
THE WAR ON POVERTY

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

JULY 25, SEPTEMBER 25, NOVEMBER 19, 1991

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UPDATE ON THE WAR ON POVERTY: 1991 (THE CURRENT SITUATION)

THURSDAY, JULY 25, 1991

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The Committee met, pursuant to notice, at 12:10 p.m., in room 2359, Rayburn House Office Building, Honorable Stephen J. Solarz (member of the Committee) presiding.

Present: Representatives Solarz and Arney.

Also present: Lucy Gorham, Dolores Martin, and Chris Higgins, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE SOLARZ, MEMBER

Representative SOLARZ. The Committee will come to order.

In his 1964 State of the Union address, President Lyndon Johnson declared an unconditional war on poverty and launched a set of programs designed to enhance educational and economic opportunities for poor Americans.

Over 25 years later, President Bush stated in a commencement speech that the war on poverty programs have "failed to produce progress," and that we need a good rather than a great society that is based not on government programs but on individual volunteerism.

This, of course, is the same President who has called himself a supporter of Head Start, one of the wars on poverty's most widely praised programs. It is the same President who has expressed the desire to be known as the education President, as if providing educational opportunities for all Americans wasn't a cornerstone of the great society. And this is the same President who has called for a kinder and gentler America, the very goals of the great society.

What is the true record of the great society's war on poverty? Has the economic growth of the past decade so touted by the Administration significantly alleviated poverty? Has the Administration's empowerment strategy led to a decrease in the misery and degradation so frequently linked to poverty? What can be done to deal with the indisputable existence of pervasive poverty in one of the world's most affluent societies?

These are the issues that this Committee will take up in a series of three hearings, beginning today, updating the war on poverty.

These hearings take place as our Nation's economy appears to be coming out of the recession that began last July. While all of us will welcome a true end to the recession, most economists predict a fairly anemic growth rate for the foreseeable future. This is bad news for poor families who lost ground during the past 12 months and who are unlikely to benefit from the meager growth to come. It doesn't appear that the economy will provide the employment opportunities millions of poor- and middle-class families require to make ends meet, thereby suggesting that the benefits of the projected economic growth will not reach substantial numbers of the very Americans who are most in need.

According to the most recent Census Bureau figures, 12.8 percent of the U.S. population, thirty-one and a half million men, women and children lived in poverty in 1989. And without strong economic growth and a clear and coherent antipoverty strategy, it is likely that these grim figures will increase substantially in the 1990s.

The situation facing children in our country is particularly dire. A recently released report from the Children's Defense Fund reveals that more than 12 million children, about one in five, are poor. In fact, children are almost twice as likely to be poor as any other group, including the elderly. Even more distressing is the fact that child poverty increased by more than 2.2 million from 1979 to 1989 despite the highly acclaimed economic growth that characterized the 1980s. Clearly, no nation that allows so many of its children to live in poverty can be either competitive or compassionate.

Today's hearing, the first of three on poverty, will explore the current state of America's poor. A second hearing will focus on the successes and failures of the war on poverty and other antipoverty programs. Our final hearing will review the Administration's antipoverty policy strategy as well as congressional initiatives and private sector efforts to deal with the continuing problem of poverty in America.

We are pleased to have with us today four distinguished panelists to explore these critical issues. We will begin the discussion with Dr. Patricia Ruggles of the Urban Institute, who also has the distinction of having served as a staff member of the Joint Economic Committee. She will be followed by Dr. Rebecca Blank of Northwestern University, after which we will hear from Dr. Lawrence Mead of New York University. Our final witness, last but not least, will be Dr. Walter Farrell of the University of Wisconsin.

I assume before we hear from the witnesses that my distinguished friend, the ranking Republican on the Joint Economic Committee, a gentleman from Texas, Congressman Arney, might like to be heard.

OPENING STATEMENT OF REPRESENTATIVE ARMEY

Representative ARMEY. Thank you, Mr. Chairman.

Good afternoon, ladies and gentlemen. I am pleased to welcome our panel of witnesses today to the first of a series of hearings on poverty issues. Accurate measurement of the income status of all Americans is extremely important as a means to provide a snapshot of how well we are doing, as well as to inform policymakers in the decisionmaking process.

Statistics on poverty are clearly vital, yet this is one area where confusion and obfuscation reign supreme. In fact, I want to correct the record immediately. In the press release issued by the majority for this hearing, Congressman Solarz states that 8 years of economic expansion did nothing to help the poor. Not so. Average family incomes have risen for all income groups since 1982. You will notice on the first graph, the lowest quintile gained 12 percent over the 8-year period from 1982-1989. In fact, this is in sharp contrast to when the Democrats controlled the White House and the Congress in 1979 and 1980, when average family income declined for every group of families, rich, poor and middle-class, as you can see by the second graph.

Let's set the record straight. As you will notice on the graph behind me, the real average family income of the lowest quintile increased dramatically when the Reagan/Bush expansionary program was in place as did the incomes of everyone else. And actually, I might point out in the vernacular that is so popular today, as illustrated by that rather goofy article in the *Washington Post* yesterday regarding the extent to which the rich got richer and the poor got poorer, you can see by this graph during the years in which the Carter programs were in place, the poor got poorer at a faster rate than the rich got poorer.

Now the complaint that we are hearing is that in the Reagan years the rich got richer at a faster rate than the poor got richer. It seems to me the fundamental choice is rather clear. Do you want a situation where all get poorer, or do you want a situation where all get richer, or do you simply want a situation where the differential is diminished irrespective of the trend line for the average?

Distortion of the factual record does nothing to move people up the economic ladder. Economic growth is the best guarantee of providing progress for the least advantaged in our society. We know that welfare can never replace work as the means to capture the American dream.

I am submitting a more detailed statement covering some of the more important poverty measurement problems for the record, and request that recent articles by Thomas Sowell, whom I believe to be the smartest man alive in America today, and Senator Phil Graham, who might be second, be submitted for the record.

Thank you all for coming to discuss these very important issues.

[The written opening statement of Representative Armey, together with articles, follows:]

WRITTEN OPENING STATEMENT OF REPRESENTATIVE ARMEY

Good afternoon. I am pleased to welcome our panel of witnesses today to the first in a series of hearings on poverty issues. Accurate measurement of the income status of all Americans is extremely important as a means to provide a snapshot of how we are doing as well as inform policy makers in the decision making process. Statistics on poverty are clearly vital yet this is one area where confusion and obfuscation reign supreme.

In fact, I want to correct the record immediately. In the press release issued by the majority for this hearing Rep. Solarz states that "Eight years of economic expansion did nothing to help the poor." Not so! Average family incomes have risen for all income groups since 1982. The lowest quintile gained 12% over the eight year period, from 1982-

89. In fact, this is in sharp contrast to when Democrats controlled the White House and the Congress in 1979 and 1980 when average family income declined for every group of families -- rich, poor, and middle class (See Table 1).

Let's set the record straight. As you will notice on the graph behind me (See Graph 1), the real average family income of the lowest quintile increased dramatically when the Reagan/Bush expansionary program was in place, as did the incomes of everyone else.

Federal aid to low-income families and individuals takes two forms: cash and non-cash assistance. **Only cash assistance is counted by Census.** The composition of assistance has changed dramatically in the last thirty years with the decline of cash aid and the rise of in-kind benefit programs. Noncash welfare benefits accounted for about 10 percent of total Federal welfare expenditures in 1960, about half in 1972, two thirds in 1980, and 72 percent in 1990.

Take for example the simple question of "What is the current poverty rate?" Depending on the political bias of the researcher, the answer can be as high as 20% or as low as 7%. The latest official Census number was 12.8%, however, this measure fails to take into account nearly 75 percent of all government assistance to the poor.

The exclusion of non-cash benefits dramatically distorts the picture of poverty in America as it systematically exaggerates the extent of income inequity and poverty by ignoring almost 75 percent of all government assistance to the poor. Even the most comprehensive of the new experimental Census definitions still exclude nearly \$98 billion (1989 spending) in government aid to low-income and elderly persons, thus poverty levels are exaggerated. Even using the experimental measures, Census data on income inequality is highly flawed and dangerously misleading. Obviously, the political agenda of some is advanced by hiding behind obscure statistical manipulations.

There are however certain things that we do know about the poverty status of American families and individuals. We know that money is not the problem. According to CRS figures (See Table 2), need-tested public assistance spending exceeded \$173 billion in 1988. If we measure welfare spending's impact by use of the "poverty gap" -- the amount of money it would take to raise the income of everyone up to the poverty threshold -- the estimated 1989 pre-welfare poverty gap was \$52.3 billion. If public assistance was distributed with perfect efficiency, \$52.3 billion would have left no one below the poverty

threshold. Obviously, our welfare programs are either inefficient, ineffective or both.

We know that poverty statistics reflected in annual income data reflect only a snap-shot of family income at a fixed point in time. Yet some observers use this information as though income quintiles are composed of roughly the same families, ignoring factors such as upward and downward mobility, divorce, demographics, family size, labor force participation, and social changes. In particular, the fluid movement of particular families in and out of the various quintiles is not reflected in these data. According to the Census bureau, about one-fourth of persons who were poor in 1985 were not poor in 1986. A University of Michigan longitudinal study found that almost half of the families who were in the bottom 20% in income were not there seven years later. Neither did most families in the top 20% remain there during the study period. There is tremendous mobility within the income distribution, particularly among young families as is evident from the following graph (See Graph 2).

One of the most serious problems among least-advantaged in our society is their growing detachment from the labor force. The single most important distinguishing factor in explaining the economic status

of a family is the number of workers it contains. According to the Census when families are ranked by their money income, the families in the bottom fifth in 1989 were 58 percent more likely to have **NO** earner than the poorest families of 1952 (see Table 3). Fewer than half of family heads in the bottom quintile worked in 1989; back in 1962 almost two-thirds worked. The share of the families in the bottom quintile whose head worked full time and year round declined from 25.9 percent in 1962 to 21.5 percent in 1989, an 18 percent decline.

