.
- o Cumulative benefits can be limited to reasonable levels through appropriate sequencing of income calculation for eligibility and/or tax rates on benefits.
- o Political and public support for particular programs can be mobilized.

Negative

- o Inequities can exist for families in similar economic circumstances if program participation is not the same.
- o Complexity and duplication in can complicate administration.
- o Policy makers have difficulty in evaluating adequacy or overgenerosity.
- o Cumulative tax rates can undermine work incentives.

The overall effects of the operation of multiple programs has been a subject of controversy. For instance, it has been argued that the multiplicity of existing benefit programs providing support for the poor is sufficient to eliminate poverty. But a study for the Food and Nutrition Service has argued that multiple program participation by Food Stamp recipients leaves many in poverty—it concludes that "the major effect of the Food Stamp program in combination with other transfer programs is to keep families from falling below 50 percent of the poverty level" (MacDonald, 1983, p. iii).

Only recently has survey data become available that allows investigation of the actual effects of multiple transfer program participation. Most studies of transfer program participation focus on just one program. Both survey and administrative data can be and have been used for such analyses. Administrative data are, however, inadequate to address issues involving simultaneous receipt of more than one transfer benefit. In particular, the fragmentation of records between State and Federal governments and cost and privacy considerations have precluded computer matching of records. As a recent National Research Council report concluded,

> With relevant family assistance statistics maintained in different agencies and at all levels of government under different definitions, it is rather difficult to develop the data and information required to address welfare policy issues adequately, to operate and manage the programs efficiently, to evaluate the performance of family assistance programs as a group, and to conduct research on welfare needs. (Gilford, et al., 1983, p. vii)

The first data set that allowed sophisticated investigation of multiple benefit receipt was the March 1980 Current Population Survey (CPS). Smeeding (1982) used that survey very effectively to address issues of valuing in-kind benefits and measuring their effect on poverty in 1979. Later March CPS interviews allow further examination of those same themes. One shortcoming of such an analysis is that the CPS is in fact designed to measure labor force activity and therefore the measures of income and program participation included are less than perfect.[1]

In order to remedy drawbacks of the CPS, in the early 1970s the Department of Health and Human Services in cooperation with the Bureau of the Census began development of a Survey of Income and Program Participation (SIPP). The development project, known as the Income Survey Development Program (ISDP), culminated in the fielding of an experimental research panel survey that collected monthly income and program participation data on a nationally representative sample of approximately 7900 families for calendar year 1979. The Census Bureau will be fielding the operational phase of SIPP in October 1983. The analysis reported here uses the data collected for April 1979 on the second wave of the ISDP research panel to describe in detail the program participation of the U.S. civilian noninstitutionalized population. (See Ycas and Lininger, 1981, for an overview of ISDP or Hunt et al., 1982, for details about the research panel.)

Even though ISDP collected information on an enormous variety of programs, this paper examines only the largest transfer programs. These programs are Aid to Families with Dependent Children (AFDC), Old Age, Survivors, and Disability Insurance (social security), Supplemental Security Income (SSI), Meidcaid, Medicare, Food Stamps, housing assistance, other cash welfare, and veteran's, worker's, and unemployment compensation.

The paper is organized as follows. Section 1 presents details about the transfer program participation of important demographic subgroups in the population. Section 2 then discusses the effects of these programs on the number of pre-transfer poor and the extent of their poverty. Section 3 provides some concluding remarks.

I. Aggregate Transfer Program Participation

This section presents a comprehensive look at benefit receipt from the U.S. transfer system for both families and unrelated individuals. A major focus is on the pre-transfer poor. Appendix A lists both the programs studied and the sources of income included in the measure of pre-transfer income. Basically, the former includes all major government redistribution programs, both cash and in-kind, while pre-transfer income includes all private sources of income (except fringe benefits) plus government, military, and civil service retirement pensions. The official poverty guideline is used to define the poverty level.

Of 87 million families and unrelated individuals, over 40% received some government transfer in April 1979 (see Table 1).[2] The heavily redistributive aspect of the transfer system is illustrated by the program participation of the pre-transfer poor—over 60% of pre-transfer poor families received some transfer benefit. The table also illustrates the wide diversity of program benefits—over one-fourth of the population received social security benefits (Old Age, Survivors, or Disability Insurance) while 10% received cash welfare or Food Stamp benefits.[3]

Yet, transfer programs are typically designed to help one particular segment of the population. For example, the AFDC program is designed to provide income support to single parents with children under 18 years old;[4] the Medicare program is designed to pay for the medical care of the elderly and the disabled, and so forth. Thus, examination of program participation for the entire population gives an incomplete picture. Consequently, the rest of this section focuses attention serially on three demographic groups of major interest—the elderly, single parents, and

TABLE 1: Multiple Benefit Receipt By All Families and Unrelated Individuals, April 1979

	Total Population		Pre-Transfer Poor	
	Recipients (million)	Percentage	Recipients (million)	Percentage
No program.................	51.67	59.6	4.56	18.1
Social security (SS) only..	2.92	3.4	1.26	5.0
Medicare only..............	0.37	0.4	0.06	0.2
SS & some other program....	20.09	23.2	13.70	54.4
SS & Medicare (Mcr)........	18.36	21.2	12.47	49.6
SS & Medicare only.........	13.36	15.4	8.50	33.8
SS & Medicaid (Mcd)........	3.15	3.7	2.68	10.6
SS, Medicare, & Medicaid. .	2.52	2.9	2.09	8.3
SS, Medicare, Medicaid, & cash welfare (CW)........	1.91	2.2	1.64	6.5
SS, Mcr, Mcd, & CW only....	1.02	1.2	0.85	3.4
SS, Mcr, Mcd, CW, & some other program............	0.89	1.0	0.79	3.1
SS, Mcr, Mcd, CW, and Food Stamps (FS)..........	0.77	0.9	0.68	2.7
SS, Mcr, Mcd, CW, & FS only	0.61	0.7	0.54	2.2
SS & Food Stamps...........	1.71	2.0	1.45	5.8
SS & Food Stamps only......	2.92	3.4	1.26	5.0
SS & other cash transfers..	2.66	3.3	2.01	8.0
SS, other cash transfers, & Medicare..............	2.00	2.3	1.44	5.7
Food Stamps only...........	0.74	0.9	0.34	1.3
FS & some other program....	5.02	5.8	4.26	16.9
FS & Medicaid..............	4.00	4.6	3.53	14.0
FS & Medicare..............	1.42	1.6	1.23	4.9
FS & Cash welfare..........	3.72	4.3	3.39	13.4
FS, CW, & Medicaid.........	3.66	4.2	3.33	13.2
FS, CW, & Medicaid only....	1.79	2.1	1.69	6.7
FS, CW, Medicaid, & housing assistance..............	0.64	0.7	0.64	2.5
Cash welfare only..........	0.11	0.1	0.03	0.1
CW & some other program....	6.75	7.8	5.70	22.7
CW & Medicaid..............	6.60	7.6	5.57	22.1
CW & Medicaid only.........	0.95	1.1	0.64	2.5
Other combinations.........	5.88	6.8	1.38	5.5
Housing assistance only..	0.84	1.0	0.19	0.8
Other cash transfers only	4.68	5.4	1.03	4.1
Veteran's pensions only	1.50	1.7	0.24	1.0
Unemployment compensation only....	2.18	2.5	0.54	2.1
TOTAL	86.62	100.0	25.18	100.0
Number of observations	7755		2788	

NOTES: Excludes families with negative pre-transfer income. All AFDC and SSI families were assigned Medicaid recipiency. See Appendix A for transfer program listing.

SOURCE: ISDP Wave 2 tabulations.

two-parent families—making up 49 million families. The remaining 38 million families and unrelated individuals are not discussed separately because of their diversity.[5]

Since an important concern of transfer programs is with poor families, I examine receipt both for all families and for the pre-transfer poor, as defined by the official poverty thresholds for 1979.[6] Since the poverty levels are based on cash income only, there is some question as to whether it is appropriate to use such a measure when considering the effect of noncash benefits (both transfers and fringe benefits) on poverty. Since there is at this time no generally accepted alternative to the official guidelines that takes account of such benefits given to individuals at all income levels, no modification is attempted here.[7] For an extensive discussion of this and other problems with the poverty guidelines, see U.S. Department of Health, Education, and Welfare, The Measure of Poverty, 1976, and the working papers accompanying it.

Elderly Families

This demographic group is defined to include all families in which the head (reference person) or the spouse (if any) is 65 or older. Therefore, children may or may not be present. Table 2 presents a characterization of multiple benefit receipt for the elderly; these results are also summarized graphically in Figure 1.

The remarkable fact about the elderly is that nearly all elderly families (98% of the total population and 99% of the pre-transfer poor) received some income transfer from the Federal government.[8] These transfers consisted, to a great extent, of only social security and Medicare—69% of the population received these two and these two alone, and another 2% received one or the other (and no other program benefits).

TABLE 2: Multiple Benefit Receipt by Elderly Families and Unrelated Individuals, April 1979

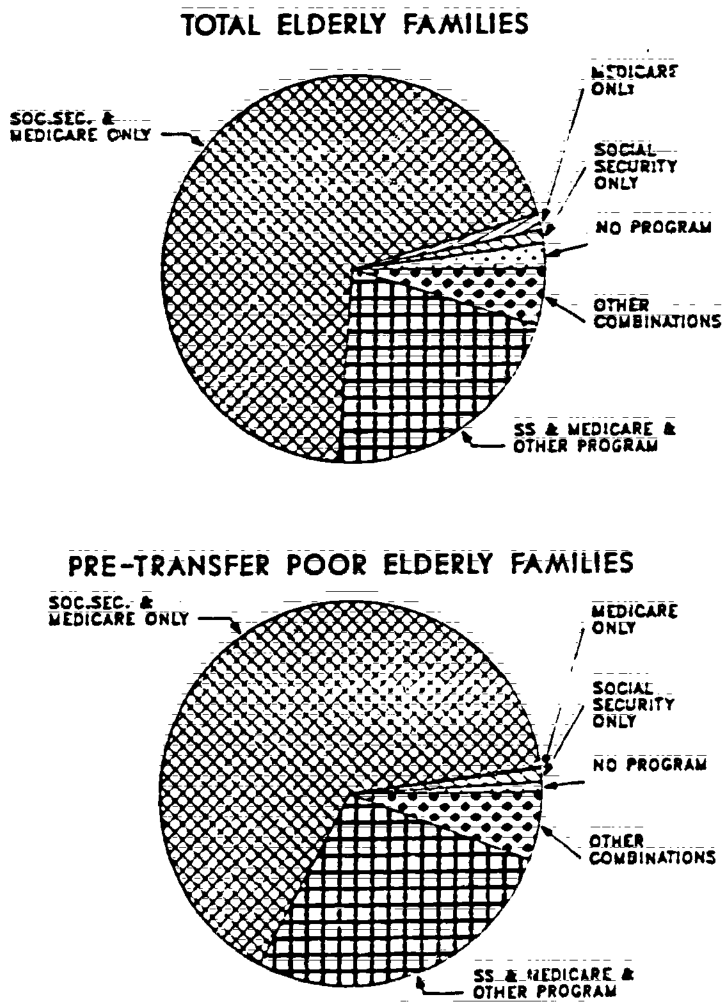
	Total Population		Pre-Transfer Poor	
	Recipients (million)	Percentage	Recipients (million)	Percentage
No program................	0.37	2.1	0.10	0.8
Social security (SS) only..	0.20	1.1	0.14	1.1
Medicare (Mcr) only........	0.23	1.3	0.02	0.2
SS & Medicare only.........	12.18	69.3	7.82	65.1
SS, Medicare, & some other program..................	3.77	21.4	3.26	27.2
SS, Medicare, & veteran's pension..................	1.01	5.7	0.88	7.3
SS, Medicare, & veteran's pension only.............	0.73	4.2	0.65	5.4
SS, Medicare, & Medicaid (Mcd) only......	0.40	2.3	0.34	2.9
SS, Mcr, Mcd, & SSI only...	0.69	3.9	0.64	5.4
SS, Mcr, Mcd, SSI, & some other program............	0.76	4.4	0.67	5.6
SS, Mcr, Mcd, SSI, & Food Stamps....................	0.62	3.5	0.53	4.4
SS, Mcr, Mcd, SSI, & Food Stamps only...............	0.49	2.8	0.43	3.6
SS, Mcr, Mcd, SSI, & veteran's pension........	0.09	0.5	0.06	0.5
Other combinations.........	0.83	4.7	0.68	5.7
TOTAL	17.57	100.0	12.01	100.0
Number of observations	1715		1319	

NOTES: Excludes families with negative pre-transfer income. All AFDC and SSI families were assigned Medicaid recipiency. See Appendix A for transfer program listing.

SOURCE: ISDP Wave 2 tabulations.

FIGURE 1

MULTIPLE BENEFIT RECEIPT



For the pre-transfer poor, the percentage that received only these two is lower (65%) only because more of them received additional benefits (27% received social security, Medicare, and some other benefit).

These additional transfers were mainly of three kinds—veteran's pensions, Medicaid, and SSI. Five percent of the pre-transfer poor elderly received the fourfold combination of social security, Medicare, Medicaid, and SSI, while another six percent received yet another program's benefits in addition (predominately Food Stamps).

Single-Parent Families

Single-parent families are defined to include all families with a not-currently-married (unmarried, separated, divorced, or widowed; non-cohabiting) head living with one or more children 18 or younger. This group was chosen for separate analysis because the poor members of this group are a major target group for AFDC. Nearly all the heads of single-parent families are female—88.8% of all the families and 96.1% of the pre-transfer poor in this group were female-headed in April 1979. Table 3 presents the extent of multiple benefit receipt by this group; the data are summarized in Figure 2. Receipt of benefits for this group (or any other) was not as widespread as for the elderly. Nevertheless, more than half of the total number of families in this group (55%) and over four-fifths of the pre-transfer poor received some transfer benefit.