Government transfer programs can not be expected to take the place of work for able-bodied individuals. Efforts need to be undertaken to encourage work and attachment to the labor force for all Americans. The gap between the richest and the poorest members of our society will never be closed unless all families participate fully in the American free enterprise system.

Distortion of the factual record does nothing to move people up the economic ladder. Economic growth is the best guarantee of providing progress for the least advantaged in our society. We know that welfare can never replace work as the means to capture the American dream.

Table 1

REAL AVERAGE FAMILY INCOME
(in constant 1989 dollars)

Year	Lowest Fifth	Second Fifth	Middle Fifth	Fourth Fifth	Highest Fifth
1973	9,783	21,351	31,370	42,872	\$73,557
1974	9,636	21,035	30,783	42,172	72,121
1975	9,291	20,235	30,153	41,288	70,541
1976	9,509	20,740	31,017	42,379	72,440
1977	9,361	20,817	31,394	43,325	74,276
1978	9,650	21,475	32,319	44,530	76,566
1979	9,801	21,623	32,657	44,970	77,922
1980	9,286	20,852	31,588	43,828	75,049
1981	8,906	20,144	30,916	43,411	74,419
1982	8,427	19,834	30,381	43,093	75,903
1983	8,409	19,869	30,634	43,668	76,823
1984	8,692	20,406	31,554	45,123	79,518
1985	8,808	20,677	31,985	45,845	82,510
1986	9,095	21,396	33,204	47,447	86,423
1987	9,248	21,734	33,749	48,301	88,271
1988	9,284	21,712	33,787	48,524	89,033
1989	9,431	22,018	34,206	49,213	92,663
Percent Change					
1973-80	-5.1%	-2.3%	0.7%	2.2%	2.0%
1979-80	-5.3	-3.6	-3.3	-2.5	-3.7
1981-89	5.9	9.3	10.6	13.4	24.5
1982-89	11.9	11.0	12.6	14.2	22.1

Source: Bureau of the Census.

Table 2

Expenditures of Major Need-Tested Benefit Programs, FY 1986-88
(millions of current dollars)

	Federal expenditures (millions of current dollars)			State-local expenditures (millions of current dollars)			Total expenditures (millions of current dollars)		
	FY86	FY87	FY88	FY86	FY87	FY88	FY86	FY87	FY88
Medical care	\$ 29,638	\$ 34,955	\$38,466	\$23,389	\$25,337	\$27,997	\$ 53,027	\$60,292	\$66,463
Cash aid	26,845	29,269	32,181	14,122	14,820	15,438	40,967	44,089	47,619
Food benefits	19,142	19,893	20,247	1,103	1,167	1,243	20,245	21,060	21,490
Housing benefits	13,265	13,211	14,701	0	0	0	13,265	13,211	14,701
Education	10,055	9,768	9,966	495	511	541	10,550	10,279	10,507
Jobs/training	3,626	3,782	3,748	73	71	72	3,699	3,853	3,820
Services/other*	3,390	3,607	4,492	1,900	1,980	1,980	5,290	5,587	6,472
Energy aid	2,195	1,971	1,764	50	208	182	2,245	2,179	1,946
Total	\$108,156	\$116,456	\$125,665	\$41,132	\$44,094	\$47,453	\$149,288	\$160,550	\$173,018

*"Other" represents State Legalization Impact Assistance Grants, first offered in FY 1988 (\$930 million), to fund varied kinds of aid

Note: Program data on which this table is based are found in table 14. See page 208.

Table 3

**Bottom Fifth of Families Ranked by Size of Money Income, by
Selected Characteristics: 1963, 1962, 1972, and 1989**
(families as of March of the following year)

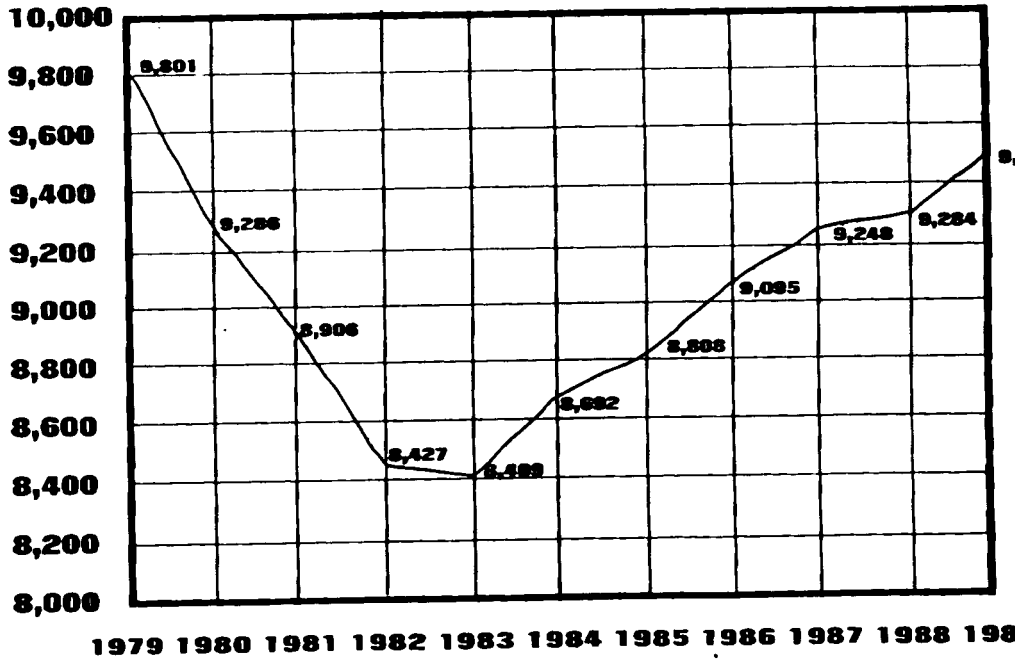
Selected characteristics	Total				Lowest fifth			
	1989	1972	1962	1962	1989	1972	1962	1952
Number millions	66.1	54.4	47.0	40.8	13.2	10.9	9.4	8.2
Type of family								
Married-couple (male head)	79.2%	85.2%	87.0%	87.5%	53.6%	64.9%	71.7%	74.1%
Female head (no husband present)	16.5%	12.2%	10.2%	9.4%	40.8%	32.0%	24.6%	22.0%
Number of earners								
No earner	14.3%	9.9%	8.0%	6.2%	39.9%	36.4%	30.4%	25.3%
1 earner	27.5%	37.3%	44.9%	52.5%	40.8%	43.0%	46.1%	52.3%
2 earners	44.2%	39.2%	36.2%	32.6%	17.8%	18.6%	18.9%	18.7%
Mean number of earners	1.66	1.65	1.55	1.48	0.83	0.87	1.00	1.03
Work experience of head (householder)								
Worked	77.7%	84.1%	86.2%	(NA)	49.6%	53.5%	60.7%	(NA)
Worked at full-time all year	59.1%	64.1%	63.5%	(NA)	21.5%	21.6%	25.9%	(NA)
Worked at part-time jobs	7.4%	5.5%	6.4%	(NA)	12.8%	13.0%	15.9%	(NA)
Did not work	22.3%	15.9%	13.8%	(NA)	50.4%	46.5%	39.3%	(NA)
Mean years of school completed by head (householder)	12.6	12.3	11.2	(NA)	10.4	9.3	8.5	(NA)
Median age of family head (householder)	46.4	45.3	45.4	43.9	47.0	51.8	54.4	53.3
Mean size of family	3.17	3.48	3.69	3.56	2.93	2.97	3.23	3.20
Mean number of related children	.96	1.24	1.43	1.24	1.10	1.09	1.25	1.14

Source: Table 13 from *Money Income in 1972 of Families and Persons in the United States*, Consumer Income Series P-60, No. 90, and unpublished Census Bureau data for 1989 regarding families in the bottom fifth of the income distribution. These new data are from a forthcoming publication of the Bureau in its Consumer Income P-60 series. A Census Bureau specialist said comparable data for the years between 1972 and 1989 are not available.

Graph 1

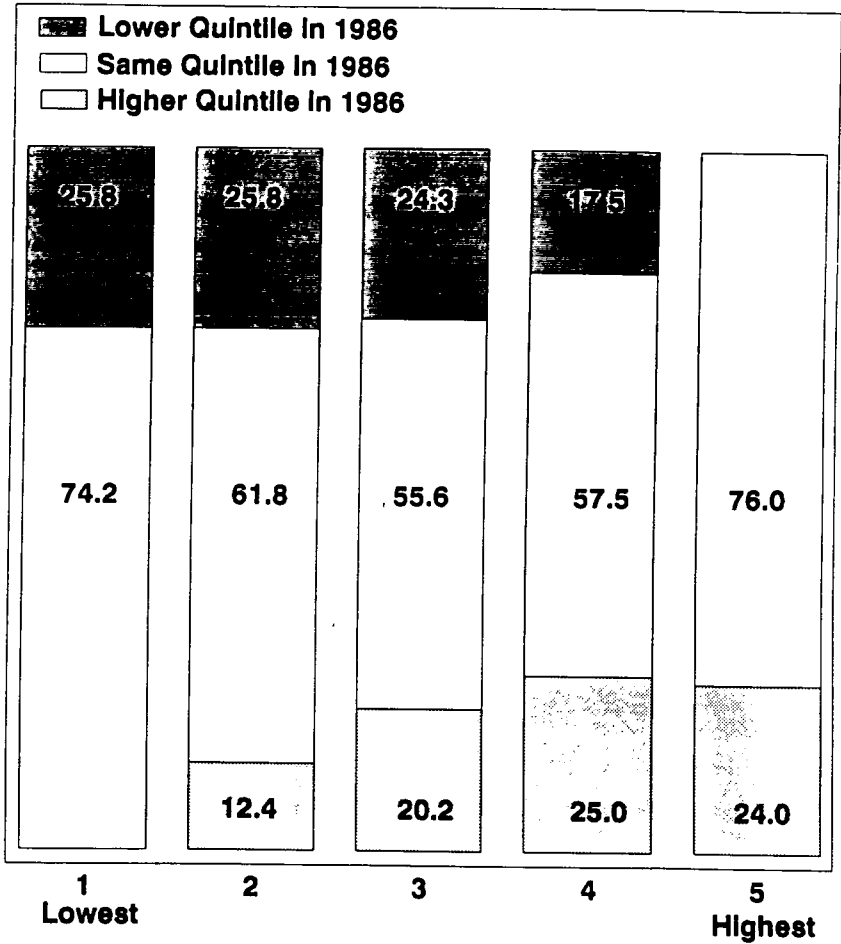
Real Average Family Income of the Lowest Fifth

(in constant 1989 dollars)



Graph 2

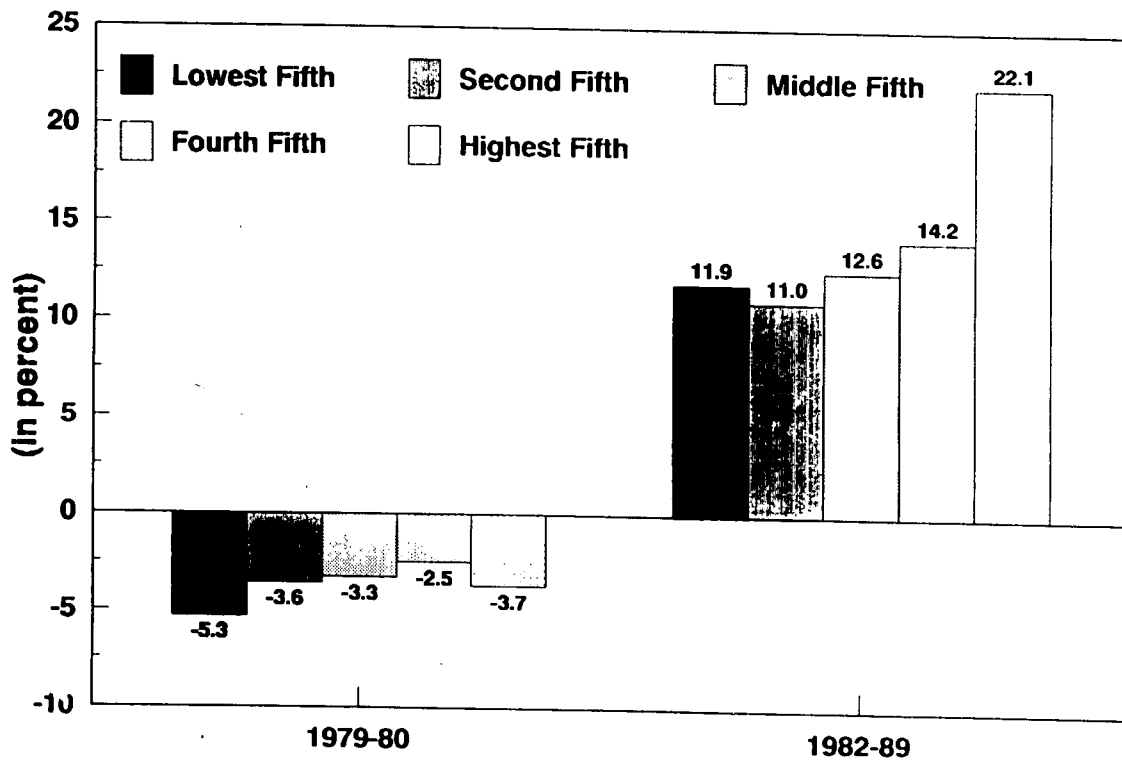
**PERCENT OF PERSONS BY CHANGE IN INCOME
25-44 YEARS OLD, QUINTILE: 1985-86**
(percent of persons)



Source: Bureau of the Census.

Graph 3

REAL AVERAGE FAMILY INCOME



The Nation

Richer Rich, Poorer Poor, And a Fatter Green Book

By JASON DEPARLE

WASHINGTON
IT is spring in Washington. The cherry trees blossom, and a fat Congressional document called the Green Book thumps across the desks of the city's policy wonks. Its itay-bitay type whispers of such alluring topics as "Table 3: Poverty by Region, 1989." The wonks all catch and whistle over the revelations.

But this year there's a twist.
Calling the volume "a data base for demagogues," representative Richard Armye, a Texas Republican, is engaging a war against the book and its Democratic authors. Having failed in an attempt to stop its publication, he is now distributing warning labels that proclaim "hazardous to economic health." Among the congressman's complaints is that Table 15 on page 1,306 should at very least have included an asterisk.

What unfolds is the story of how an obscure Washington institution has matured, and how Democrats in Congress have found a political issue that stings.

For the last 11 years, the Green Book — its official name — has enjoyed expanding prominence as the standard reference on a wide range of social programs. Recent volumes, aides on the House Ways and Means committee, who compile the data, have included tables that outline increasing inequality in the distribution of income. That is the "fairness issue" used so effectively by Democrats in last year's budget debates.

But Mr. Armye contends that the Democratic staff members are cooking the books — using contrived data about inequality to justify the twin goals of big government and high taxes.

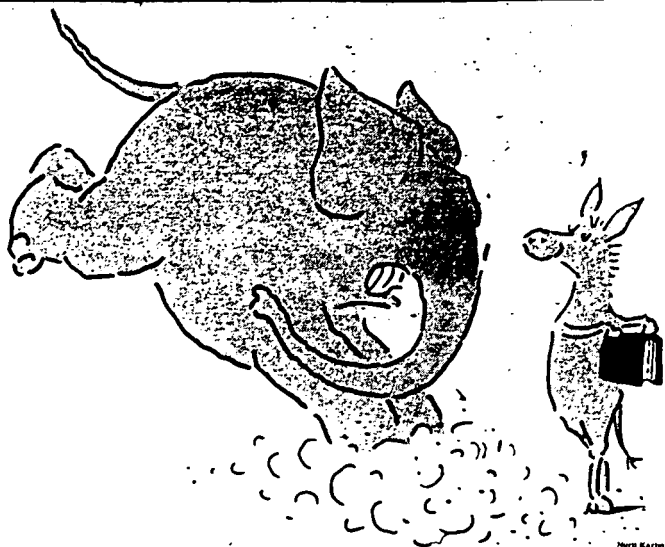
"The Green Book is a demagogic gantry for life whole fairness debate that the left wing of American politics tries to use," he said. And as university scholars increasingly consult its "Marxist, class-conflict" views, he added, "we're building a lot of misinformation into our young people's understanding of our nation."

That's preposterous, said Thomas J. Downey, an influential Democrat on the Ways and Means Committee. He calls the book "the bible of social statisticians."

Sorting through Mr. Armye's technical critique requires an understanding of the computer models used by the Congressional Budget Office and a grip on such terms as "nominal realized capital gains." But Mr. Armye's attack on the Green Book's intellectual integrity has not attracted a large following.

"I think most analysts would agree that there's an increase in inequality," said Marvin Kosters, director of economic policy studies at the American Enterprise Institute, a think tank that is not known for fomenting class conflict. "There is, however, widespread disagreement about the extent of the inequality and about what the policy implications should be."

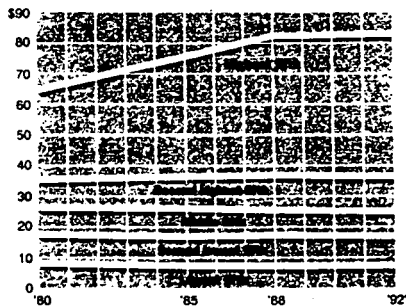
Since its first volume in 1981, the Green Book has grown from 158 pages to its current 1,641-page, 3.25 pound heft. It is the creation of Wendell Primus, a little-



Herb Karris

Slicing the income pie

According to Congressional figures, incomes of the richest American families have soared while those for everyone else have stayed stagnant or dropped. For the lowest 90 percent, after-tax income dropped since 1977. For the top 20 percent, it is up sharply. Figures are in thousands of projected 1992 dollars and are adjusted for inflation. Some conservative lawmakers have charged that the statistics are misleading.



*Projected
Source: From Congressional Budget Office as printed in the 1991 Green Book

known but influential economist on the Ways and Means staff, who played a prominent role in last year's budget battles but virtually never speaks for the record.

Read it not as an endless succession of footnotes and bar charts but as a novel, and what you have is "Les Miserables" — a story of the rich getting richer and the poor falling victim to all manner of woes.

The Green Book shows incomes rising fast at the top of the economic spectrum but stagnating or falling at the bottom. And tax policies, by its calculation, have made

matters worse. On page 1,306 are the figures Mr. Armye finds particularly irksome. They show that from 1977 to 1988 the incomes of the bottom fifth of American families sank by 13 percent. By contrast, the top fifth of American families earned 27 percent more, while the top 1 percent saw their incomes nearly double.

As for changes in tax policy, they had little effect on the lowest fifth of American families — their net and gross incomes fell by the same rate of 13 percent. But tax changes brought a boon to those at the very top, stretching their 96 percent pre-tax income gain into a 123 percent after-tax gain. The missing footnote, in Mr. Armye's view, would explain that the Congressional Budget Office, which supplied the figures, failed to adjust capital gains for inflation, and therefore exaggerated the incomes of the wealthiest Americans.

But Robert Reischauer, the budget office director, said he used data from the Internal Revenue Service, and noted its flaws in an accompanying text. No matter how the data are adjusted, he said, the trend would be the same.

But there is fodder in the Green Book for conservatives as well. Worried about sexual mores? The book discloses that the percentage of white 15-year-old girls who have had sexual intercourse jumped from 18 percent in 1982 to 29 percent in 1988 (For blacks the figure dropped from 28 percent to 25 percent.) Troubled by welfare dependency? The Green Book says that 65 percent of those on welfare at any time will stay for eight or more years.

Is it an balance a liberal document? Yes, says Lawrence Mead, a conservative poverty expert at New York University, but more because of what it asks than because of its answers. Mr. Mead said he would like more discussion of family breakdown, and less on the declining impact of Government programs.

"But I'm not saying the numbers are wrong," he said. "It's a very important source."

Americans aren't born into the world with "rich" or "poor" tattooed on their foreheads.