While AFDC is received by a large fraction of the pre-transfer poor in this group (52%), it was by no means their sole or even their major source of income support. The largest single combination of programs received is AFDC, Medicaid, and Food Stamps only (29% for the pre-transfer poor and 14% for the overall population). To a certain extent, this particular combina-

TABLE 3: Multiple Benefit Receipt By Nonelderly Single-Parent Families, April 1979

	Total Population		Pre-Transfer Poor	
	Recipients (million)	Percentage	Recipients (million)	Percentage
No program.................	3.22	44.6	0.63	18.4
Medicaid (Med) only........	0.05	0.6	0.02	0.4
Food Stamps (FS) only......	0.27	3.7	0.12	3.4
FS & Medicaid only.........	0.18	2.5	0.06	1.7
AFDC and Medicaid only.....	0.29	3.9	0.19	5.5
AFDC, Medicaid, & some other program.............	1.64	22.8	1.59	46.1
AFDC, Med, & FS only.......	1.03	14.2	1.01	29.3
AFDC, Medicaid, & other cash transfers.....	0.26	3.5	0.22	6.5
AFDC, Medicaid, & other cash transfers only	0.06	0.8	0.04	1.2
AFDC, Medicaid, Food Stamps & some other program.....	0.49	6.8	0.48	13.9
AFDC, Med, FS, & housing assistance...............	0.32	4.4	0.32	9.3
AFDC, Med, FS, & housing assistance only..........	0.31	4.2	0.30	8.9
AFDC, Med, FS, & other cash transfers...........	0.11	1.5	0.11	3.1
AFDC, Med, FS, & other cash transfers only......	0.09	1.3	0.09	2.6
Other combinations..........	1.58	21.9	0.84	24.6
Other cash transfers only	0.75	10.4	0.34	9.9
Other cash transfers and Medicare only..........	0.04	0.5	0.04	1.1
Other cash transfers and Food Stamps only.......	0.14	1.9	0.12	3.5
Other cash transfers, Medicaid, and housing assistance only........	0.12	1.7	0.12	3.6
Housing assistance only..	0.31	4.3	0.14	4.1
TOTAL	7.22	100.0	3.44	100.0
Number of observations	719		409	

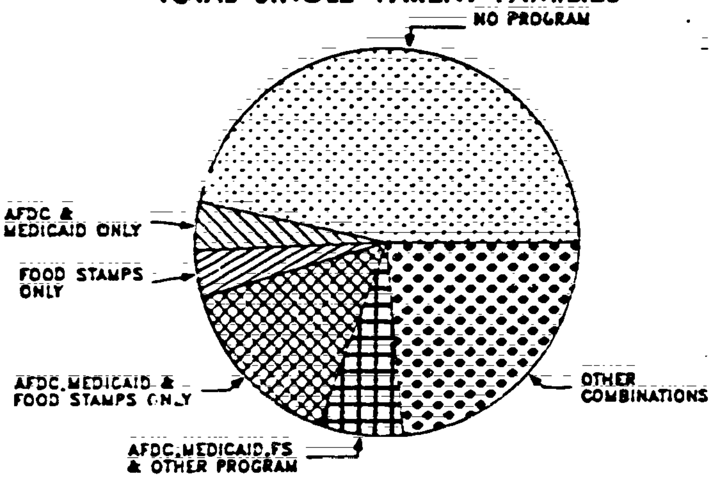
NOTES: Excludes families with negative pre-transfer income. All non-SSI cash welfare recipients were assigned AFDC recipiency. All AFDC and SSI families were assigned Medicaid recipiency. See Appendix A for transfer program listing.

SOURCE: ISDP Wave 2 tabulations.

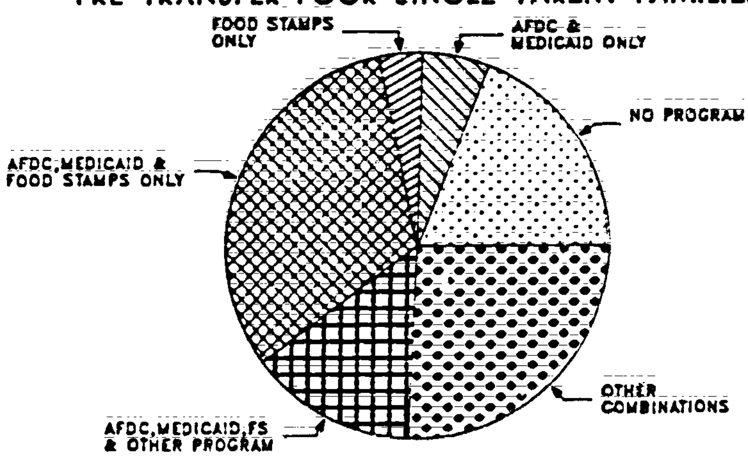
FIGURE 2

MULTIPLE BENEFIT RECEIPT

TOTAL SINGLE-PARENT FAMILIES



PRE-TRANSFER POOR SINGLE-PARENT FAMILIES



that is an artifact of program rules. AFDC families are categorically eligible for Medicaid[9] and, until January 1979 in all states and later in some states, they were automatically referred to the Food Stamp program as well. Fifty-two percent of pre-transfer poor single-parent families received AFDC and Medicaid benefits; 46% received Food Stamp benefits in addition. A sizeable fraction (14%) of the pre-transfer poor participated in these three programs and some other program. This additional program was likely to be housing assistance (9%), with some receiving other cash transfer payments (defined, for this group, to include social security).

A surprisingly large fraction of this population (10%) received other cash transfers and/or Medicare payments only. Several reasons might explain this finding: (1) even though the head of the family was non-aged, an aged or disabled dependent receiving social security may have been present in the family; (2) social security includes survivors benefits paid to the family of a deceased contributor to the program; and (3) two percent received non-social security cash transfers.

Two-Parent Families

The third demographic group of interest is families headed by a married couple with children. In contrast to single-parent families, only a few transfer programs have been designed for this "traditional" family type. Poor two-parent families are likely to be eligible for just a small number of programs—Food Stamps and Medicaid are the only entitlement programs available; housing assistance is available only to a small fraction of the eligible population while the AFDC-UP (Unemployed Parent) program is offered in about half the states. Table 4 and Figure 3 present the distribution of transfer benefit receipt for this group; one can see

TABLE 4: Multiple Benefit Receipt by Nonelderly Two-Parent Families, April 1979

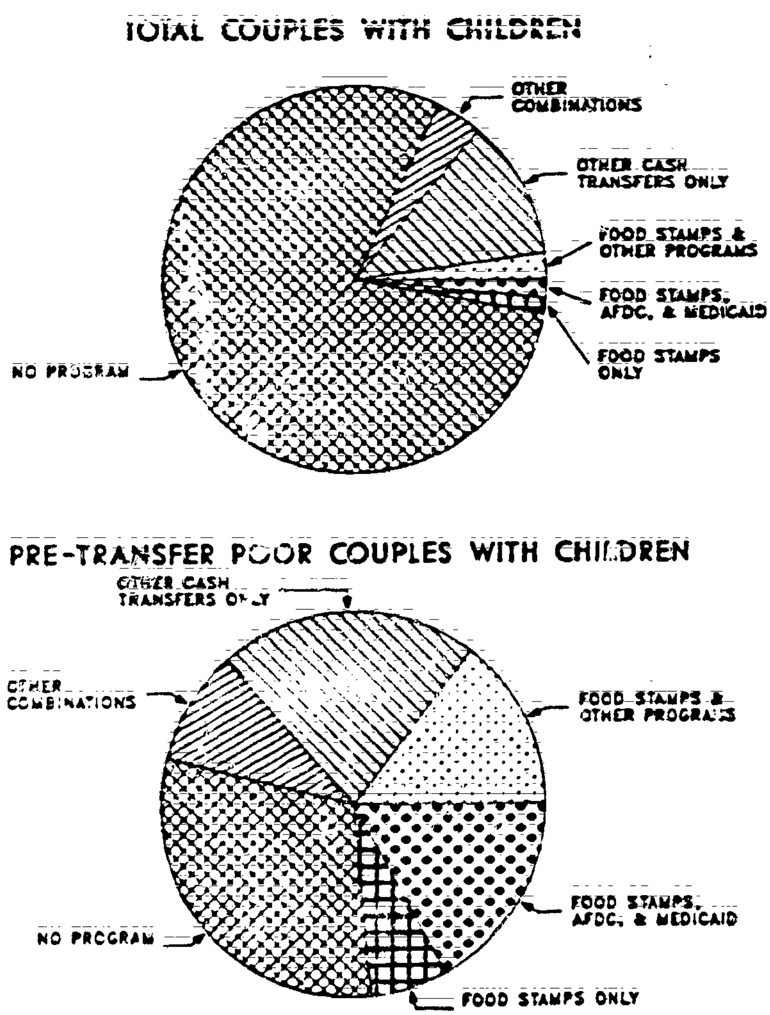
	Total Population		Pre-Transfer Poor	
	Recipients (million)	Percent-age	Recipients (million)	Percent-age
No program..................	19.52	79.4	0.76	37.1
Food Stamps (FS) only......	0.31	1.3	0.13	6.5
FS & some other program....	0.92	3.7	0.64	31.3
FS, AFDC, & Medicaid.......	0.38	1.5	0.32	15.6
FS, AFDC, & Medicaid only..	0.11	0.4	0.10	4.7
FS & other cash transfers (OCT)..........	0.68	2.8	0.42	20.6
FS, OCT, & Medicaid........	0.47	1.9	0.36	17.3
FS, OCT, & Medicaid only...	0.13	0.5	0.05	2.5
FS & housing assistance....	0.19	0.8	0.18	8.9
FS & housing assistance only.....................	0.09	0.4	0.09	4.2
FS, housing assistance, & Medicaid only............	0.08	0.3	0.06	4.0
Other cash transfers only..	2.89	11.7	0.48	23.1
Other cash welfare only..	0.08	0.3	0.03	1.3
Other cash non-welfare transfers only........	2.80	11.4	0.44	21.6
OCT & some other program..	1.22	5.0	0.33	15.5
OCT & Medicaid............	0.66	2.7	0.15	7.3
OCT & Medicare...........	0.58	2.4	0.26	12.8
OCT & Medicare only.......	0.34	1.4	0.11	5.2
Other combinations........	0.42	1.7	0.14	6.8
Medicare only	0.08	0.3	0.04	2.1
Housing assistance only	0.14	0.6	0.09	4.6
TOTAL	24.60	100.0	2.06	100.0
Number of observations	2021		206	

NOTES: Excludes families with negative pre-transfer income. All AFDC and SSI families were assigned Medicaid recipiency. See Appendix A for transfer program listing.

SOURCE: ISDP Wave 2 tabulations.

FIGURE 3

MULTIPLE BENEFIT RECEIPT



that the actual distribution reflects this lack of program availability—79% of this population received no benefits whatever.

Pre-transfer poor two-parent families did participate in the programs offered—63% received some transfer benefit. The major program that these families participated in was Food Stamps—4% of the pre-transfer poor received only that program and another 31% received Food Stamps and some other program (with the combination of Food Stamps, AFDC, and Medicaid accounting for some 16%). Many of the families receiving Food Stamps also received some other form of cash transfer (20%), with 17% receiving Food Stamps, Medicaid, and a cash transfer other than AFDC.

Large fractions of pre-transfer poor families in this group received cash non-welfare transfers only (22%) or some other cash transfers (almost exclusively social security) and Medicare (13%). Again, this finding may be due to the presence of an aged dependent in the family.

3. Transfer benefits, poverty, and the "poverty gap"

One major concern of policy analysts is whether transfer benefits go to the "truly needy", that is, those too poor to have a decent standard of living without government intervention. The Federal government currently defines an official set of poverty levels that vary by family size to indicate whether a family is poor. By the official poverty definition, a family is poor if its cash income is below the poverty level (by even one dollar) and not poor if its income is above that level. The arbitrariness of such a measure for an individual family should be clear by this restatement of the criterion, but as an aggregate measure of the well-being of a population, such a measure does not misrepresent reality (there are likely to be just as many families that have incomes one dollar below the poverty level as one dollar above).

The poverty guidelines have other problems, however. For example, the official statistics ignore in-kind income, such as government transfers and fringe benefits, both in computing poverty proportions and in computing pre-transfer income. Smeeding (1982), working with the Census Bureau, used both reported cash income and program participation to adjust the poverty statistics for in-kind transfer benefits. His findings indicate that the poverty rate (proportion below the poverty level) for persons could be reduced from the official estimate of 11.1% in 1979 (based solely on cash income) to between 9.4% and 6.4%, a reduction of between 12% and 42%, depending on assumptions made about the value of transfer benefits to the recipient.[10] This paper adopts Smeeding's approach and one of his valuation methods (market value)[11] to determine the impact of transfers on the poor but extends his analysis to examine the effects of multiple benefit receipt not only on the poverty rate but also on the "poverty gap"—the difference between actual pre-transfer cash income and the poverty level, as aggregated for each demographic group.

Each dollar of benefits going to a pre-transfer poor family counts toward reducing the poverty gap only until that family reaches income equal to the poverty level. Since receipt of any benefits in some programs or the level of benefits in other programs is conditional on receipt of still other programs, some dollar figures are underestimates of the contribution of any one program to reducing the poverty gap. For example, in the absence of the AFDC program, Food Stamp benefits would be much higher since AFDC income is counted in determining the level of Food Stamp benefits. For that reason, the reader is warned against placing too strong an emphasis on the poverty reduction reported here as attributable to any one program.

Table 5 presents the effects of transfers on poverty for all families. Total transfers of $13.5 billion in April 1979 eliminated nearly three-quarters of the poverty gap and reduced the pre-transfer poverty rate of 28.0% to 11.7%, a little more than one-third as much. Transfers averaged $404 per recipient family (for comparison, the poverty level for a nonfarm family of four was $618). Social security alone was responsible for most of this reduction, eliminating nearly half of the poverty gap and reducing the poverty rate to 19.7%.

Income-conditioned transfers ($217 per recipient family) were targeted fairly effectively, with over 80% of such transfers going to the pre-transfer poor and nearly two-thirds of such transfers being used to eliminate poverty (reduce the poverty gap). Of course, that means that 31% of all income-conditioned transfers—and 62% of all transfers—went either to those not poor or to raise the incomes of the poor above the poverty level. These "excess" transfers to the near poor do have some value in alleviating "near-poverty".

In-kind transfers went to the poor in greater proportions than cash transfers. The $3.0 billion of in-kind transfers ($115 per recipient family) eliminated 29% of the initial poverty gap while the $10.4 billion of cash transfers ($3[illegible] per recipient family) eliminated only 62% of the initial gap, barely twice as much even though the cash transfers were more than three times as large as the in-kind transfers.[12]

Of the major programs examined, other cash transfers (veteran's, worker's, and unemployment compensation) were the least effectively targeted to the poor while cash welfare was the most effectively targeted. In making this comparison, however, one should recall that most cash transfers (with the sole exception of cash welfare) are not intended as

TABLE 5: Effect of Transfers on Poverty, April 1979 — All Families

Transfer Program	Total Transfers ($ million)	Average Monthly Transfer per Recipient Family ($)	Percent of Total to Pre-Transfer Poor	Percent of Total Used to Alleviate Poverty *	Percent Poverty Gap Filled	Percent Poor, Post-Transfer
No transfers...............	0					29.1 **
All cash transfers.........	10441	340	63.3	41.6	62.4	16.7
All in-kind transfers......	3027	115	72.4	67.4	29.3	26.4
All income-conditioned transfers................	2339	217	82.3	69.0	23.2	26.5
All transfers..............	13468	404	65.[illegible]	38.0	73.6	11.7
Social security (SS).......	7624	338	63.[illegible]	41.0	44.9	19.2
SS & Medicare (Mcr)........	9512	406	64.4	36.5	49.9	16.7
SS & Medicaid (Mcd)........	8171	300	64.7	42.8	50.2	18.6
SS, Medicare, & Medicaid...	10059	363	65.3	38.0	54.9	16.1
SS & Food Stamps (FS)......	8024	304	64.3	42.6	49.1	18.8
SS & cash welfare (CW).....	8825	328	66.4	44.9	56.9	18.0
SS, CW, Mcr, & Mcd.........	11260	404	67.3	40.1	64.8	14.2
SS, CW, Mcr, Mcd, & FS.....	11660	404	67.8	40.6	68.0	13.4
SS & other non-welfare cash transfers..........	8532	343	62.1	40.0	50.0	18.5
Food Stamps................	400	77	79.5	75.3	4.3	28.7
FS & Medicare..............	2288	101	69.9	65.4	21.5	26.9
FS & Medicaid..............	947	103	80.3	75.8	10.3	28.5
FS & cash welfare..........	1600	190	33.4	73.9	17.0	27.9
FS, CW, & Medicaid.........	2147	228	82.7	70.1	21.6	26.8
FS & all cash transfers....	10841	341	63.9	42.6	66.3	16.4
Cash welfare...............	1200	179	84.6	75.3	13.0	28.2
Cash welfare and Medicaid..	1747	218	83.5	71.9	18.0	27.4
Housing assistance.........	192	73	77.1	74.2	2.0	29.0
Other non-welfare cash transfers..................	927	300	50.2	38.1	5.0	29.5

NOTES: Total poverty gap = $6.96 billion; total families = 86.62 million. Medicare and Medicaid are valued excluding institutional care.

* Counts only the part of the indicated transfer used to bring a family's income up to the poverty level.

** Pre-transfer poverty rate.

SOURCE: ISDP Wave 2 tabulations.

direct poverty relief but as income replacement for former workers (subjected to loss of income due to loss of job, loss of earning capacity, or retirement). These non-welfare cash transfers are designed to prevent rather than alleviate poverty and therefore to reduce reliance on welfare. The evidence in Table 7 is strong that they do so.

Elderly families. Determining the impact of transfer programs on the economic well-being of elderly families is straightforward. A distinction must be made, however, between income-conditioned transfers and other transfers. Specifically, social security and Medicare, the main transfers received by the elderly, are not income-conditioned. Table 6 makes clear that they nonetheless have a major impact on the income of the pre-transfer poor.[13] Social security alone reduced the poverty rate for these families from 68% to 28%, and the addition of Medicare reduced it still further to 17%. When income-conditioned transfers and other cash transfers are then added to these basic support programs for the elderly, only 7% of these families were still in poverty. In contrast, income-conditioned transfers on their own reduced the poverty rate from 68% only to 62%.

Because the pre-transfer poverty rate for this group was so high, well over half of both means-tested and non-means tested transfers (and two-thirds of all transfers) went to the pre-transfer poor. Social security and Medicare, which accounted for 86% of all transfers to the elderly, were efficient at eliminating poverty just by themselves—two-thirds of the benefits from these programs went to the pre-transfer poor, and they eliminated 89% of the poverty gap. This is not too surprising when one realizes that the average family receiving social security and Medicare received $440 in transfer benefits from those two programs alone, and the nonfarm poverty levels for one- and two-person elderly families are but $293 and $366, respectively.

TABLE 6: Effect of Transfers on Poverty, April 1979 — Elderly Families

Transfer Program	Total Transfers ($ million)	Average Monthly Transfer per Recipient Family ($)	Percent of Total: to Pre-Transfer Poor	Percent of Total: Used to Alleviate Poverty *	Percent Poverty Gap Filled	Percent Poor, Post-Transfer
No transfers	0					68.4 **
All cash transfers	629[illegible]	3[illegible]4	68.[illegible]	42.0	87.4	24.4
All in-kind transfers	2219	1[illegible]1	74.9	64.9	47.7	56.0
All income-conditioned transfers	804	24[illegible]	92.2	72.3	19.3	61.9
All transfers	85[illegible]9	49[illegible]	69.9	34.2	96.4	7.4
Social security (SS)	579[illegible]	35[illegible]	6[illegible].8	4[illegible].9	80.4	28.2
Medicare (Mcr)	16[illegible]	101	69.1	64.2	25.3	60.8
SS & Medicare	74[illegible]3	[illegible]	67.3	36.2	89.4	17.1
SS, Mcr, & veteran's pensions	7607	44[illegible]	67.7	35.8	90.2	15.8
SS, Mcr, & Medicaid (Mcd)	[illegible]	46[illegible]	68.8	35.8	93.9	12.5
SS, Medicare, & SSI	[illegible]	449	6[illegible].0	36.7	93.4	14.5
SS, Mcr, Mcd, & SSI	81[illegible]	476	69.4	35.3	95.2	10.1
SS, Medicare, Medicaid, SSI, & Food Stamps	81[illegible]	476	69.5	35.2	95.3	9.6

NOTES: Total poverty gap = 33.02 billion; total families = 17.57 million. Medicare and Medicaid are valued including institutional care.

* Counts only the part of the transfer used to bring a family's income up to the poverty level.

** Pre-transfer poverty rate.

SOURCE: ISDP Wave 2 tabulations.

FIGURE 4

POVERTY GAP AND POVERTY RATE
ELDERLY FAMILIES

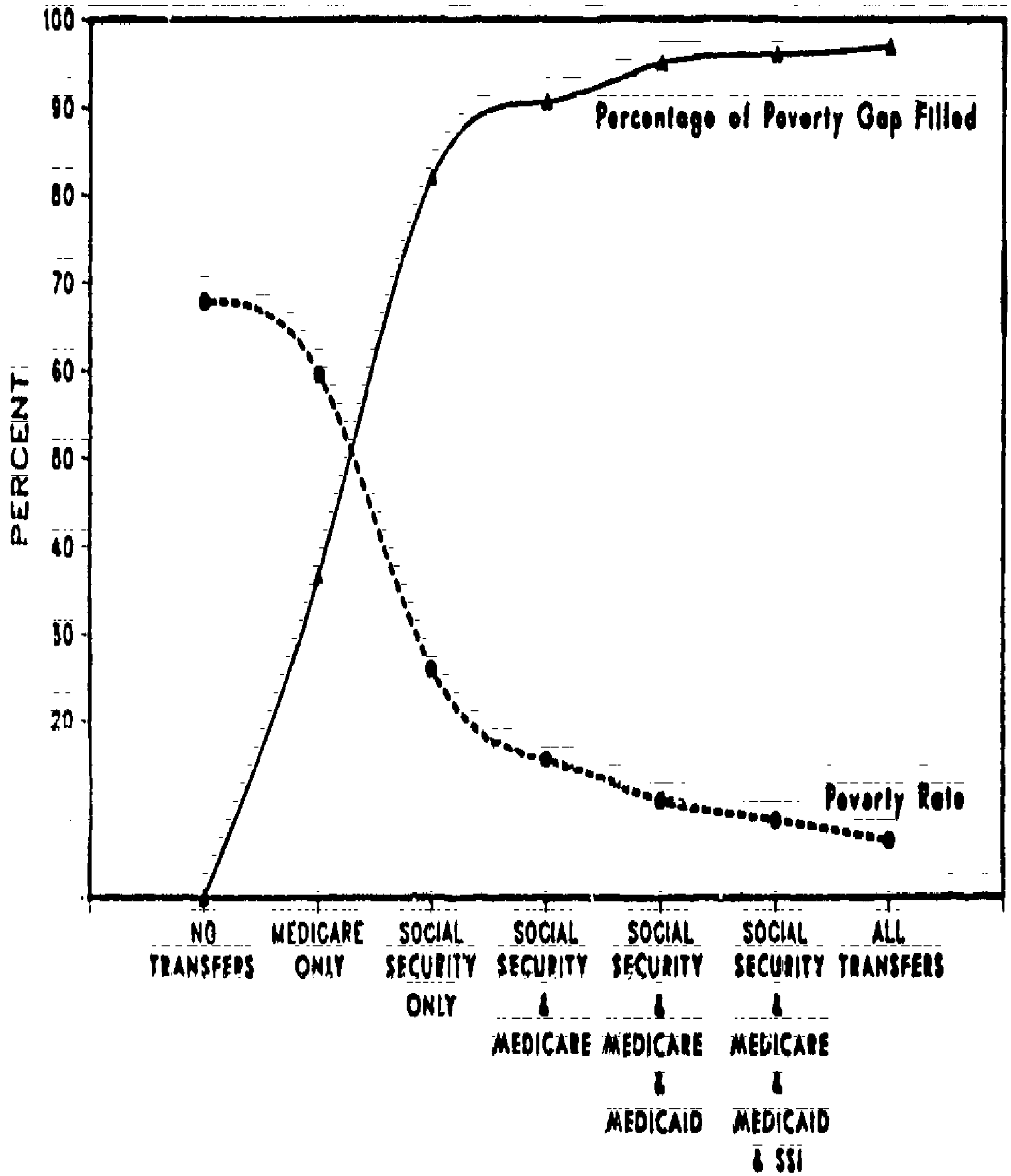


Figure 4 illustrates the effects of these programs on both the poverty rate and the poverty gap. The effects of transfers on this part of the population are dramatic. Transfers to the elderly eliminated 96% of their poverty gap, reducing the poverty rate by nearly 90%.

Single-parent families. In contrast to elderly families, where non-means-tested transfers play the major role in reducing poverty, income-conditioned transfers to single-parent families play the dominant role in reducing their poverty with $291 in income-conditioned benefits going to the average recipient family. All income-conditioned transfers reduce the poverty rate for this group from 48% to 33% (see Table 7). The addition of other transfers reduced the rate by only a minor amount, to 30%. As we have seen in the previous section, the combination of AFDC, Food Stamps, and Medicaid made the largest contribution to poverty reduction for this group—from 48% with no transfers to 38% with these three.

Even though the magnitude of total transfers to this group was large ($1.2 billion), the poverty gap itself was large as well (also $1.2 billion) and well over one-quarter of this group remained poor after transfers. Targeting these benefits might be improved, as almost two-fifths of all transfers went to those families above the poverty level, but only by a bit—over four-fifths of transfers to these families went to the pre-transfer poor and nearly three-quarters of that went to alleviating their poverty. Consequently, two methods for further reducing the post-transfer poverty rate of single parents present themselves: (1) increase the magnitude of transfers to this group, rather than simply improve its targeting, and (2) increase pre-transfer incomes of families in this demographic group. Encouraging additional employment by the family heads could have a major impact on pre-transfer poverty; an alternative is to improve enforcement of child support obligations.[14]

TABLE 7. Effect of Transfers on Poverty, April 1979 — Single-Parent Families

Transfer Program	Total Transfers ($ million)	Average Monthly Transfer per Recipient Family ($)	Percent of Total: to Pre-Transfer Poor	Percent of Total: Used to Alleviate Poverty *	Percent Poverty Gap Filled	Percent Poor, Post-Transfer
No transfers	0					48.2 **
All cash transfers	765	262	81.8	67.5	41.9	41.7
All in-kind transfers	443	141	84.8	80.0	28.0	42.4
All income-conditioned transfers	904	291	89.2	73.9	54.1	33.2
All transfers	1208	318	82.9	64.8	63.5	30.4
AFDC	420	224	93.0	84.8	28.9	44.8
Food Stamps	206	104	84.1	79.9	13.4	45.8
Medicaid	167	70	87.3	83.8	11.4	45.6
Other cash transfers	300	248	72.0	51.3	12.5	45.2
Housing assistance	63	70	81.6	74.4	3.8	47.1
AFDC and Medicaid	587	244	91.4	82.2	39.1	42.3
Food Stamps and Medicaid	273	137	85.5	79.7	24.1	44.8
AFDC, Medicaid, and Food Stamps	793	291	89.5	77.6	49.9	37.5
AFDC, Medicaid, Food Stamps and housing assistance	857	276	86.9	76.1	52.8	34.3
AFDC, Medicaid, Food Stamps and other cash transfers	1138	326	83.1	66.2	61.1	32.5

NOTES: Total poverty gap = $1.23 billion; total families = 7.22 million. Medicare and Medicaid are valued excluding institutional care.