Lies, damn lies and politicized statistics

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

STATISTICS on income distribution are a much more reliable guide to political fashions than to economic reality. In an era when indignation has become a way of life, statistics are defined and compiled in ways that exaggerate income at the top and understate income at the bottom.

Recently, a much-publicized study by the Congressional Budget Office set off predictable cries in the media that the rich were getting richer and the poor were getting poorer. But the definitions and statistical methods used reveal more than the numbers themselves.

First of all, most of the \$184 billion in government welfare benefits to low-income Americans simply does not get counted. Food stamps, public housing and Medicaid are among the non-cash benefits that are left out.

At the other end of the income distribution, capital gains are treated in the CBO statistics in a way that would get a student flunked in elementary economics or statistics. Suppose that three investors each invest \$10,000 in different ventures. If investors A and B each has his investments increase in money value to \$15,000, and investor

C has his investment wiped out completely in the year when statistics are compiled, then clearly their total investment—\$30,000—remains the same in dollar terms. With the price level's having doubled, the investor has obviously lost half the real value of his investment.

The way the CBO statistics count it, however, these lucky investors have made \$3,500 in real income.

Instead of saying that the investors' two capital "gains" of \$5,000 each were actually losses in real terms, since \$15,000 will now buy less than the \$10,000 originally invested, the CBO counts them as gains and then corrects for inflation by dividing by two. By this bizarre reckoning, the real value of these two investments has increased by a total of \$5,000. As for C's investment that was wiped out completely, economists would count that as a \$10,000 money loss, or a \$5,000 real loss, but the CBO counts it as only a \$3,000 money loss, or a \$1,500 real loss.

The reason is that the CBO data on this come from income tax statistics and the Internal Revenue Service will allow only a \$3,000 capital loss per year. Subtract the understated capital loss from the overstated capital gains and you get a net \$7,000 gain in money terms, or \$3,500 in real terms. These investors may be headed for the poorhouse, but on paper they are among the rich who are getting richer.

Republican Congressman Dick Arme of Texas, an economist by profession, pointed out such problems in a letter to the Congressional Budget Office before the data were released to the public. The CBO graciously acknowledged the correctness of the

congressman's criticisms but excused itself on grounds that "data needed to make these adjustments are not available." But these crucial flaws in the study were not revealed to the glibble media.

An additional source of misleading statistics is that data are often compiled and presented in terms of "family income" or "household income." But one of the reasons some families earn more than others is that some families contain more people, bringing home more paychecks. When a larger number of people earn a larger amount of money, that may be a statistical disparity without being a social "inequity" requiring the government to play Robin Hood.

A more fundamental problem with glib discussions of "the rich" and "the poor" is that income bracket statistics refer to an ever-changing mix of individuals. A longitudinal study at the University of Michigan found that nearly half the families who were in the bottom 20% in income one year were not there seven years later. Neither did most families in the top 20% remain there throughout the period studied. Those who were persistently poor—who were in the bottom 20% in income for at least eight out of ten years—constituted less than 3% of the population of the U.S.

Although political discussions abound with talk about the rich and the poor, both groups put together are probably no more than 10% of the population. But they are the ideological tail that wags the dog, as policies are debated in terms of their presumed effects on these two small groups, rather than the other 90% of the American people.

Income distribution statistics are typically an instantaneous picture of a process constantly in flux, as individuals move from bracket to bracket over a lifetime. Many of those in the lower brackets are young adults who are the children of those in higher brackets. Ideology translates these statistics into different social classes called "the rich" and "the poor."

Fortunately for this country, people are not born into the world with a little "R" or "P" on their foreheads, marking them as rich or poor for life. Unfortunately, too many intellectuals and politicians talk as if they were. ■

Representative SOLARZ. Thank you very much, Congressman Arme y. Ms. Ruggles, please proceed.

**STATEMENT OF PATRICIA RUGGLES, SENIOR
RESEARCH ASSOCIATE, THE URBAN INSTITUTE**

Ms. RUGGLES. Thank you, Congressman Solarz.

I am happy to be here today to outline the current state of poverty of the low-income population in the United States. This is a difficult but very important topic, and I commend you, Representative Solarz, for sponsoring this series of hearings on poverty and antipoverty initiatives.

In this statement, I'll cover three issues: The size and composition of the poverty population, trends in poverty over time, and the impacts of alternative poverty measures on perceptions of the poverty problem.

In 1989, which as you pointed out is the most recent year for which estimates are available, the Census Bureau counted more than 31 million Americans—almost 13 percent of the population—as poor. More Americans are counted as poor today, even under the official poverty measure which I believe substantially understates the true level of poverty, than at any time during the 1970s. In fact, before the 1980s, the last time there were this many poor people in the United States was 1965. And as estimates for 1990 and 1991 become available, they are likely to show even more Americans in poverty, as the impacts of the current recession are felt.

Many people hold stereotypes about the kinds of people who are poor in the United States. The typical image is of a welfare mother who doesn't even try to support herself, or a teenager whose living comes from petty crime and drugs. Many people believe a substantial segment of the poor form an isolated "underclass," which is separated from the mainstream by negative attitudes about work, tolerant attitudes toward teenage pregnancy and welfare use, and high rates of school dropout and crime.

In my testimony, I have a chart that gives you the composition of the poverty population. Chart 1 indicates that this view of the poverty population is misleadingly narrow (see Chart 1 on p. ?). More than 85 percent of the poor in the United States are either children under age 18, elderly over age 65, disabled or working. Of course, there are some people whose attitudes and behavior contribute to the likelihood that they will become or will stay poor, but most recent research on this topic concludes that the group is neither very large nor growing rapidly.

Indeed, groups that fit the stereotypes are quite small. Fewer than 5 percent of those in poverty are single mothers who are neither disabled nor working, for example, and even among that group quite a few have disabled children. Further, also contrary to the stereotypes, slightly more than half of these nonworking mothers are white. On average poor single-parent families have just about the same number of the children that other families do, typically two. And while many poor children do live in single-parent families, many do not. Almost 40 percent of the children in

poverty live with two parents, and about two-thirds live in a family with at least one member who is working.

Persistent, long-term poverty is indeed a problem for many families. Research on the duration of poverty spells implies that while about half of those who were poor at a given point in time will leave poverty within a year or two, the other half are likely to remain poor for much longer. The elderly and the disabled are particularly likely to remain poor once they enter poverty. Similarly, those who have several problems—for example, low levels of education, small children who need care, and perhaps some minor work disability—are also relatively likely to stay poor. Today's wage levels for low-skilled workers are lower in real terms than those of the 1970s, and at these wages many potential earners simply cannot earn their way out of poverty, especially if they must pay child-care costs as well.

Perhaps the most striking thing about today's poverty population, aside from its overall size, is the very large proportion of the poor who are under age 18. As Chart 1 indicated, children account for almost 40 percent of the poor. One American child in five lives in a poor family today, and one in three lives in a family that is near the poverty line, with an income of less than \$15,000 for a family of three, for example.

These very high poverty rates for children, relative to the rest of the population, are a fairly recent development, as Chart 2 indicates (see Chart 2 on p. ?). Twenty years ago at the end of the 1960s, about 14 percent of U.S. children were poor, compared to about 12 percent of the population as a whole. By the late 1970s the proportion of children in poverty had risen to more than 16 percent, while the overall poverty rate fell slightly, to just below 12 percent. Over the 1980s, both the overall proportion of the population in poverty and the share of the poor who were children continued to rise, reaching especially high rates during the recession of 1982-83. By the end of the 1980s, the poverty rate for the population as a whole was almost 13 percent, but the rate for children was nearly 20 percent.

Why are so many children poor today? Some of the answer lies in changes in family structure; many more children live in single-parent families today than did in either the 1960s or the 1970s. Such families have always had high-poverty rates, because it is difficult for a single-parent with child-care responsibilities to earn enough to stay out of poverty. Additionally, reductions in real benefit levels in basic income support programs, such as Aid to Families with Dependent Children, over the late 1970s and the 1980s, particularly, affected these families.

Nevertheless, today's poverty rate for female-headed families with children is about 43 percent, which is actually slightly lower than the level of 45 percent seen in the late 1960s and early 1970s. For black female-headed families, the rate has declined much more, from more than 60 percent in poverty in the early 1970s—when this figure was first calculated by the Census Bureau—to about 47 percent today. Much of this decline is accounted for by the improved educational status and

declining family sizes seen for these women, as well as by increases in the proportion of single mothers who work. Without these changes, even more children would be in poverty today.

Poverty rates for children in families headed by married couples and by men, unlike those in female-headed families, were substantially higher in this past decade than in the 1970s. This increase in poverty rates, which is largely associated with falling real earnings for low-skilled male workers, also contributed to the large numbers of children in poverty that we see today. And again, these increases in poverty rates occurred in spite of the fact that the mothers of such children were much more likely to be working today than in the 1970s.

Overall, therefore, changes in family structure were largely offset by other changes, and by themselves they do not account for most of the growth in childhood poverty, particularly during the 1980s. Instead, recent research indicates that the major culprit over the past decade has been the declining real earnings of low-income workers. Although the incomes of higher-income families have grown over the past decade, and especially since the last recession, those of families at the bottom of the income distribution have actually fallen. And here, just as a little aside, Congressman Armev is, of course, correct that if you compare from the bottom of the recession in 1983 incomes have indeed grown. But if you compare today's or 1989 income levels to those at the last peak in 1979, the bottom fifth of the income distribution has yet to achieve the level of income that it had in 1979, before the recession previous to this one took effect. In fact, the only group that has been largely unaffected by earnings declines for low-income workers is the population over age 65, most of whom are retired. As Chart 2 shows, the official poverty rate for the elderly has fallen steadily, even as other poverty rates rose during the 1980s.

These declines in poverty among the elderly result from two factors. First, most of the elderly rely primarily on Social Security and pension incomes, and these incomes have risen, even while earnings for low-income workers were declining. Nevertheless, incomes for the elderly are still not high on average. The median per capita income of those over 65 was about \$9,800 in 1989.