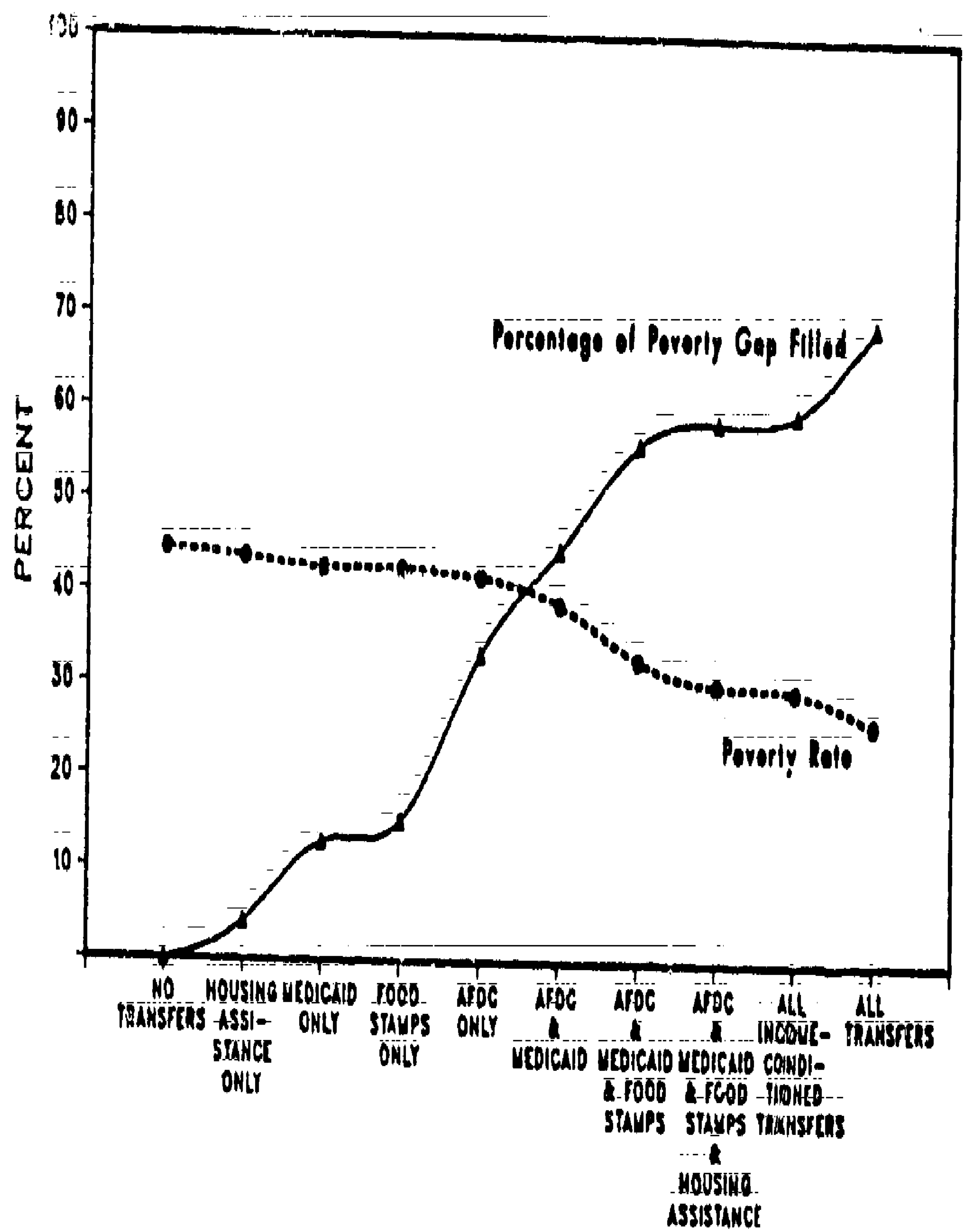
* Counts only the part of the indicated transfer used to bring a family's income up to the poverty level.

** Pre-transfer poverty rate.

SOURCE: ISDP Wave 2 tabulations.

FIGURE 5

POVERTY GAP AND POVERTY RATE
SINGLE PARENT FAMILIES



360

Figure 5 illustrates the impact of transfers on the poverty rate and poverty gap of single-parent families. Transfers to this group filled less than two-thirds of the poverty gap and left 30% of the families poor after transfers.

Two-parent families. The pre-transfer poverty rate for couples with children was quite low—only 9%. Consequently, receipt of transfer payments had a small (but significant in percentage terms) reduction in poverty—the post-transfer poverty rate after all transfers was 6% (see Table 6). Income-conditioned transfers accounted for one-half of this decline, from 9% to 8%. The source of the decline is not easy to pinpoint—the most effective programs appear to be other cash transfers together with Food Stamps and Medicaid. Figure 6 shows the impact of transfers on this group's poverty rate and poverty gap. Transfers to two-parent families filled 55% of their poverty gap and reduce their poverty rate by one-third.

Distribution. Figure 7 presents the distribution of all income-conditioned transfer benefits by income class (measured in terms of pre-transfer income as a percentage of the poverty level). Since programs like social security and Medicare are not meant to go only to the poor, they are excluded from this figure. The figure shows a good record—more benefits (measured as a percent of pre-transfer income) went to the very poor than to the relatively better-off. The median family in the poorest subgroup (those with pre-transfer incomes less than 25% of the poverty line) received over twice its income in transfer benefits while the median family in the richest subgroups (those with pre-transfer incomes more than 100% of poverty) received less than 25% of its pre-transfer income in transfers. While there is some variation among demographic subgroups, a clear pattern of declining transfers with rising incomes is evident.

TABLE 8: Effect of Transfers on Poverty, April 1979 — Two-Parent Families

Transfer Program	Total Transfers ($ million)	Average Monthly Transfer per Recipient Family ($)	Percent of Total to Pre-Transfer Poor	Percent of Total Used to Alleviate Poverty *	Percent Poverty Gap Filled	Percent Poor, Post-Transfer
No transfers	0					9.3 **
All cash transfers	1097	305	38.8	24.8	36.3	7.2
All in-kind transfers	290	140	67.6	61.3	23.7	8.3
All income-conditioned transfers	429	244	73.6	53.2	29.7	7.8
All transfers	1387	322	44.6	29.6	54.6	6.2
Food Stamps (FS)	111	102	71.2	64.3	9.5	8.9
Food Stamps & AFDC	224	175	76.3	62.8	16.8	8.5
Food Stamps & Medicaid	201	133	73.4	66.4	17.6	8.7
FS, AFDC, & Medicaid	315	208	76.2	61.7	25.8	8.3
FS & other cash transfers	945	296	40.4	27.8	35.0	7.3
FS, other cash transfers & Medicaid	1036	305	43.5	30.9	42.5	7.3
FS & all cash transfers	1208	301	41.7	27.9	44.8	6.8
FS, all cash transfers, & Medicaid	1309	320	43.8	29.2	51.0	6.7
FS & housing assistance	131	105	69.6	62.1	10.8	8.6
FS, housing assistance, & Medicaid	222	134	72.2	64.9	19.2	8.4
Other cash transfers	835	321	36.2	23.4	26.0	7.9
Social security	368	354	27.7	17.5	8.6	8.7
Medicare	69	103	52.6	49.7	4.5	9.2
Social security & Medicare	436	344	31.6	21.4	12.4	8.6

NOTES: Total poverty gap = $0.75 billion; total families = [illegible] million. Medicare and Medicaid are valued excluding institutional care.

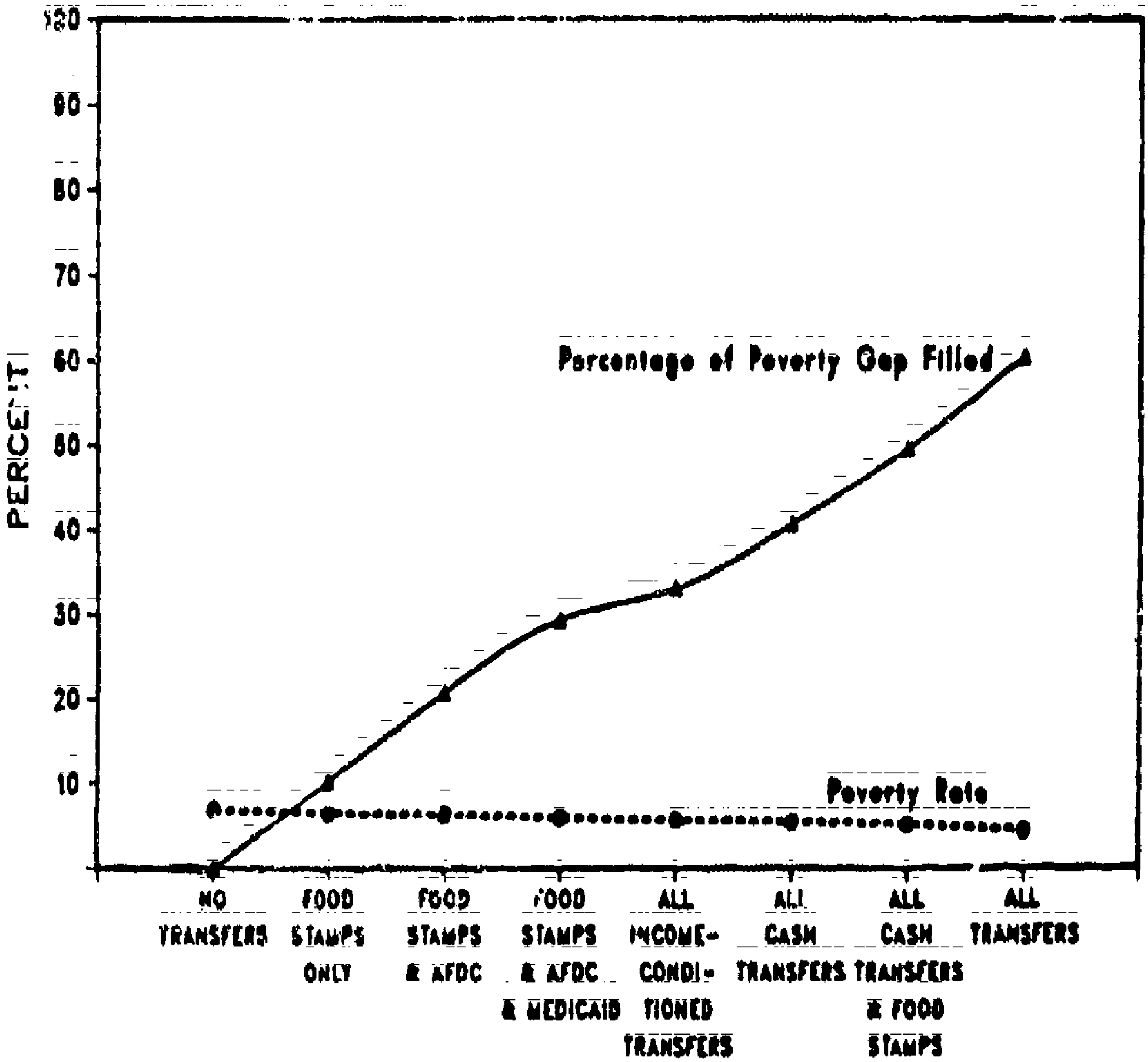
* Counts only the part of the indicated transfer used to bring a family's income up to the poverty level.

** Pre-transfer poverty rate.

SOURCE: ISDP Wave 2 tabulations.

FIGURE 6

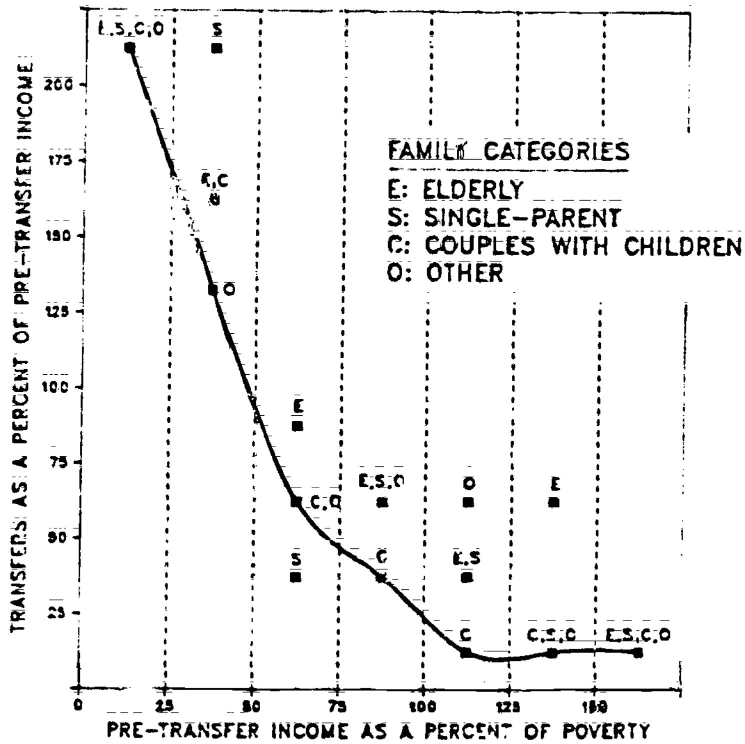
POVERTY GAP AND POVERTY RATE
COUPLES WITH CHILDREN



363

FIGURE 7

DISTRIBUTION OF INCOME-CONDITIONED TRANSFER BENEFITS



NOTE: PLOTTED POINTS ARE FOR THE MEDIAN FAMILY IN EACH CATEGORY OF PRE-TRANSFER INCOME. PLOTTED LINE REPRESENTS THE DISTRIBUTION FOR THE TOTAL POPULATION.

SOURCE: ISDP WAVE 2 TABULATIONS

F. Conclusions

This paper has presented some straightforward but previously unavailable statistics on multiple transfer program participation and benefits and its effect on poverty. There are a tremendous number of families that received some sort of transfer from the Federal government in April 1979—35 million or two-fifths of all families and unrelated individuals. Furthermore, over four-fifths of all pre-transfer poor families received some transfer benefits.

The elderly are by far the demographic group receiving the most aid (in percentage and dollar terms)—nearly all (98%) of them received some sort of government benefit, and these benefits succeeded in reducing their poverty rate from a pre-transfer rate of over 68% to a post-transfer rate of only 7% and in reducing their poverty gap by 96%. These benefits were mainly social security and Medicare, though a sizeable number received SSI, Medicaid, and Food Stamps in addition. Coupled with other recent findings indicating that the relative economic status of the elderly approaches that of the nonelderly quite closely (see Danziger, et al., 1982), it is perhaps time to put to rest the spectre of a vast population of neglected senior citizens.

The government is also doing well in aiding poor single-parent families. Over 80% of those families received some benefit from the Federal government. The major programs utilized by the poor were AFDC, Medicaid, and Food Stamps. Unfortunately, the success evident in reduced poverty among the elderly was not apparent with this group. Government transfers did reduce the poverty rate for single-parent families by nearly twenty percentage points, but only from a pre-transfer rate of 48% to a still-high post-transfer rate of 30%. Targeting the benefits on the poor in this group does not appear to be a major problem; the major ways of reducing this rate still further would be to increase the magnitude of transfers to this group (transfers filled but 64% of their poverty gap) or to improve their pre-transfer incomes through additional employment and improved child support enforcement.