A second factor in declining poverty rates for the elderly has to do with the specific way in which we measure poverty. Poverty rates for the elderly, in particular, are very sensitive to some peculiar anomalies in the design of our official poverty measures. These anomalies in turn affect our perceptions of poverty.

As my recent book argues in more detail, I believe that our official poverty measure does not reflect a realistic minimum level of living. This problem affects both our estimates of the size and composition of the population in poverty and our perceptions of trends in poverty over the past two decades. Estimates of poverty rates for the elderly are especially sensitive to the mismeasurement of poverty because so many elderly have incomes just over the official poverty line. As a result, even small increas-

es in the poverty line has substantial impacts on the proportion of the elderly who are seen as poor.

Our official poverty measure was developed by Mollie Orshansky, then of the Social Security Administration, in the early 1960s. She used some estimates of minimum food needs established by the Department of Agriculture, along with data from a 1955 food consumption survey to develop a set of estimated minimum needs for families of different sizes and types. Her consumption data indicated that the average family spent about one-third of its income on food, and so she simply multiplied her estimate of minimum food needs by three to arrive at estimates of minimum family needs for all goods. With some minor adjustments, Ms. Orshansky's estimates were adopted in 1969 as the official poverty cutoffs for use by government statistical agencies. Since then the estimates have been adjusted for changes in the overall level of prices, but no adjustment has been made for changes in consumption patterns, standards of living, or even in the mix and relative prices of the goods and services that are available.

Because there has been no adjustment for anything except changes in consumer prices, the poverty line has declined substantially relative to average incomes since it was established in the 1960s. Ms. Orshansky's original estimate of the minimum income needed by a family of four was just under half of the median family income in 1963, the first year for which she calculated needs. Today's poverty line for such a family would be about one-third of the median income.

Should the poverty line rise as standards of living change? Over the very long run, it clearly must or it will become meaningless. If one had established a market basket of minimum needs in 1890, for example, it would have included housing without plumbing or electricity, because that was what was available in 1890. If you simply estimated the price of such housing in each subsequent year without adjusting for the fact that standards of living were changing and people no longer lived that way, by 1990 you would have a very unrealistic estimate of what most people think is necessary in the way of housing.

Many changes in standards of living and in the goods available to be consumed have taken place since Ms. Orshansky's basic consumption data were collected in 1955. In addition, especially over the last decade, prices for certain basic needs, such as housing, have risen much faster than overall prices or incomes, and, as a result, today's poverty lines do not reflect a realistic minimum estimate of minimum family needs.

I calculated several alternative measures of poverty, either by linking change over time directly to changes in income or by reestimating minimum needs, using data on food and housing prices and consumption. Details on these alternative measures are given in my book, but the important point is that today's poverty thresholds would be substantially higher if any of these methods had been used. Instead of a 1989 poverty cutoff of \$9,885 for a family of three, for example, my preferred alternative would result in a cutoff of about \$15,000. Given that the official

threshold barely covers estimated minimum food and housing costs for such a family, without leaving any margin at all for clothing, taxes, child care, transportation, work expenses, health care, and so forth, I believe that my revised estimates are substantially more realistic.

Today's poverty rate would be much higher if more realistic poverty cutoffs had been used. Under my preferred measure, for example, the 1988 poverty rate for the population as a whole would have been about 23 percent, compared to about 13 percent under the official measure. This is an extremely high level, compared to the overall poverty rates seen in 1964. Poverty rates for children would be even higher, more than 31 percent of American children would be counted as poor. And because so many of the elderly have incomes just above the official poverty line, their poverty rates would rise even more, from about 12 percent under the official measure to almost 29 percent under my preferred measure. I believe that these rates give a more realistic idea of the size and nature of the poverty population in the United States. As Chart 3 shows, trends in poverty would also be different under a more realistic measure (see Chart 3 on p. ?). Instead of declining after the recession of 1982-83, poverty rates would remain high or would even continue to climb slightly. This difference reflects the decline in real earnings experienced by low-income workers, whose families account for most of the nonelderly, with incomes just over the official poverty line. As data from the current recession become available, we can expect these estimates of the proportion of the population in poverty to climb even higher.

Today's poverty rates are extremely high by historic standards, even under the Census Bureau's official measure, which I believe substantially understates the problem of poverty. Under a more realistic measure, more than 50 million Americans, including about 20 million children, would be counted as poor. These very high poverty rates result from many factors, but a leading cause is the stagnant or even declining real earnings of low-income workers over the past decade.

The 1960s and the first half of the 1970s saw solid progress against poverty in America. Under any measure, poverty rates fell for all population groups over this period, and the introduction of programs like food stamps and Medicaid reduced hunger and other unmet needs among the lowest income Americans. Since the late 1970s, however, much of our earlier progress has been eroded. While food stamps and other in-kind benefits have continued to be important to low-income families, these programs have not grown enough over the past decade or so to offset other declines in the real income of these families. For example, the median state AFDC benefit has fallen by more than 20 percent in real terms since 1980, and many states are responding to the current recession by cutting benefits further. And as we have seen, the real earnings of low-income workers have also fallen.

Federal programs cannot solve the entire problem of poverty in the United States, but they can do much to alleviate the immediate hardships that families suffer. Particularly for families with children, such short-term

help can be crucial. In the longer run, however, our poverty problem will not improve substantially without improvements in the earning capacity of low-income workers.

In the short run, programs like the Earned Income Tax Credit, and perhaps a return to a more progressive tax system, could help to support low-income earners who are trying to make their way out of poverty. If earnings continue to decline for these workers, however, the poverty problem can only worsen. To prevent this, we need greater investment in today's poor and near-poor children who will become tomorrow's earners. Only if these workers are better equipped to meet the challenges of tomorrow's jobs can they hope to avoid repeating the experiences of their parents. If we continue to neglect these children and to ignore the hardships with which they live, we condemn not only them but the Nation as a whole to a future of low growth and high poverty rates.

[The prepared statement of Patricia Ruggles follows:]

PREPARED STATEMENT OF PATRICIA RUGGLES

I am happy to be here today to outline the current state of poverty and of the low-income population in the United States. This is a difficult but very important topic, and I commend you, Rep. Solarz, for sponsoring this series of hearings on poverty and anti-poverty initiatives.

In this statement I will cover three main issues:

- o The size and composition of the U.S. poverty population;
- o Trends in poverty over time; and
- o The impacts of alternative poverty measures on perceptions of the poverty problem in the U.S.

THE SIZE AND COMPOSITION OF THE POPULATION IN POVERTY

In 1989, the most recent year for which estimates are available, the Census Bureau counted more than 31 million Americans--almost 13 percent of the population--as poor. More Americans are counted as poor today--even under the official poverty measure, which I believe to be unrealistically low--than at any time during the 1970s. In fact, before the 1980s, the last time this many Americans were poor was in 1965. And as estimates for 1990 and 1991 become available, they are likely to show even more Americans in poverty, as the impacts of the current recession are felt.

Many people hold mental stereotypes about the kinds of people who are poor in the United States. The typical image is of a welfare mother who doesn't even try to support herself, or of a teen-ager whose living comes from petty crime and drugs. Many people

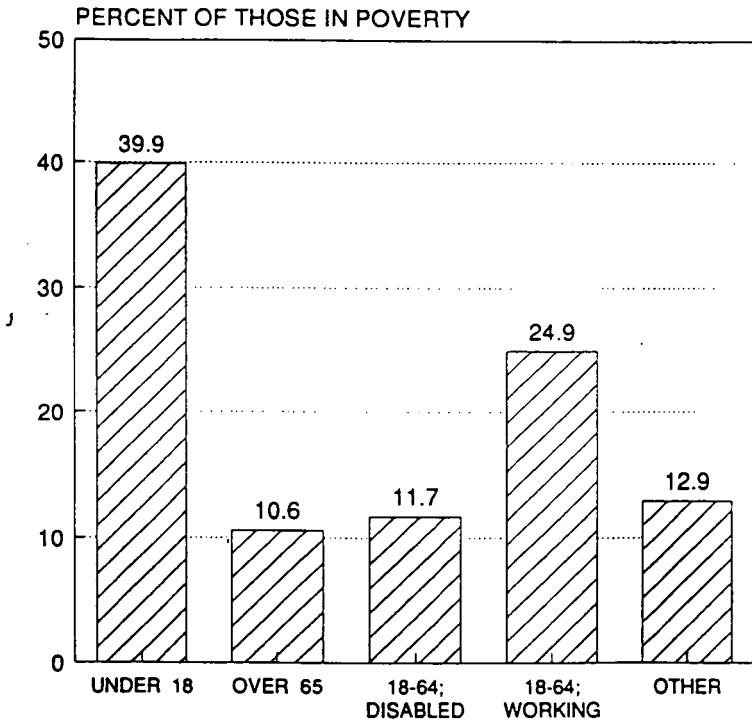
believe that a substantial segment of the poor form an isolated "underclass" that is separated from the mainstream by negative attitudes about work, tolerant attitudes toward teen-age pregnancy and welfare use, and high rates of school drop-out and crime.

As Chart 1 indicates, however, this view of the poverty population is misleadingly narrow. Most poor Americans are either children under the age of 18, elderly people aged 65 and over, or people between ages 18 and 65 who are either working or disabled. Together, these four groups account for more than 85 percent of the poor. Of course there are some people whose attitudes and behavior contribute to the likelihood that they will become or stay poor, but most recent research on this topic concludes that this group is neither very large nor growing rapidly.

Indeed, groups that fit the stereotypes are surprisingly small. Fewer than 5 percent of those in poverty are single mothers who are neither disabled nor working, for example, and there is some evidence that many of them have disabled children. Further, also contrary to stereotypes, these non-working single mothers are more likely to be white than black. On average, poor single-parent families have just about the same number of children that other families do--typically two. And while many poor children do live in single-parent families, many do not--almost 40 percent of children in poverty live with two parents, and about two-thirds live in a family with at least one member who is working.