The government has much less to worry about with the remaining demographic groups that make up nearly three-quarters of the population of families. The pre-transfer poverty rate for two-parent families was 9%. Food Stamps played the largest role but all government transfers reduced the poverty rate for couples with children below that for elderly families (to 6%).

Additional progress against poverty is not just a Federal government responsibility. States play an important role in the U.S. transfer system both in setting benefit levels (such as in the AFDC program) and indeed in deciding whether or not to offer a program at all (e.g., the AFDC-UP program). Progress against poverty is also an individual's responsibility to the extent that discrimination or lack of economic or educational opportunity do not prevent self-improvement. Further, policy-makers need a better understanding of the reasons behind non-participation of the poor in welfare programs, be it ineligibility (due, say, to possession of significant assets) or to fear of being stigmatized or to some other reason, before a convincing case can be made for increasing the magnitude of such transfers.

Given the demographic structure of poverty and patterns of program participation reported in this paper, there do seem to be a number of feasible federal interventions likely to reduce poverty. These include increasing Food Stamp benefit levels, setting a federal minimum benefit level for AFDC at a level higher than that currently in effect in the least generous states, and increasing child support enforcement. Other suggestions for intervention that seem unlikely to have much effect on poverty include mandating the AFDC-UP program or expanding Medicaid eligibility. The cost-of-living adjustments built into the social security and Food Stamps programs will continue to have a major impact on reducing poverty below what it would have been without those adjustments.

The poverty gap that remained "unfilled" in 1979 by transfer programs was approximately $22 billion ($1.8 billion in April 1979; see Table 5). Danziger (1983) has recently estimated that the post-cash transfer poverty gap for 1982 was $45 billion (this is larger than $22 billion both becuase of inflation and because of the recent economic recession). If we assume that the portion of the poverty gap filled by in-kind transfers was the same in 1982 as in April 1979 as estimated from the ISDP data, then the unfilled poverty gap for 1982 was $32 billion. Table 5 shows that 69% of income-conditioned transfers in 1979 were used to fill the poverty gap. If this percentage is assumed applicable to increases in the size of those transfers and if one assume no behavioral response to increases in transfers (such as reductions in work effort and therefore earnings), then $46 billion of additional income-conditioned transfers (plus several billion dollars in administrative costs) would have been needed in 1982 to eliminate poverty. To be sure, since individuals do reduce their labor supply in response to higher welfare benefits (see Robins and West, 1980), and such an increase would more than double the size of such benefits, the estimate of approximately $50 billion is a substantial underestimate of the resources needed to eliminate poverty.

APPENDIX A

TYPES OF INCOME

Types of income included in pre-transfer family income

Wages and salaries
Child support and alimony
Private and government pensions and other retirement income (except veteran's compensation or pensions)
Income from assets including interest, dividends, and rental income
Self-employment income including farm income
Private transfers
Other miscellaneous non-government transfers (charity, royalties, [illegible] income, etc.)

Transfer programs

1. Cash

Social security (Old Age, Survivors, and Disability Insurance), including Railroad Retirement
Supplemental Security Income (SSI) including both Federal and State payments
Unemployment compensation
Veteran's compensation or pensions
Worker's compensation or other temporary employment-related benefits
Black lung payments
Aid to Families with Dependent Children (AFDC)
Other cash welfare including general and emergency assistance, WIN and foster child care payments, and other and unknown cash welfare

2. In-Kind (non-cash)

Food Stamps
Medicare
Medicaid
Housing assistance

Note: The Earned Income Tax Credit is excluded.

Appendix B

A Note on Sampling Error

Hunt, et al. (1982) have presented illustrative tables of estimated coefficients of variation (c.v.) for several key variables in ISDP wave 2 (see their Appendix C). These can be used to give an estimate of the standard error of the estimates presented in Tables 1 through 6 above by using the formula s = xv, where s is the standard error, x is the parameter estimate, and v is the coefficient of variation. Unfortunately, the tables do not provide estimates of the c.v. for the program participation of or benefits received by the demographic subgroups used in my analysis. Thus, the standard errors can only be approximated by this method.

Table B-1 presents the estimated standard errors for the proportions participating presented in Tables 1-4. Using these numbers, one could then say, for example, that the 95% confidence interval of elderly participation in the Social Security program was between 89.7% and 94.3% [0.920 +/- (1.96 x 0.012)].

Computation of the standard errors of the estimates of transfer benefits must be based on more aggregate figures for income of different kinds. Using Table B-2 to interpret the results of Tables 5-6 might lead one to argue, for example, that total transfers to the elderly were between $8.09 and $8.93 billion in April 1979 (the 95% confidence interval).

Finally, one can address the standard error of the estimate of the poverty rate. This is less easy to derive as it involves estimates of both pre-transfer income and individual transfer dollar benefits. A ballpark estimate can be obtained by examining the estimates of the c.v. for the proportions of selected family types (e.g., families of size 2 with a

Appendix B Table 1

Standard Errors of Proportions

Proportion of all persons receiving April	Coefficient of variation of the estimate	Illustrative proportion		Implied standard error
		Estimate	Source	
Social Security (age 65+)	0.013	0.920	Table 2	0.012
SSI (age 65+)	0.11	0.083	Table 2	0.009
Medicare (January, age 65+)	0.05	0.922	Table 2	0.046
AFDC	0.123	0.267	Table 3	0.033*
Food Stamps	0.10	0.067	Table [illegible]	0.007
Medicaid	0.07	0.298	Table 3	0.021*

* These are likely to be underestimates because the coefficient of variation refers to the total population receiving these benefits, not just to single-parent families.

Source (column 1): Hunt et al. (1982), Appendix tables C-4 and C-12.

Appendix B Table 2

Standard Errors of Amounts

Total amounts for April	Coefficient of variation of the estimate	Illustrative total transfer		Implied standard error ($M)
		Estimate ($M)	Source	
Social Security (age 65+)	0.06	5796	Table 6	348
AFDC	0.104	420	Table 7	44
Food Stamps	0.14	400	Table 5	56
		206	Table 7	29
		111	Table 8	16
Earned Income	0.025	13468	Table 5	337
		8509	Table 6	213
		1208	Table 7	30
		1387	Table 8	35

Source (column 1): Hunt et al. (1982), Appendix Table C-10.

female head and income less than $1,052 for the [illegible] wave 2 period, etc.). Taking into account that such extra specificity of family type beyond my subgrouping increases the c.v. means that the coefficient of variation for the poverty rate is likely to be approximately 0.1. Using this value suggests that the estimated poverty rates may be in error by as much as 20 percent (not percentage points). Thus, for example, the statement in Section 2 that the poverty rate reduction for the elderly resulting from all transfers was from 68% to 7.4% might rather be stated as a reduction from the range of 55-81% pre-transfer to the level of 5.9-8.9% post-transfer (obviously, still a very significant reduction).

Appendix C

Misreporting

If families do not report all of their transfer benefits, then the reduction in poverty brought about by transfer payments will appear to be too small measured by the methods used in this paper. On the other hand, if families do not report all of their pre-transfer income, then the measured pre-transfer poverty rate will be too high and the post-transfer poverty rate will be overstated as well. It is difficult to predict the relative importance of these two kinds of misreporting; further, one should make the distinction between misreporting of participation itself and underreporting of amounts of transfer benefits received.

Vaughan, Whiteman, and Lininger (1983) investigated the scope, coverage, and reliability of the ISDP data. As might be expected, the reliability of the data (as measured against an independent source of information on the number of beneficiaries and expenditures) varied by program and income source. It is important to note at the outset that the data obtained from independent sources may be flawed as well. In other words, it is impossible to find an error-free data source for control numbers; deviations from the control numbers may therefore be due both to misreporting on a sample survey and to errors in or adjustments to the control numbers.

As reported by Vaughan et al. (1983) for April 1979, ISDP statistics on program participation reflect accurate reporting (ISDP discovered 98% of the control number of social security beneficiaries and benefits are 103% of the control total), underreporting (CPS estimates are 62% of beneficiaries and 52% of benefits, but see note 6), and overreporting (ISDP statistics are 109% and 108%, respectively). Similarly, income [illegible] are also underreported—[illegible] has 94% of wage and salary income, [illegible] of interest income, and [illegible] of dividend income shown in control totals.

In the face of such wide-ranging errors, it seems tempting to correct the data, at least in the aggregate. But two factors mitigate against such a course of action. First, most of the major categories have close to 100% reporting—total cash welfare has 9[illegible]% of recipients and 9[illegible]% of benefits, social security has 9[illegible]% of recipients and 103% of benefits, Food Stamps has 92% of recipients and 83% of benefits, and housing assistance has 100% of recipients identified. For most of these programs, the differences may be due just as much to errors in the control numbers as to mistakes in reporting. A second and perhaps more important reason is that imputation of transfer program participation would automatically change the pattern of multiple benefit receipt because one cannot correct both underreporting and overreporting and maintain an initial distribution without change. Since the errors in aggregate categories are not large and imputation would change the reported pattern of multiple benefit receipt in the population, it thus seems undesirable to correct the existing data for misreporting.

NOTES

1. In order to provide timely and accurate statistics on employment and unemployment at reasonable cost, the CPS relies on brief interviews, usually by telephone, focusing on labor-force questions with only a limited investigation of supplementary topics. Consequently, the CPS fails at getting an accurate picture of all sources of income. This problem is intrinsic in the CPS design: any changes in the CPS to improve income and program participation information could compromise its effectiveness in providing labor-force statistics (see Ycas and Lininger, 1981, pp. 13-14).

2. This paper will refer to and count unrelated individuals as separate families. Appendix B presents estimates of the sampling errors of the estimates presented in this paper and Appendix C discusses the impact of misreporting. All combinations of transfer program participation that account for 1% or more of either the total population or the pre-transfer poor are reported in Tables 1-4.

3. This figure is computed as follows. Add all Food Stamps recipients (0.9% + 5.8%) to all cash welfare recipients (0.1% + 7.8%) and subtract those double-counted (4.[illegible]%).

4. The AFDC program is designed to cover families deprived of the support of one parent. This is most typically due to the absence of the father, but also may be due to disability, or, in states with an AFDC-UP (unemployed parent) program, to unemployment.

5. The program participation of blacks and Hispanics looks very much like that of the rest of the population when those groups are examined separately in demographic groups by poverty status. For example, black families have greater participation in cash welfare and Food Stamps and lesser participation in social security and Medicare than the general population both because single-parent families make up a much greater proportion of their population (26% versus 9% for the total population) and because a greater proportion are poor pre-transfer (43% versus 29%). Similarly, Hispanic participation resembles that of the overall population but reflects their lower proportion of elderly families (8% versus 20%).

6. The official poverty thresholds for 1979 were:

	Nonfarm		Farm	
Size of family	Families with female householder, no husband present	All other families	Families with female householder, no husband present	All other families
1 person				
Under 65 years	$ 3,619	$ 3,912	$ 3,076	$ 3,324
65 years and over	3,469	3,5[illegible]	2,946	2,988
2 persons				
Under 65 years	4,762	3,905	4,027	4,153
65 years and over	4,362	4,394	3,666	3,732
3 persons	5,625	5,820	4,679	4,927
4 persons	7,381	7,416	6,261	6,[illegible]
5 persons	8,691	8,785	7,509	7,492
6 persons	9,643	9,922	6,210	8,429
7 persons or more	12,036	12,322	10,176	10,[illegible]

One-twelfth of these amounts was used to determine poverty status in April 1979.

7. The poverty rate reported here, even for the [illegible] income sources that correspond to the official poverty [illegible] (i.e., pre-transfer income as defined here plus all cash transfers), will differ from the official family poverty rate reported by the Bureau of the Census for 1979 (9.1%) for three reasons: (1) the official figure was computed for

all of [illegible] as of March 1980 while the figures reported [illegible] and family composition for April 1979, (2) the family [illegible] used here [illegible] individuals as one-person families; and (3) [illegible] in this paper are based on a sample survey much smaller in size than the Current Population Survey used for the Bureau's tabulations (this last reason should not affect the estimated poverty rate, only its sampling error). The post-cash transfer poverty rate for families of two or more persons in April 1979 is 11.7%.

The use of monthly data in this paper is perhaps more appropriate for determination of poverty and the effects of program participation on poverty than are annual data, since eligibility for nearly all income-conditioned transfer programs is based on a one-month accounting period. A longer income-accounting period for determining program eligibility would reduce program participation. A longer accounting period would also reduce the measured poverty rate due to intra-year income fluctuations.

8. There are no great differences between single-person and multiple-person elderly families—97% of the former and nearly all of the latter (99%) participated in transfer programs. The difference between them comes in their pattern of program participation. Fewer single-person families participated in only social security and Medicare (66% versus 72% for multiple-person elderly families). This is due to single-person families having higher pre-transfer poverty rates (83% versus 55% for the multiple-person families).

9. Arizona did not have a Medicaid program in 1979. Underreporting of AFDC recipiency and benefits can have a significant impact on these numbers since Medicaid receipt is tied so closely to AFDC receipt. Census Bureau

reweighting of the ISDP sample and "hot deck" imputation of missing data along with an additional imputation performed by the author for this paper (see table notes) improved AFDC coverage of recipient families and benefits to 77% and 63%, respectively. See Appendix C for additional discussion of the underreporting problem.

10. Researchers have argued that inclusion of in-kind transfers in post-transfer income biases the estimated poverty rate downward unless such transfers (including non-government transfers such as fringe benefits) are also included in pre-transfer income and the poverty guideline is recomputed to reflect those changes. Such an alternative approach is not adopted here.

11. The market value of a transfer is the private market cost of the goods and services transferred to the recipient. For Food Stamps, this value is directly measured as the dollar value of the food coupons themselves. For the medical care programs (Medicare and Medicaid), this is measured on a person-by-person basis as the cost of an insurance policy that would provide the same benefits as the program. The value for public housing for a family involves estimating the private market rental value of public housing units.

The market value valuation method is a compromise between two major alternative methods of valuing in-kind benefits examined by Smeeding (1982). One is to use the recipient or "cash equivalent" value of the transfer. The cash equivalent value measure reflects the program beneficiary's own valuation of the benefit; it is likely to be less than the market value, and therefore minimize the programs' impact on poverty. Similarly, [illegible] poverty, [illegible] value [illegible] will also minimize impact on poverty by limiting the value of a transfer to the transferred commodity's share of the poverty budget.

Market value is also distinct from use of the total government cost of a transfer to estimate value to a recipient; that method would maximize the program's apparent impact on poverty. Under that method, the value of the transfer would include not only the value of the commodity [illegible] but also administrative costs and any waste attributable to the [illegible] providing the [illegible] (1982), for example, [illegible] about 20% of total project rents, exclusive of administrative costs, in the Section 8 housing [illegible] to program-related costs rather than to tenant benefits). [illegible] for an extensive discussion of these valuation methods.

[illegible] medical care and housing transfers were assigned using [illegible] by Smeeding and [illegible] in his Appendix [illegible] pp. [illegible]. The market value of Food Stamps was used as its market value.

[illegible] The [illegible] in the poverty gap by independent programs are not [illegible] some of each program's benefits might have gone to the same family and together raise that family's income above the poverty level. For example, if the AFDC program raised one family's income above the poverty level (filling 100% of their gap) and the Food Stamp program also raised their income above the poverty level, then the total reduction in the poverty gap is 100%, not 200%.

[illegible] Much of the cost of Medicare and Medicaid involves care of institutionalized individuals. The sample analyzed here, however, is non-institutional-

[illegible]. [illegible] be interpreted as providing insurance should the recipient be institutionalized. The approach adopted here to valuing these extra benefits was to include the value of the insurance against institutionalization when analyzing elderly families but exclude that value for the nonelderly under the assumption that the elderly are more likely both to become institutionalized and to worry about it. When elderly families are analyzed together with the nonelderly, the value used excludes insurance against institutionalization. See Smeeding (1982), pp. 4–57 for an extensive discussion of these valuation problems.

14. A recent Bureau of the Census survey found that unpaid child support amounted to $3.[illegible] billion in 1981 (approximately $250 million per month in 19[illegible] [illegible] Bureau of the Census, 1983). While not all of this support if paid would go to the poor, increased child support enforcement [illegible] reduce the pre-transfer poverty rate for single-parent families.

REFERENCES

Danziger, Sheldon, "Alternative Measures of the Recent Rise in Poverty". Testimony before the House Ways and Means Committee, October 18, 1983; available in Institute for Research on Poverty Discussion Paper No. 740-83.

Danziger, Sheldon; Jacques Van der Gaag; Eugene Smolensky; and Michael K. Taussig, "Implications of the Relative Economic Status of the Elderly for Transfer Policy", University of Wisconsin, October 1982.

[illegible], Gregory M.; Dennis F. Affholter; and Linda Ingram (eds.) Family Assistance and Poverty: An Assessment of Statistical Needs, Washington D.C.: National Academy Press, 1983.

[illegible], F. [illegible]; Richard A. Kulka; Larry L. Piper; Dale W. Bergsten; E. Paul Moore; Ralph E. Folsom; and Patricia C. Smith, ISDP 1979 Research Panel Documentation, Research Triangle Park, N.C.: Research Triangle Institute, December 1982.

MacDonald, Maurice, "Multiple Benefits and Income Adequacy for Food Stamp Participant and Nonparticipant Households" (with highlights and executive summary by the Office of Analysis and Evaluation), Washington, D.C.: U.S. Department of Agriculture, Food and Nutrition Service, [illegible], 1983.

Robins, Philip K. and Richard W. West, "Program Participation and Labor Supply Response", Journal of Human Resources, Vol. 15, No. 4 (Fall 1980), pp. 499-523.

Smeeding, Timothy M., Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effect on Poverty, U.S. Bureau of the Census Technical Paper 50, Washington, D.C.: U.S. Government Printing Office, March 1982.

U.S. Bureau of the Census, [illegible] 1981: Advance Report. Current Population Reports Series P-23, No. 124, Washington, D.C.: U.S. Government Printing Office, 1983.

U.S. Department of Health, Education, and Welfare, The Measure of Poverty, Washington, D.C.: U.S. Government Printing Office, April 1976.

Vaughan, Denton R.; T. Cameron Whiteman; and Charles A. Lininger, "Quality of the Income and Program Data in the 1979 ISDP Research Panel: Preliminary Findings", in Martin David (ed.), Technical, Conceptual, and Administrative Lessons of the Income Survey Development Program (ISDP), New York: Social Science Research Council, 1983.

[illegible] "[illegible] from the Section 8 Housing Program", [illegible] I (February 1982), pp. 5-24.

Ycas, Martin A. and Charles A. Lininger, "The Income Survey Development Program: Design Features and Initial Findings", Social Security Bulletin, vol. 44, no. 11 (November 1981), pp. 13-19.

Mr. MATSUI. I do want to thank you very much for your testimony and want to thank all the people who were here today for participating as well.

With that, the meeting is adjourned.

[Whereupon, at 12:40 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

STATEMENT OF WOODROW GINSBURG, DIRECTOR OF RESEARCH AND PUBLIC POLICY, CENTER FOR COMMUNITY CHANGE, WASHINGTON, D.C.[1]

I am submitting this statement on behalf of the Center for Community Change, a private non-profit organization which since 1968 has provided technical assistance to low income and minority community based groups to help them improve the living conditions of their members and neighborhoods, and has focused on national issues of particular concern to poor people.

We applaud the effort of Congressman Rangel and Congressman Ford to hold hearings on poverty, why it has risen so sharply in recent years, to examine some of the issues regarding definition of poverty, and to explore policy options to reduce its incidence and severity.

We also commend the staff of the Committee for the preparation of its excellent publication "Background Material on Poverty," (October 17, 1983) which contains an extensive data and analysis on various aspects of poverty.

Far too little attention has been paid to the over 34 million persons officially recognized as poor. No amount of fanfare and focus on the "economic recovery" can conceal the fact that millions of American families today live in distressed conditions, and that their number has been growing sharply. As the Subcommittee noted, since 1978 the poverty rate has risen from 11.4 percent to a 1982 rate of 15.0 percent. That percentage change represents a 9.9 million person increase, in effect wiping out the progress in reducing poverty in [illegible] years from 1965 to 1978.

[1] Leonard [illegible], Secretary/General Counsel for [illegible] in the preparation of this testimony.

We will address three aspects of the poverty question—the definition and concept of the poverty threshold, some of the factors contributing to the increase of poverty in the last four years, and our recommendations on policy and program that could significantly reduce the prevalence of poverty.

We share the view of many experts who have studied the techniques used to set poverty figures and conclude that major revisions are needed. In a policy paper of our organization entitled, "Beyond the Numbers: The Failure of the Official Measure of Poverty," (December 1979), a copy of which is attached, we pointed to a number of weaknesses in the measure.[2]

First, the adequacy of the food budget. There is much evidence that the food budget data derived from expenditure surveys made in the 1950's, and food plans of the early 1960's, used as the basis for computing the poverty threshold levels, do not reflect current conditions. As pointed out in the Center's 1979 publication, Mollie Orshansky, of the Social Security Administration who developed the poverty concepts wrote that the measure sharply understated the number of poor. Below is the pertinent excerpt from the Center's publication:

"In relation to the absolute number, Orshansky herself has expressed doubts about the accuracy of the poverty totals. In Spring, 1978 she noted.

" 'Many questions have been raised indicating that it is time for a change. Most changes entail the dollar thresholds. My own update to bring the measure into line with more recent nutrition standards and consumption practices, is one example. That update would change the number of poor for 1975 from 26 million to 36 million.

The corresponding proportions of the U.S. population counted poor could thus range from one in nine to as many as one in five.' "

The use of more current consumption and nutritional standards would substantially raise the number of poor to a figure in the 45 to 50 million range. Clearly, the prevalence of the poor is far greater than the official statistics portray.

We also note that many of the poor are far worse off today than in prior years. This can be seen in the figures on the poverty gap and tax burdens of poor persons. In 1982 the difference between the poverty threshold and actual income amounts to an average of $3,900 for each of the 7.5 million poor families, and $2,100 for each of the 6.5 million poor unrelated individuals. Expressed in aggregate terms, the poor in our nation are suffering from an income deficit of $43 billion—the amount needed to close the gap between their income and the official poverty line.

Four years earlier, the corresponding figures, adjusted to reflect inflation, were an average of $3,500 deficit for families, and a $1,900 deficit for individuals, with an aggregate income gap of $29 billion.

When federal taxes are taken into account the comparison of 1982 and 1978 shows further deterioration. As Table 3 on page 151 of the report "Background Material on Poverty" shows, individuals at the poverty line, in 1978, paid income taxes of $16 and payroll taxes of $200. Combined, these taxes of $216, amounted to 6.5 percent of the poverty level income. In 1982, a similar poor individual paid an income tax of $202 and a payroll tax of $530; the total comprising 10.8 percent of income.

For a family of four, comparable figures show a jump from - $134 to $285 in income taxes; and from $403 to $661 in payroll taxes. In percentage of income the tax burden in 1978 was 4.0 percent of income; in 1982, 9.6 percent. Since the poverty threshold and the income deficit figures are computed on the basis of income before taxes, they understate the extent of deterioration in living conditions for the poor from 1978 to 1982.

Also, if after-tax income were used as the measuring rod for counting the poor, the number of poor would be greater than officially reported.

In the perspective of America's national economy, the current poverty gap represents 1.3 percent of our gross national product—certainly well within our capacity to manage through a well designed program of jobs for those able and who want work and adequate incomes for those who cannot, or should not, work.

On the question of what accounts for the sharp rise in poverty since 1978, the Committee has heard from a series of witnesses who pointed to severe recession, inflation, and reductions in budget outlays for such important income maintenance programs as unemployment benefits and AFDC. We agree that the evidence supports the validity of those views.

We would add our concern that the economic recovery we are experiencing will do little to reduce the ranks of poverty. With over 10 million officially counted as unemployed, plus millions of other too discouraged to look for work, and/or working part time though wanting full-time jobs, there will continue to be stiff competition for the new jobs that open. Even the more optimistic economists on future growth

[2] The study has been retained in the subcommittee files.

the unemployment persisting at over 8 percent for the next two years. In that environment, there will be limited job opportunities for persons now living in poverty.

A further disturbing factor is that huge deficits in the federal budget are preventing those in Congress from restoring some of the harsh cuts in programs aimed at helping the poor. Where cuts were made in budget outlays, overwhelmingly the poor bore the brunt of those reductions. For example, an estimated 70 percent of the spending reductions in the fiscal year 1983 budget affected low income Americans.

The deficits result primarily from the huge, highly inequitable tax law of 1981 (only partly modified in 1982) under which over $350 billion in Treaury revenues will be lost in the four years of 1983 through 1986, and the 1981–82 economic recession. The deficit, and more particularly the tight monetary policy which is extended as a counterforce to the inflationary pressures which the large deficit could generate, are restricting expansion in housing, other interest sensitive industries, and the economy generally. Tight money also is largely responsible for an overvalued dollar and the serious trade deficits the nation is now experiencing.

We cite these broad economic trends for we believe that favorable Congressional action on many of our recommendations for reducing poverty depend on a strong, expanding economy and a federal budget with more adequate revenues. This would require recapturing additional amounts of the tax revenues lost in 1981, modifying tax expenditures, and adopting measures to reduce unemployment. Reducing unemployment would trim the deficit, for, as is well documented, each 1 percent unemployment costs the treasury some $25–$30 billion in higher outlays and lower tax receipts.

RECOMMENDATIONS

Among the various policy options for reducing poverty, we would recommend the following:

(1) A national minimum benefit for recipients of AFDC. It is of interest to note that as far back as 1970, this proposal was advanced by the Republican Administration and accepted by the House of Representatives. Under President Nixon's Family Assistance Plan (FAP), in the early 1970's, a federal minimum for AFDC beneficiaries was included. On two separate votes in successive sessions, the House of Representatives with broad bi-partisan endorsement solidly voted for the measure.

Under President Carter in 1978, again, as part of the Administration's welfare reform proposal, provisions calling for a national AFDC benefit level were included.

(2) Thirty one of the states now deny AFDC where a father is in the home. Such denial fosters family breakup, compounding the economic, social, and psychological burdens poor families endure. The Federal law should be amended to preclude states from denying benefits in such situations. It should be noted that both President Nixon's and President Carter's welfare reform proposals contained this recommendation.

(3) Rescind the earnings disregard actions of this Administration, and at least restore the disregard amount to its previous level. Every incentive should be provided to encourage low-income family members to seek employment and earnings to improve their depressed living conditions. This Administration's sharply restrictive revision of the earnings disregard provisions of AFDC acts as a harsh disincentive, discouraging the poor from working, and denying them the right to keep even minimal amounts to offset expenses connected with work.

(4) Among the non-cash benefits which Congress legislated as a form of needed assistance for the poor was Medicaid. Certainly, in time of illness, the poor family cannot be expected to afford the high cost of the medical care and attention it needs. This Administration denied matching Medicaid grants to states for persons below the poverty income levels but not eligible for AFDC. This action was cruel and insensitive and further eroded the incentive of the poor—for even meager earnings can now be the basis for disqualifying persons from receipt of AFDC and consequently Medicaid.

(5) As pointed out in the report "Background Material on Poverty," except for three-person families, in 1983 families at the poverty level will pay substantial income taxes. For example, in 1983 a family of four persons with income at the poverty line ($10,166) will pay $318 in income taxes. (In 1984 the same size family will pay $365 in income tax). This calculation takes into account the earned income tax credit which in its present form provided a maximum credit of $500, not related to family size.

We would recommend that the income tax provisions be modified to relieve families and individuals with income below the poverty thresholds from paying income taxes. One method to accomplish this would be through adding an additional 5 percent earned income tax credit for each dependent up to a maximum of three dependents. Another technique would be through adjustments in the zero tax bracket.

Besides providing poor families vitally needed income support through the more equitable Federal tax system, a more liberal earned income tax credit system, and [illegible] zero tax bracket would also reduce States' AFDC burdens—a most welcome relief to so many states in financial distress.

(6) While discussing the needs of the working poor it is important to recognize the grossly inadequate levels of prevailing minimum wage standards. The current level of $3.35 per hour became effective in January 1981—and has not been revised since then despite the sharp increases in living costs. Prices rose 9 percent in 1981, another [illegible] percent in 1982, and so far in 1983, a further 2½ percent. In all, since January 1981, the consumer price index has risen by 15 percent. For the minimum wage today to [illegible] the same purchasing power it had some two and half years ago, it would have [illegible] per hour.