Persistent, long-term poverty is a problem for many families, however. Research on the duration of poverty spells suggests that while about half of those who are poor at a given point in time will leave poverty within a year or two, the other half are likely to remain poor for much longer. The elderly and the disabled are particularly likely to remain poor once

CHART 1 Composition of the Poverty Population, 1989



Source: Bureau of the Census
Series P-60, No. 171

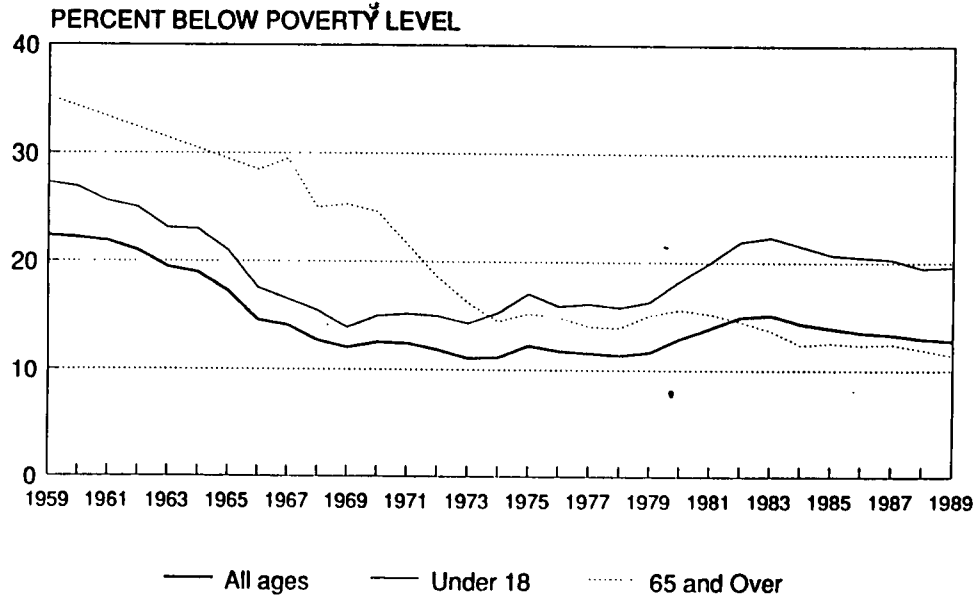
they enter poverty. Similarly, those who have several problems—for example, low levels of education, small children who need care, and perhaps some minor work disability—are also relatively likely to stay poor. Today's wage levels for low-skilled workers are lower in real terms than those of the 1970s. A minimum wage earner working full time would earn only about \$8500 per year, for example, which is not enough to support even two children. At these wages many potential workers simply cannot earn their way out of poverty, especially if they must pay child care costs as well.

TRENDS IN POVERTY OVER TIME

Perhaps the most striking thing about today's poverty population, aside from its overall size, is the very large proportion of the poor who are under age 18. As Chart 1 indicated, children account for almost 40 percent of the poor. One American child in five lives in a poor family today, and one in three lives in a family that is near the poverty—with an income of less than \$15,000 for a family of three, for example.

These very high poverty rates for children relative to the rest of the population are a fairly recent development, as Chart 2 indicates. Twenty years ago, at the end of the 1960s, about 14 percent of U.S. children were poor, compared to about 12 percent of the population as a whole. By the late 1970s, the proportion of children in poverty had risen to more than 16 percent, while the overall poverty rate fell slightly, to just below 12 percent. Over the 1980s both the overall proportion of the population in poverty and the share of the poor who were children continued to rise, reaching especially high rates during the recession of 1982-1983.

CHART 2
Trends in Poverty, 1959-1989



Source: Bureau of the Census
Series P-60, No. 171

By the end of the 1980s the poverty rate for the population as a whole was almost 13 percent, but the rate for children was nearly 20 percent.

Why are so many children poor today? Some of the answer lies in changes in family structure; many more children live in single parent families today than did in either the 1960s or the 1970s. Such families have always had high poverty rates, because it is difficult for a single parent with child care responsibilities to earn enough to stay out of poverty. Additionally, reductions in real benefit levels in basic income-support programs such as Aid to Families with Dependent Children (AFDC) over the late 1970s and the 1980s particularly affected these families.

Nevertheless, today's poverty rate for female-headed families with children is about 43 percent, which is slightly lower than the level of 45 percent seen in the late 1960s and early 1970s. For black female-headed families the rate has actually declined more--from more than 60 percent in poverty in the early 1970s (when this figure was first calculated by the Census Bureau) to about 47 percent today. Much of this decline is accounted for by the improved educational status and declining family sizes seen for these women, as well as by increases in the proportion of single mothers who work. Without these changes, even more children would be in poverty today.

Poverty rates for children in families headed by married couples and by men, unlike those for female-headed families, were substantially higher in this past decade than in the 1970s. This increase in poverty rates, which is largely associated with falling real earnings for low-skilled male workers, also contributed to the large numbers of children in poverty that we see today. And again, these increases in poverty rates occurred in spite of the fact the

the mothers of such children were more likely to be working today than they were in the 1970s.

Overall, therefore, changes in family structure were largely offset by other changes, and by themselves they do not account for most of the growth in childhood poverty, particularly during the 1980s. Instead, recent research appears to indicate that the major culprit over the past decade has been the declining real earnings of low-income workers. Although the incomes of higher-income families have grown over the past decade, and especially since the last recession, those of families at the bottom of the income distribution have actually fallen over the past ten years. And these declines have occurred even though the members of such families are working more today than they did a decade ago.

Earnings declines for low-income workers not only contribute to rising poverty rates among children, of course; they also keep overall poverty rates high even in a period of general economic expansion. In fact, the only low-income group that is largely unaffected by this trend in earnings is the population over age 65, most of whom are retired. As Chart 2 shows, the official poverty rate for the elderly has fallen steadily, even as other poverty rates rose during the 1980s.

These declines in poverty among the elderly result from two factors. First, most of the elderly rely primarily on Social Security and pension incomes, and these incomes have risen even while earnings for low-income workers were declining. Nevertheless, incomes for the elderly are still not high. The median per capita income of people aged 65 and over was only \$9578 in 1989, for example.

A second factor in declining poverty rates for the elderly, however, has to do with the specific way that we measure poverty. Poverty rates for the elderly in particular are very sensitive to some peculiar anomalies in the design of our official poverty measures. To understand these anomalies and their impacts, a brief description of the official poverty measure is needed.

THE IMPACTS OF ALTERNATIVE POVERTY MEASURES ON PERCEPTIONS OF POVERTY

Although, as we have seen, poverty rates in general are very high by historic standards even under the official measure, this measure probably understates the true incidence of poverty in the U.S. As my recent book, Drawing the Line: Alternative Poverty Measures and Their Implications for Public Policy (Urban Institute Press 1990) argues in more detail, I believe that our official poverty measure does not reflect a realistic minimum level of living. This problem affects both our estimates of the size and composition of the population in poverty and our perceptions of trends in poverty over the past two decades. Estimates of poverty rates for the elderly are especially sensitive to the mismeasurement of poverty because so many elderly have incomes just over the official poverty level. As a result, even small increases in the poverty line have substantial impacts on the proportion of the elderly who are seen as poor.

Our official poverty measure was developed by Mollie Orshansky, then of the Social Security Administration, in the early 1960s. She used some estimates of minimum food needs established by the Department of Agriculture, along with data from a 1955 food

consumption survey, to develop a set of estimated minimum needs for families of different sizes and types. Her consumption data indicated that the average family spent about one-third of its income on food, and so she simply multiplied her estimates of minimum food needs by three to arrive at estimates of minimum family needs for all goods.

With some minor adjustments, Ms. Orshansky's estimates were adopted in 1969 as the official poverty cutoffs for use by government statistical agencies. Since then the estimates have been adjusted for changes in the overall level of prices, but no adjustment has been made for changes in consumption patterns, standards of living, or even in the mix and relative prices of the goods and services that are available.

Because there has been no adjustment for anything except changes in consumer prices, the poverty line has declined substantially relative to average incomes since it was established in the 1960s. Ms. Orshansky's original estimate of the minimum income needed by a family of four was just under half of the median family income in 1963, the first year for which she calculated needs. Today's poverty line for such a family would be about one-third of the median family income.

Should the poverty line rise as standards of living change? Over the very long run it clearly must, or it will become meaningless. If one had established a market basket of minimum needs in 1890, for example, it would have included housing without plumbing or electricity, because that was what was available in 1890. If you simply estimated the price of such housing in each subsequent year, without adjusting for the fact that standards of living were changing and people no longer lived that way, by 1990 you would have a very unrealistic estimate of what most people think is necessary in the way of housing.

Many changes in standards of living and in the goods available to be consumed have taken place since Ms. Orshansky's basic consumption data were collected in 1955. In addition, particularly over the last decade, prices for certain basic needs such as housing have risen much faster than overall prices or incomes, and as a result today's poverty lines do not reflect a realistic estimate of minimum family needs.

I have calculated several alternative measures of poverty, either by linking change over time directly to changes in income or by re-estimating minimum needs using data on food and housing prices and consumption. Details on these alternative measures are given in my book, but the important point is that today's poverty thresholds would be substantially higher if any of these methods had been used. Instead of a 1989 poverty cutoff of \$9885 for a family of three, for example, my preferred alternative would result in a cutoff of about \$15,000. Given that the official threshold barely covers estimated minimum food and housing costs for such a family, without leaving any margin for clothing, taxes, child care, transportation, work expenses, health care, and so forth, I believe that my revised estimates are substantially more realistic.

Today's poverty rates would be much higher if more realistic poverty cutoffs had been used. Under my preferred measure, for example, the 1988 poverty rate for the population as a whole would have been about 23 percent, compared to about 13 percent under the official measure. This is an extremely high level, comparable to the overall poverty rates seen in 1964. Poverty rates for children would also be higher; more than 31 percent of American children would be counted as poor. But because so many of the elderly have incomes just above the official poverty line, their poverty rates would rise the most, from about 12 percent

under the official measure to almost 29 percent under my preferred measure. I believe that these rates give a more realistic idea of the size and nature of the poverty population in the United States.

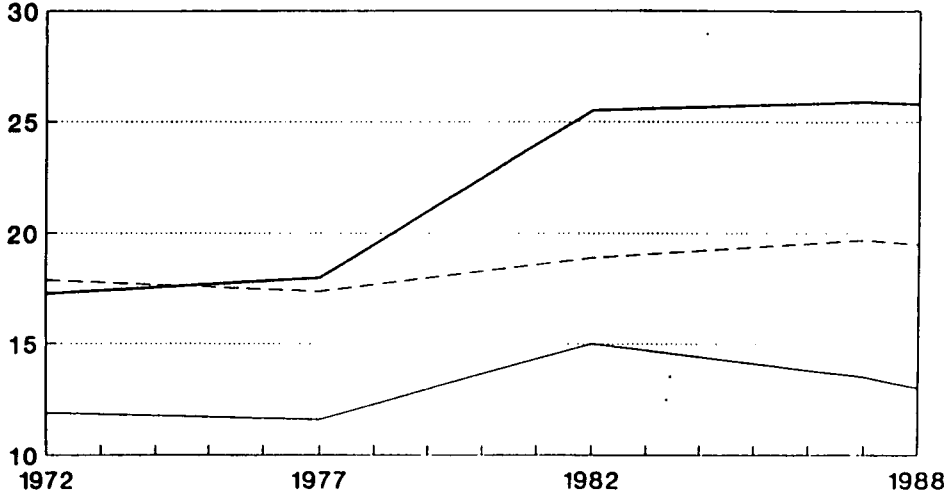
Trends in poverty would also be different under a more realistic poverty measure, as Chart 3 shows. Instead of declining after the recession of 1982-1983, poverty rates would remain high or even continue to climb slightly. This difference reflects the decline in real earnings experienced by low-income workers, whose families account for most of the non-elderly with incomes just over the official poverty line. As data from the current recession become available, we can expect these estimates of the proportion of the population in poverty to climb even higher.

CONCLUSIONS

Today's poverty rates are very high by historic standards, even under the Census Bureau's official poverty measure, which I believe substantially under-estimates the problem of poverty. Under a more realistic measure more than 50 million Americans, including about 20 million children, would be counted as poor. These very high poverty rates result from many factors, but a leading cause is the stagnant or even declining real earnings of low-income workers over the past decade.

The 1960s and the first half of the 1970s saw solid progress against poverty in America. Under any measure poverty rates fell for all population groups over this period, and the introduction of programs like food stamps and Medicaid reduced hunger and other unmet needs among the lowest income Americans.

CHART 3
Poverty Rates Under Three Measures



— Updated Multiplier - - - Relative — Official

Source: Drawing the Line,
P. Ruggles

Since the late 1970s, however, much of our earlier progress has been eroded. While food stamps and other in-kind benefits have continued to be important to low-income families, these programs have not grown enough over the past decade or so to offset other declines in the real incomes of these families. For example, the median state AFDC benefit has fallen by more than 20 percent in real terms since 1980, and many states are responding to the current recession by cutting benefits further. And as we have seen, the real earnings of low-income workers have also fallen.

Federal programs cannot solve the entire problem of poverty in the United States, but they can do much to alleviate the immediate hardships that families suffer. Particularly for families with children, such short-term help can be crucial. In the longer run, however, our poverty problem will not improve substantially without improvements in the earnings capacity of low-income workers.

In the short run, programs like the Earned Income Tax Credit (EITC), and perhaps a return to a more progressive federal tax system, could help to support low-income earners who are trying to make their way out of poverty. If earnings continue to decline for these workers, however, the poverty problem can only worsen. To prevent this we need greater investment in today's poor and near-poor children, who will become tomorrow's earners. Only if these workers are better equipped to meet the challenges of tomorrow's jobs can they hope to avoid repeating the experiences of their parents. If we continue to neglect these children and to ignore the hardships with which they live we condemn not only them but the nation as a whole to a future of low growth and high poverty rates.

Representative SOLARZ. Thank you very much. That was really quite extraordinary, and it certainly helped to set the stage for whatever other testimony we will receive. I look forward to a dual of wits that will undoubtedly take place between my friend, Congressman Arney, and you when he has his opportunity to ask questions. We will have 3 minutes per round, and you will go back to your respective corners in between. I will decide at the end who won. I may declare someone a winner by a technical knockout in the sixth round, whatever. You certainly stated a very powerful case. I look forward to hearing my friend over here, who may be the third most intelligent man in America, go at you because I gather from his opening statement that he has a somewhat different perspective.

Ms. Blank, please proceed.

**STATEMENT OF REBECCA BLANK, ASSOCIATE PROFESSOR
OF ECONOMICS AND EDUCATION, NORTHWESTERN UNIVERSITY**

Ms. BLANK. Thank you, Mr. Solarz.

I have a couple of figures that I am going to need pretty immediately, and I wonder if you could set them up. I will get to them soon.

Any assessment of the current state of poverty in the United States must acknowledge both good news and bad news. The good news is that we have created a society where poverty is an exception; the bad news is that there are still over 31 million Americans living below the poverty line, an unacceptably high number in a nation as wealthy as ours. Dr. Ruggles has outlined these statistics for us already. The statistics on poverty among women and children are particularly appalling, as she points out. One in five children live in families below the poverty line; among children in female-headed households, over 50 percent live below the poverty line; among children in black or Hispanic female-headed households, two-thirds live below the poverty line. The particular problems facing these poorest groups in our society should be at the top of our domestic social agenda. As a society, we simply cannot afford to limit the opportunities of so many of our citizens, and particularly of our children.

In my testimony today, however, I want to step back from some of the problems facing specific groups among the poor, and focus on some of the larger economic issues relating to the poverty rate. I have two primary points to make in my testimony: First, macroeconomic growth was a far less effective tool against poverty in the 1980s than it had been in earlier decades. Changes in the wage structure of the economy during the 1980s made it increasingly difficult to escape poverty through hard work. Attention to the labor market and the opportunities it provides for less-skilled workers is absolutely necessary to address poverty in the 1990s. Second, I want to note that there is nothing inevitable about the lack of progress against poverty in this country. Canada, our closest neighbor and our most similar economic partner, has been able to make substantial progress against poverty over the last two decades through macroeconom-

ic growth, but also because of an enhanced safety net that is particularly aimed at protecting families with children.

Let me talk first about the effect of macroeconomic growth on poverty. It is an axiom of public policy and political rhetoric, but economic growth helps the poor. More than one president has claimed that the best thing we can do for the poor is to make the economy grow. This strategy, often referred to as "trickling down," is extremely attractive because it promises that we can fight poverty without substantial costs. Economic growth is expected to make both middle-income Americans better off and to decrease poverty at the same time. If it works it's a no-lose solution to poverty.

Quite a bit of research indicates that sustained economic growth was very important in the declining poverty rates of the 1960s and early 1970s. In the mid- to late 1970s, the economy faced a series of recessions and external price shocks and progress against poverty declined as the economy slowed down. Between 1961 and 1970, the U.S. economy experienced its longest economic boom. Over that time period, poverty fell 9 percentage points. Between 1983 and 1990, the U.S. economy experienced its second largest economic expansion. After the sharp recession of 1981-82, with the poverty rate exceeding 15 percent, it would have been reasonable to expect that the strong expansion that followed in the 1980s would have produced a sharp decline in poverty. This did not occur. While poverty clearly declined over the expansion, it still stood at 12.8 percent in 1989, well above its historic low of 11.1 percent in 1973, and at about the same level as it had been in 1980. The macroeconomic expansion did not bring down poverty as quickly as historical evidence would have indicated. In 1988, for instance, when the overall economy grew by more than 4 percent—very strong economic growth—poverty fell by a statistically insignificant amount.

In the mid-1980s, my colleague, Alan Blinder of Princeton University, and I attempted to estimate the relationship between macroeconomic indicators and the overall poverty rate. Using data from 1959 to 1983, we were able to track poverty quite closely, using the core unemployment rate, the inflation rate, the share of government transfers in GNP, and several other macroeconomic indicators. This relationship fails entirely, however, when used to forecast the poverty rate over the 1980s' expansion. If we take the historical relationship between the macroeconomy and poverty through 1983—established by Professor Blinder and myself—and use that relationship to predict the poverty level in 1989, using the actual macroeconomic data of the 1980s, we would forecast a 1989 poverty rate of 9.3 percent. The actual poverty rate was 12.8 percent, much higher. If you look at Figure 1, over here to my left and your right, you can see what this looks like (see Figure 1 on p. 42). The solid line is the actual poverty rate, the dash line is the fitted equation up until 1983. It tracks very closely. It even tracks the turning points. From 1983 on the solid line shows the real poverty rate, which does decline over the expansion of the 1980s, as Congressman Arney's data up here shows. The dotted line,

however, which falls steadily over the 1980s—faster than the actual poverty rate—is our forecast of what should have happened if the historic relationship between the macroeconomy and poverty continued over the 1980s, in the same way as it was occurring in the 1960s and 1970s. And you see this dramatic widening between expectations and what is actually happening.

The main point of this figure is not that economists can't forecast, which I'm sure that you probably all know anyway, but rather that there was a divergence between the poverty trends of the 1980s and historical experience. The predicted values diverged steadily from the actual poverty rate throughout the expansion of the 1980s.

I've been involved in a major research project over the past year trying to explain why poverty fell so little over the 1980s expansion. Let me tell you what did not happen during the 1980s. The sluggish response of poverty to the expansion of the 1980s was not due to: (1) Problems in the measurement of income and poverty, particularly the exclusion of in-kind income from poverty measurement statistics. In fact, poverty rates that count in-kind income declined by almost the same amount as do official poverty rates over the 1980s; (2) it was not due to the regional distribution of the poor. The poor and the nonpoor were similarly located across regions and states in the 1980s; (3) it was not due to policy changes in transfer programs in the early 1980s. If the welfare programs of 1978 had been in effect in the late 1980s, the poverty rate would have been virtually unchanged; and (4) it was not due to the changing demographic composition of the poor. If the composition of the poor had remained identical from the early 1960s through the late 1980s, the poverty rate would have been just as unresponsive to the macroeconomy of the 1980s. So, what did happen? The answer is that earnings of the heads of poor families grew much more slowly, with the economic expansion of the 1980s, than earnings did over the 1960s. Let me explain that further. Earnings are the product of two things. They are the product of wages times labor market involvement. Which of those two factors caused slower earnings growth in the 1980s?