Even at [illegible] the millions of working poor who were on full-time jobs, paying the [illegible] wage on a year round basis, would have an annual income of [illegible]—still [illegible] 20 percent below the four-person family poverty threshold of $9,862.

(7) Over the years we at the Center for Community Change have advocated and strongly supported a program we believe represents a far preferable approach to the welfare question. The key ingredient of such an approach involves a sound comprehensive jobs program at fair wages. Government statistics on the working poor reflects the important fact—all-too-often ignored—that substantial numbers of poor persons can and do work. Their inadequate earnings, and/or less than full-time schedules consign them to the depressed conditions of poverty. Decent jobs at adequate wages through a carefully structured jobs program would provide a real opportunity to improve living standards and escape the plight of poverty.

Those left in poverty would then be for the most part persons who cannot work because of family obligations, physical disability, or similar factors. Their numbers, and the assistance required to meet their needs would be far more manageable, and a focus on such a population would eliminate many of the recurrent arguments about the impact of various welfare programs on the attitudes toward work, motivations, and similar characteristics of the poor.

Statement of Allan C[illegible], Temporary Secretary-General, Federal Party of the United States of America

Ladies and Gentlemen of these honorable committees we thank you again for the privilege of appearing before you.

Mr. Chairman, I can think of no greater danger to the peace and tranquility of our great nation than the waste and wantoness represented by the tax and interest structures we find in this country.

Every tax and every cost of doing business is of necessity reflected in the cost of the necessities of life which every citizen in this country must obtain in order to exist. Every producer of goods and services must spread his costs over his product in order to be able to keep on operating and to make at least a minimum profit.

When interest costs rival labor and raw materiel costs, both producer and customer are in a no-win situation. And when tax costs exceed all other costs, it is no wonder that more and more families are sinking into the morass of poverty.

The Federal Party of the United States contends that it is not only possible but imperative that we adopt its plan for bringing back 2.5 percent prime interest and also its plan for reducing the Federal Government's budget. This will immediately reduce the number of families who are now below the poverty level, not only by reducing the price of their necessities but by also putting many of the unemployed back to work, which will result in a further budgetary surplus for the Government.

We beg leave to insert from the forthcoming book, "The Terminal Tyranny" the chapter "Them as Has, Gits" which will explain the nuts and bolts of the Federal Party's plan for correction of the national poverty level. If you and Mr. Stockman are sincere about your concerns, we are very sure you will all read it. It begins on the following page.

III. "THEM AS HAS, GITS"

We are not against the practice of collecting rent on money that has been loaned. This is a proper procedure, and those who have money to lend would naturally be expected to be paid for the use of their assets. So we have nothing personal against the banking trade when it seeks to solidify its position and to create stability through seeking the safest source of interest.

Therefore, the problem is not with bankers. The problem is with the laws which we have allowed to stand, which accumulate an obligation that has snowballed into a giant menace, causing our economic problems.

We mentioned earlier in this book that costs which have to be paid by manufacturers or vendors of services will appear in the base cost of their products and in the retail cost it will appear tenfold. The basic solution is not to struggle against particular people, but to merely return to the constitutional position from which we have strayed.

Take, for instance, the one single item of the servicing cost of our national debt. It amounted to $137.5 billion in 1983. It will automatically be at least $157.5 billion in 1984, if we don't do anything about it. If we take a gross national product unadjusted at current figures of about $3 trillion (although it may be lower because of the sluggish sales configuration of our economy), subtr... the ten times $157.5 billion hypothecated by our ball-park formula of "cost times ten for the consumer", we would be left with a figure of $1.425 trillion to account for in calculating the retail basic cost of our GNP. Which means that we are being charged $1.575 trillion more for the goods and services we need than should be charged! How's that for a rip-off?

The $3 trillion retail cost figure could be shaved somewhat because in the interest paid by the Federal Government to the bond holders there might be some intrinsic value. Then ten times cost to the consumer formula is based on the idea that no value to the public is received from such expenditure. But that's irrelevant philosophizing.

The real figure we need to study is the $157.5 billion (1984) that we pay out in the servicing of our national debt every year. And that is the trouble—it is not only every year but because every year's interest has to be paid with borrowed money the interest alone will add to the debt, beginning in 1984—$157.5 billion; in 1985—$175 billion, ad nauseum, (which is Latin for "its enough to make you barf"). And in addition, in 1983 alone, if the deficit is the projected $200 billion some say it is, then you can add another $63 billion to the amount that will have to be borrowed. Which will make the interest bill go up another $45 billion for 1983 alone, etc. (Latin for "it ain't going to quit").

Not only that—the bloat in the Federal budget also represents a non-return of value for the money expended. It's a wonder that our economy exists, to say nothing of moving ahead. Because it is a primary fact that producers do not pay taxes; they merely add their taxes to the cost of their products and, therefore, consumers pay the taxes. When, as a result, the prices become hideous, the consumer is forced to quit buying and economists gallop off in as many wrong directions as there are economists to find the answer. We may not all be producers but we are all consumers. And if consumers have to buy at hideous prices with hideous interest rates—can disaster be far behind?

We are not saying that any or all of this is illegal or immoral, but it certainly is not fattening as far as the total population is concerned. What is even more reprehensible is that nobody seems to really conceive of the effect that this has on some of our population who suffer tragically by way of unemployment and accompanying deprivation of the necessities of life. When, in the United States, has it ever been permissable for us to allow a situation where families are forced into squatting in tents or living in vans or even sedan cars simply because the economy has caused them to lose their jobs and homes?

We see our advanced nation laying off workers because of the competition of goods for overseas. This competition particularly comes from nations that were defeated in World War II and whose governments were abolished, which abolishment included any and all obligations of the old government.

Therefore as the great statistician, Roger Babson, pointed out in his book, "If Inflation Comes" the governments of both West Germany and Japan have no obligatory costs to add to the prices of their products. They have no interest-bearing bonds left over from previous wars to worry about. Therefore, no wonder that they can manufactu... their goods and pay for the shipping of them over to this country at prices less than what we have to charge for our own goods.

As to the interest bill of $157.5 billion (1984), the point is brought home when you consider that this represents over $2,600 a year for a family of four. Remember again, this is paid, not by producers, manufacturers or service contractors, but by us the consumers. When you add to that the $500 billion in unjustifiable expenditures of the government, you came up with a figure of nearly $8,000 above normal Federal tax expectancies per American family. In another way of putting it, a family of four who has only an income of $10,000 a year, by the time they pay their share of the national debt interest and the over-bloat in the budget, arrive at a net income of zilch? No wonder then that government agencies say that families with less than $10,000 income are in the poverty area of the economy. Because after paying the $8,000 for just the folly portion of the Federal budget, they still have to pay the more or less honest costs of state and local governments. So is it any wonder that families making $20,000 or more are considering themselves constantly strapped?

Furthermore while the Reagan budget reduction is facing us in the right direction; it does seem that the bulk of these savings are coming from those programs that were designed to help the poor and unfortunate. The fact that the abandonment or the alteration of the program may result in a substantial savings does not in itself justify that particular action. Now, don't get us wrong. We do believe the Federal government should not be in the business of supporting its citizens. Still, at the same time, it is hard to convince the average citizen and to gainsay the demogogic politicians that the savings scratched off the backs of the poor and unfortunate are not just an imposition upon the helpless.

We therefore proclaim that the best procedure of all would be to monetize the interest-bearing bonds of the Government, which now constitute a national debt of over $1.4 trillion, thus immediately reducing the Federal budget, not by $50 billion, but by $157.5 billion (1984) without threatening either poor people or by robbing the wealthy.

Think of it! Not only could all our citizens feel safe, but there would be from the Federal government no more competition in the money market for the available capital. Anybody with an idea or ambition could obtain thereafter low-cost capital for his enterprise. Actually, companies could substantially reduce prices, and rates and all manufacturing costs could be lowered because of capital savings. This would be a manifold benefit because capital expense is nearing equation with material and labor costs, thus making every business approach a high-impossible situation.

The next question would naturally be: Why don't our financial leaders and economic experts see this simple solution? Answer: Don't worry, they do, and they see it very well. In fact, they have been looking at this principle for nearly 300 years since the practice of issuing interest-bearing bonds by governments began.

But, one may say, "What will this do to our banking institutions?" Answer: If you will look at the average bank statement you will find hundreds of millions of dollars in government bonds. If the average interest earnings on the capital represented by these bonds should fall to say 4 percent, the income should still be plenty to pay the gas and lights and the rent on the bank building. Don't worry about the financial institutions. They still have their principal with which they can do wonders.

After all, with the availability of this capital all our banks and savings and loan offices could get back in the business of making loans again to those who need it and get themselves back in "green" ratings rather than in the "yellow" ratings where 97 percent of all banks and S&Ls find themselves now.

Why are the biggest banks in the United States in the yellow (caution) rating? Because of the "making money on money" temptations offered by the world oil and unaligned nations policies into which our government has "pushed" these banks. This is the excuse offered by bankers in their attempt to exercise the same financial control over all nations. And you can bet on it, they'll want the U.S. taxpayer to bail them out! Recently Jack Anderson told how Congress has just voted over $8 billion to the International Monetary Fund for the purpose of tiding over foreign governments who can't pay their debts. This means not only third world countries, but communist countries as well, especially communist countries.

This puts the American taxpayer right in the middle of a fragile web built of loans which our institutions have made to foreign governments who may or may not honor their commitments. And when we put our savings into money market funds or mutual funds all we are doing is betting that the American taxpayer will pay up when foreign governments don't. The history of loans to other countries has never been one of smart management.

All right—so enough of this ground laying. What do we do about it?

We have two things to accomplish: (a) Lower the cost of living, buying, selling and making. (b) Repair the economic dislocation which was caused by high unemployment.

To get rid of the budget item of $157.5 billion (1984) yearly interest of U.S. Government bonds is a relatively simple matter. All we need to do is declare that upon a certain date all interest-bearing bonds issued by the Federal Government will be monetized for the values they have accured on that date. By monetization we do not mean exchanging freshly printed dollar bills for these bonds. We mean, instead of being interest-bearing bonds, they will now become in themselves legal tender for the values they have accrued upon that date. For instance, if the bond-holder had bought his bond for $75 some time previously, and it is now worth $82, that bond will now be a $82 bill.

The bond-holder will not be able to look to the Federal Government for more interest on that bond, but he will be able to go out with it into the market and make loans to any who wishes to borrow. The net effect to this would be that prime interest would drop probably to a low of 2.5 percent and the average citizen could borrow money for home building at rates bearing from 4 to 5 percent. Also the budget would be balanced in a matter of months because the resultant reduction of unemployment would raise the Government's income by a minimum of $150 billion. With a minimal estimate of the deficit being nearly $200 billion in 1983, there would have been an effective budgetary surplus of $87.5 billion. This would be more than enough to set Social Security back on the track, fix the bridges and fill the potholes and as unemployment further decreased, the Government's income could offset the national debt in fifteen years or less.

Not only that, but large institutions such as utilities and other producers have been issuing their bonds and debentures at 12 percent to 16 percent because of competition from the Treasury. It competes with them for the available capital just to pay the interest on the national debt. They will now be able to pay off their expensive loans with money thet they could borrow at cheaper rates. This would cause the cost of telephone, electricity, gas and other utilities to come down in either costs or being reflected in improved services.

Not surprisingly, conventional wisdom among economists causes a considerable nervous flutter at first when presented with this plan. But deeply ingrained in the science of economics is the feeling that massive distribution of money among the people would be a very direct cause of inflation. We note with amusement the analogy made by Dr. Arthur D. Laffer of U.S.C. in his monthly letter dated April 15, 1982. He speaks of the diminishing returns from a plan such as that of Robin Hood who robbed the rich merchants in order to distribute to the poor. Dr. Laffer correctly points out the fact that such a program would soon cut itself off from the source when the merchants either hired guards for themselves, or took a circuitous route around Sherwood forest, thus reducing the availability of further largess to the "poor". The "poor" did not use their gifts for the purposes of further production of goods, but by spending them merely contributed to the further scarcity of that which was available, thus creating more inflation and reducing them to a still deeper poverty status.

It is necessary to explain, therefore, by following the Robin Hood analogy further that Robin should have taken his ill-gotten treasure and set up a loan program to the people in his area who could prove that they could take the proceeds of such loans and enter into a production of goods, and other forms of business. This would have increased the supplies of goods they needed, thus reducing the price of their necessities. Don't forget, in so doing they would be soon hiring their neighbors, and unemployment would be drastically reduced. This is all we are endeavoring to do with the Federal Party's proposal for the monetization of the Federal interest-bearing bonds. With $1.1 trillion being available for loans, but not for disbursement, we could make financing available at prime interest rates that would serve to wipe out unemployment and enable business to get started again. After all, would you want to build a modern steel plant with all the latest computerized equipment so you could compete with foreign governments, using 10 percent capital? Of course not! You're no fool either.

The above question is nowhere better illustrated than in the case of the Kaiser Steel plant at Fontana, California. For months the management has been slowing down production, pleading no business and of competition from foreign suppliers. According to a quotation from one of their accountants, the corporation had found it much more profitable to stop making steel and put their capital into interest-bearing investments, such as government bonds, money market certificates, etc. In the meantime, the plant can rust and the workers can starve, for all they care. Their capital now amounts to three-quarters of a billion dollars, and if they can find some sucker to buy the remains of the plant, their capital will probably run over $1 billion.

Interest income that is hassle-free beats working any day. Really now, you can't blame the management for taking the best possible care of their stockholders' assets. So it is not the Kaiser management's fault, it is the fault of the laws which we the people have allowed to ascend and stand.

The $1 billion that Congress proposed to use in re-starting the housing business with "low-cost" loans would only, at the most, finance 75,000 dwellings when there is a need for three million units. Does anyone doubt that this would be a way to reduce unemployment? With $1.4 trillion one could build 90 million houses, but then we don't need that many houses. We need not only houses but a vast number of other goods and services as well, including much cheaper automobiles, etc.

Unless we do the above proposed programs, the national debt will automatically rise by more than 12 percent per year, causing the interest bill to rise accordingly. This means also that prime interest will also rise at the same rate.

While prime interest seems to be coming down since the congressional election year of 1982, it is only a political sop which will be reversed when the effects of the prospective vast increase in the coming deficits are felt. We feel safe in predicting that the announced prime interest rates will soar above 25 percent within a year thereafter.

We say "announced" because the hideous spectacle of prime interest being listed at over 25 percent becomes the most monstrous when one realizes that large companies do not pay these prime interest rates. Apparently, these prime interest rate listings are merely for the entertainment of the naive public. According to Jack Anderson, the largest companies are still getting their capital borrowing needs met at rates at least one-third less than the publically announced prime interest rates. All of which serves to further exacerbate the capitalization troubles of medium and small-sized companies.

Also, even while the announced prime interest might fall to 10 or 11 percent, this is for no more than 1 percent of the population. If any commoner, constituting the other 99 percent of the people should go to his bank and ask for a loan, his rate would still be at the best 20 percent. Try it. You will see that the effective prime interest is still 20 percent!

Therefore, since Federal government borrowing policies constitute the basic cause of these problems, the solution is to change the national policy regarding the financing of Federal needs. Without such competition from the U.S. Treasury for the available capital every year, the private sector would be able to get its powerful production facilities back into gear.

But, basically speaking, it would encourage investment in businesses and in new products and that is the most crying need that we now have in this country. If the high capital cost factor would be eliminated, manufacturers could then cut the costs of the prices of their products and effectively save themselves from the threat of overseas competition. People with ideas for new products would be able to finance them, thus putting other people to work. Within a very measurable length of time unemployment would disappear as a troublesome factor in our economic lives. Furthermore, local government taxes could also be lowered because municipal bonds could be refinanced for lower rates.

We repeat: the troubles of both our steel and auto industries are the result of our national indulgence of the privileged financial groups who are now profiteering from both the interest-bearing bonds and the hideously high prime interest set-up, which makes it impossible for the American worker to compete with nations who do not have huge national debts or hog-sized budgets. The question could be asked: "Are we stupid, or are they just not as dumb as we are?"

Bailing out an industry can only provide a short-term solution. The Federal Party is only interested in those solutions which will in the final analysis guarantee permanence to the jobs of the workers. This can only be done by bringing down both interest costs by monetizing the federal interest-bearing bonds and by reducing the federal buget by 40 percent or more.

The effect of this reduction on the price of automobiles, for instance, would be at least 20 to 30 percent which, in most cases, would result in a price of up to $4,000 less than the sticker "shockers" now shown. It was commendable for the U.A.W. and the auto companies to get together for the purpose of endeavoring to lower the price of automobiles in order to increase sales. But, the most that can be promised from these negotiations is roughly $200 per car.

The fact of the matter is, compared to taxes and high interest rates, tho justifiably reducible wages of the auto workers is comparatively a drop in the bucket. And we can assure you, the long-suffering auto industry, and its customers, that you can get very little foreseeable relief from that direction.

The immediate effect of monetizing the bonds would be that of reducing the average American car's price by 25 percent in a matter of months. The price-reducing effect from Federal tax reduction would certainly fall within a few more weeks. We must remember that Rome was not built in a day, and neither was this mess that we are in. Getting out of it will take at least a few days.

Undoubtedly, the hand-wringing do-gooders will start screaming, "but what are we going to do for the unfortunates?" Our answer: "We're going to put them to work with low-cost capital that is left at home and not going to Washington." Under these circumstances we will not have to fear foreign competition, and our dollar could then be restored to its original soundness.

We could then buy foreign oil for $2.00 a barrel again, and gold could then be bought for $35 per ounce once more. This will be because we will not be pouring our currency into foreign countries, but keeping our capital at home for our own purposes. Our foreign friends would not suffer for they could buy what they need from us for less and then develop their own markets at home, which could in turn develop more opportunities for us.

This has to be done in order to bring down the cost of living.

Mr. Chairman, let me thank you again for your kind consideration of the views of the Federal Party of the United States of America.

STATEMENT OF
INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA, UAW

October 31, 1983

The percentage of Americans living in poverty is the highest in 17 years. Some 34.4 million Americans are now officially classified as poor. This is 15% of the population, or more than one person in seven.

Over 2½ million persons fell below the official poverty threshold just between 1981 and 1982. Almost 24 million whites, 10 million blacks, and 4 million Hispanics are living below the poverty level, all up substantially from 1981. Poverty rates have increased to 12% for whites, 35.6% for blacks, and 29.9% for Hispanics.

The number of poor children under 18 years old has risen to 13½ million, pushing their poverty rate up almost 2 points from 1981.

The number of poor families has risen nearly 10% to 7½ million since 1981, with the incidence of poverty among those families headed by women with no husband present up to 36.3% from 34.6% in 1981.

In the last year, another half million unemployed workers fell below the poverty line, a 14% rise over the year before. Of the 4 million poor unemployed, 2½ million were jobless 15 weeks or longer, an increase of 30% from 1981.

Nor has work, even at close to full-time schedules, been able to keep poverty at bay for the 3 million Americans who worked 50-52 weeks last year but whose earnings were too low to keep them from falling below the poverty threshold.

Over the last four years, the poverty rate has risen steadily from 11.4% to [illegible]. The official count shows that today **there are 10 million more poor Americans than in 1978.**

Many who have been pushed below the poverty line in recent years are people who never thought that they would be unable to maintain even the most minimal standard of living for themselves and their families. They are workers who, through no fault of their own, lost their jobs due to structural changes in the economy — with little chance of regaining those jobs — and slipped below the poverty line. They are victims of economic dislocation.

The Dislocated UAW Worker: From Middle Class to New Poor

There has been a massive dislocation of American workers in recent years resulting from the interplay of shifting capital, intensified international competition, energy shocks, and failed and misguided government economic policies, most notably tight money and its disastrous consequences of sky-high interest rates and an overvalued dollar.

The Congressional Budget Office estimates that more than three million persons are victims of economic dislocation. Many of those workers are members of the UAW.

Five years ago, the auto industry and its suppliers provided nearly 3.4 million jobs. In 1982, the total was down to only 2.3 million. This year, despite the fact that all of the Big Three auto companies have moved strongly back to profitability, we estimate that auto sector **employment** will be just 2.5 million, **900,000 below the 1978 level.**

Sizable job losses also have occurred in other UAW-represented industries, including the aerospace and farm equipment-construction machinery industries, where employment is down 25% and 45%, respectively, from their recent peak levels.

[illegible] workers who are suffering dislocation are not only workers currently [illegible] with little hope of returning to their previous jobs or even to the same industry [illegible] of a plant closing or indefinite layoff, but also workers who — while managing [illegible] — found ones that pay far less and are far less secure. In addition, there are workers who have dropped out of the labor force altogether because of poor [illegible] prospects — the "discouraged" unemployed plus the involuntary retirees.

Dislocated workers who have fallen into poverty have well-developed job skills and work experience, yet cannot find work. Even when they can find jobs, more often than not they are unstable and dead-end, with substantially lower pay and especially benefit levels and less than full-time schedules.

Special Studies

While we do not know the exact number of UAW members who have fallen into poverty under official standards, **two special studies of dislocated UAW members** reveal that their incomes drop drastically.

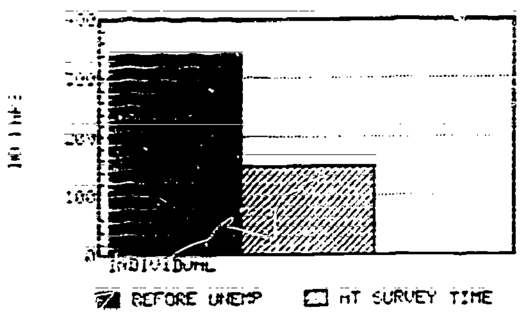
This past spring, the UAW and the Social Welfare Research Institute at [illegible] College jointly conducted a survey of UAW members in the New England states who had been laid off from various industries. The aim of the survey was to understand what happened to our members once they became unemployed.

At the time of the interviews, almost half of the workers surveyed were [illegible] unemployed, and more than 15% had dropped out of the labor force altogether. About [illegible] returned to their original employers, and 24% found new jobs.

The average length of joblessness was 34 weeks.

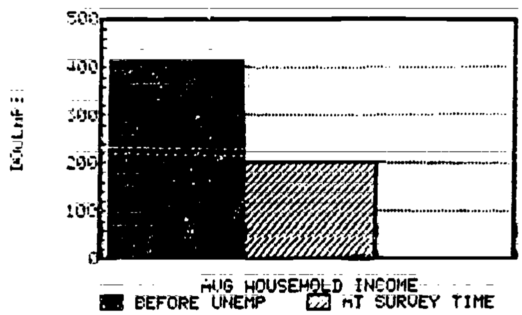
Before unemployment, average individual earnings were $343 a week. At the time of the survey, earnings had dropped over 55% to $151 a week.

Decline in Earnings



For those workers still unemployed or who had left the labor force — 60% of those surveyed — total family income had plummetted. Before unemployment, these households averaged $412 per week in total income. At the time of the survey they were living on less than half this amount — $201 per week, a poverty level income. Were it not for an increase in the number of spouses working, the decline in income would have been even more tragic.

Income Decline — Still Unemployed



Savings also were depleted. By the time of the survey, one quarter had exhausted all of their savings and 47% had exhausted half or more of their savings.

Furthermore, while previously all had employer-paid health insurance, when surveyed 22% had no health insurance coverage whatsoever. Of those with some coverage, nearly a third were paying their own monthly premiums. Another third were covered only because of their spouse's employment.

Another study of UAW members found a similar situation. The New York State School of Industrial and Labor Relations of Cornell University recently studied the consequences of the closing of a Ford Motor Company assembly plant in Mahwah, New Jersey on 5,000 UAW members.

At the time of the survey — two years after the closing — nearly half of the ex-Mahwah workers were still unemployed. Unemployed workers over age 40 was 61%, with the jobless rate for those 55 or older at 71%. More than 45% of those surveyed had been jobless for a total of 19 months or longer.

Before the shutdown, over 60% of the workers had a family income of at least $20,000 per year. At the time of the survey nearly half reported annual income of less than $10,000. Median income fell from $21,600 to $10,400.

Behind the Statistics: Misery and Hardships

While statistical averages provide a good overview, they convey little about the personal misery and hardships. The plight of our members can better be understood by looking at some of their individual experiences.

In the New England study, for instance, there was a 42 year-old husband and father of four who lost his job when his plant shut down. He had 18 years' seniority and was working as an engine-lathe operator earning $11 an hour. At the time of the interview, he had been out of work for 67 weeks. He had exhausted his unemployment insurance, and the only visible means of support for the family was the $25 a week that his wife was able to earn. Nearly all of their savings were gone. They had cut back on basic necessities, and had many unpaid bills.

Also trying to support herself and her family was a 36 year-old mother of five. She had been on indefinite layoff for almost a year and a half from a job as a press operator earning $11.50 an hour. She had 8½ years seniority at the time of her layoff. By the time of the interview, her only means of support were AFDC benefits of $123 a week. After being laid off she searched for work and was able to find only near-minimum wage jobs, one of which lasted 3 months and another just 1½ months. All of her savings were gone, and spending for the basic necessities had been cut to the bone.

Some workers in the New England study were able to find new jobs after being displaced. However, most of those new jobs were low-to-poverty-wage ones.

One case involves a 52 year-old husband and father who found a new job after being out of work for 8 weeks following the closing of his plant where he had worked for 28 years. On his old job, he was working as a toolmaker earning $8.99 an hour. His new job classification was assistant lock and draw operator, paying $5.04 an hour — barely half his previous job rate. In addition to a lower wage rate, there was no employer-paid life or health insurance. The quality of his work and home life declined as the new job required frequent shift changes.

There was the case of another worker, a 44 year-old man who permanently lost his $11-an-hour job as a grinder. After 5½ months of unemployment, he found a job as a lathe-operator that paid $6 an hour. After three months, he lost that job, and remained unemployed for the next three months plus tips. At the time of the survey, he was driving a cab 50 hours a week for a base wage of $2.70 an hour plus tips. He never collected unemployment compensation benefits, because of personal beliefs, and had exhausted all savings and had several items repossessed.

Similar experiences of inadequate current income and personal hardships were reported by UAW members laid off from the Mahwah plant. Many reported changes in spending habits, a spouse going to work for the first time, and deletion of lifetime savings. One worker said, "My bills are piling up. I am having trouble keeping up. I just pray I don't lose my house." Another said, "My wife is able to bring home food from her job in a cafeteria, and because of this we are able to eat." Yet another reported, "During my years at Mahwah, I worked hard and saved some money. Now I am seeing my savings disappear."

New Direction Is Needed

Poverty and its rise in recent years stem from the failure of public policy to keep up with the changing economic reality. That has resulted in increasingly higher rates of unemployment and permanent structural job loss. Furthermore, social welfare cuts have shredded the safety net in the midst of the worst crisis since the 1930s and added significantly to economic hardship.

The recovery is not going to do much to solve the problem of jobs or rescue as many out of poverty as the upturns from previous recessions. Many of the permanent job losses have taken place in high-productivity industries, while few other significant sources of productive, well-paid jobs have emerged. This means that not only are the well-paying jobs gone; also gone is their snowballing effect, which triggers the creation of further jobs throughout the economy.

Stamping out poverty therefore requires an increase in employment far greater than what the cyclical upturn might bring. A start would be to establish **a big jobs program** that -- like the WPA of the 1930s -- to put millions to work building and restoring bridges, dams, sewers, and public highways, and delivering essential public services.

Coupled with these emergency programs should be **a comprehensive industrial policy** which includes a system of national planning to manage our resources in a manner that best serves the country's needs and preserves our highly productive industrial employment base. **The goal must be a diversified, balanced, fully-employed economy.**[5]

Stamping out poverty also means providing adequate incomes to people unable to work.

Throughout our history, the UAW has been in the forefront of struggles to eliminate poverty and its human misery. Our concern over the plight of the poor is neither new nor limited to our members who have recently lost their jobs and so become part of America's poor. Our concern is longstanding. We will continue to press for policies that prevent poverty, and for policies that release every man, woman, and child from its destructive grip.

opeiu494

5. The UAW's statement on industrial policy is detailed in: "Rebuilding the Economy: Need for an Industrial Policy," Resolution adopted by 27th UAW Constitutional Convention; "Blueprint for a Working America;" Statement of UAW President Owen Bieber before the U.S. House of Representatives Subcommittee on Economic Stabilization, September 28, 1983.