As it turns out, labor market involvement was more responsive to economic growth during the 1980s than during the 1960s. Unemployment fell faster; weeks of work among low-income households expanded at a faster rate. In the 1980s, low-income households took advantage of the greater labor market demand even more than they did in the 1960s, which is exactly what you expect to see as the economy grows. If we look only at labor market involvement, we would actually have expected poverty to fall faster in the 1980s than it did in the 1960s.

The remaining factor in earnings is wages. Among the poorest 10 percent of the population, which is entirely composed of families below the poverty line, real wages actually fell with economic growth. GNP growth of 1 percent in the expansion of the 1960s was correlated with the \$2.18 increase in real weekly wages. GNP growth of 1 percent in the

expansion of the 1980s was correlated with a \$.32 decrease in weekly wages. Quite a strong difference.

As the economy grew in the 1960s, low-income households both worked more and their wages grew at the same time. The result was a rapid decline in poverty rates. In the 1980s, the poor worked more, but fall in real wages offset the increased hours of work. The result was a much slower decline in poverty rates.

In short, "trickling down" didn't work very well in the 1980s because of flat or declining real wages among low-skilled workers. As I'm sure people on this Committee have heard before, the distribution of wages has widened greatly over the 1980s. While wages fell for less-skilled workers, they actually increased sharply among more skilled workers. There are a variety of causes behind these trends: changes in technology and international markets that have produced changes in the skill mix of labor demand, and changes in the supply of more and less-skilled workers, relative to the rapidly growing demand for more skilled workers by employers. All of these issues seem to be correlated with the declining wage opportunities of low-skilled workers.

At this point, it is simply not clear how long term these changes are, or whether these trends will continue. If they do continue, then we cannot rely upon economic growth to solve our current poverty problems. Even sustained economic growth, such as we had during the last 8 years of the 1980s, will do little to help the poor.

The policy implication of this is that we must address the labor market problems of this country. I strongly believe that for those who can work employment is a better social and personal solution than long-term reliance on government assistance. When the jobs available to poor families pay less and less each year, however, it is hard to recommend work as a way out of poverty. We need to "make work pay," to use David Ellwood's much quoted phrase. This means ongoing attention to such strategies as the Earned Income Tax Credit, wage subsidies, education and worker training.

Now, even as I've emphasized the labor market problems that are faced by today's poor, I do want to emphasize that we cannot ignore transfer programs either. While employment and job strategies are important, they are not sufficient, particularly in the short term. My best illustration of the potential effectiveness of the transfer programs, aimed at families with children, comes from research I've completed, comparing poverty programs and poverty rates in the United States and Canada—this is work with Maria Hanratty, currently at Harvard.

Comparisons between the United States and Canada are particularly interesting. Our populations and cultures are similar in many ways, and our economies are closely linked. Yet, while the United States has faced stagnating poverty rates—our current poverty rate is about at the same level as it was in 1970—Canadian poverty has declined.

Figure 2 shows what these trends look like (see Figure 2 on p. 43). The solid line is the U.S. poverty rate. This is graphed from the late

1960s to the late 1970s, which is a time period over which we can get consistent data. These rates are calculated on a consistent poverty basis with adjustments for purchasing power parity differences between the countries. The U.S. poverty rate had a general upward trend over this line, while the Canadian poverty rate, the dotted line, falls quite dramatically in the 1970s and even over the 1980s does decline between 1980 and 1987, the last point for which we have comparable data. What you see basically is that Canada is successful in making some ongoing progress against poverty, while the United States is not successful. The question, of course, is what was Canada doing that the United States was not?

Over the 1970s, the Canadian decline in poverty was almost entirely due to stronger macroeconomic growth. Canada was not as badly affected by the initial oil price shock of 1973; both the poor and the nonpoor continued to experience strong increases in income through the early 1970s when U.S. real income stagnated. In these years, "trickle down" worked in Canada as well as it had worked in the United States in the 1960s.

Over the 1980s, however, the story is quite different. Canadian poverty rates have continued to decline over this decade. This is not because of a stronger macroeconomy. In fact, if anything, Canada's economy has been weaker than the United States. Family income, excluding government assistance payments, moved almost identically in these two countries. Canada remains a poorer country than the United States, on average, but it has fewer poor families below the poverty line, and those who are poor have higher average incomes than the U.S. poor.

What has Canada done over the 1980s that the United States did not do? In the United States, public assistance benefits fell during the 1980s while they expanded in Canada. This is particularly noticeable when comparing child poverty. Poverty rates among Canadian families with children, particularly single-parent families, are substantially lower than in the United States. Among female-headed families, equivalent poverty rates are one-third lower. The difference is almost entirely due to Canada's more generous public assistance system.

A comparison of the antipoverty efforts in the United States and Canada is particularly interesting because in many ways these two countries are quite similar. Social assistance—the main welfare program in Canada—is run entirely at the provincial level, unlike the nationalized welfare programs of many European countries. The result is a large provincial difference in public assistance income to poor families on social assistance, similar to the differences in the United States in the AFDC program.

The Canadian antipoverty system is different from the U.S. system, however, in at least two important ways. First, benefit levels are higher. The support available from the least generous province is about equivalent to the support available from the most generous state. Second, in addition to its provincial programs, Canada supplements its Social Assistance program with two additional inflation indexed programs aimed specifically

at families with children. They provide a refundable tax credit to low-income families, and they mail a family allowance check to all families with children. Although neither of these programs provide a lot of money, a poor family with two children might annually receive close to \$1,500 in U.S. income from them—a substantial advantage to a household whose income is near \$10,000 a year.

The point I want to make is that there is nothing inevitable about current high U.S. poverty rates, particularly poverty rates among children. Canada has been able to make continuing progress against poverty, even as they face the same macroeconomic problems as this country in the 1980s. We, too, could reduce poverty among children by enacting some form of a child allowance payment available to all low-income families. The National Commission on Children, headed by Senator Rockefeller, made a similar proposal recently.

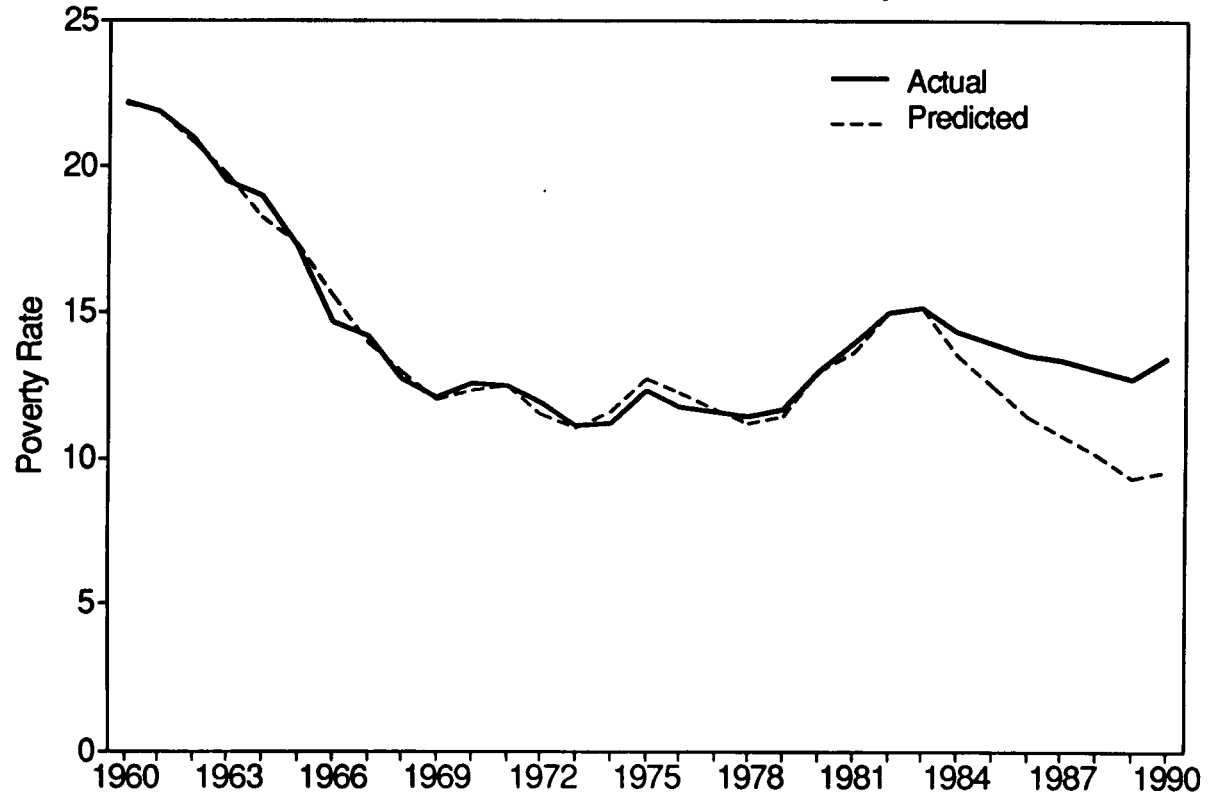
The last decade has taught us that there are no simple solutions to poverty in this country. We have, however, two options, both of which we must continue to pursue. First, we need effective transfer systems for those who cannot work or whose involvement in the labor market is not sufficient for support of their families. Some form of a child allowance is one direction to move. Second, we need to be sure that there are incentives for employment for those who can and should work. This means serious attention to our dropout rate; to the skills and literacy of children from poor schools; to adult training and employment programs, and income supplements, like the Earned Income Tax Credit and/or other wage subsidy schemes.

Our progress against poverty was slower in the 1980s than it should have been. The poor gained little from the macroeconomic expansion of the last decade because of demand shifts away from low-skilled workers that depressed wages. Real public assistance benefits also fell, and poverty among children rose. To assure that the 1990s do not repeat the failures of the 1980s, we need to act now.

Thank you.

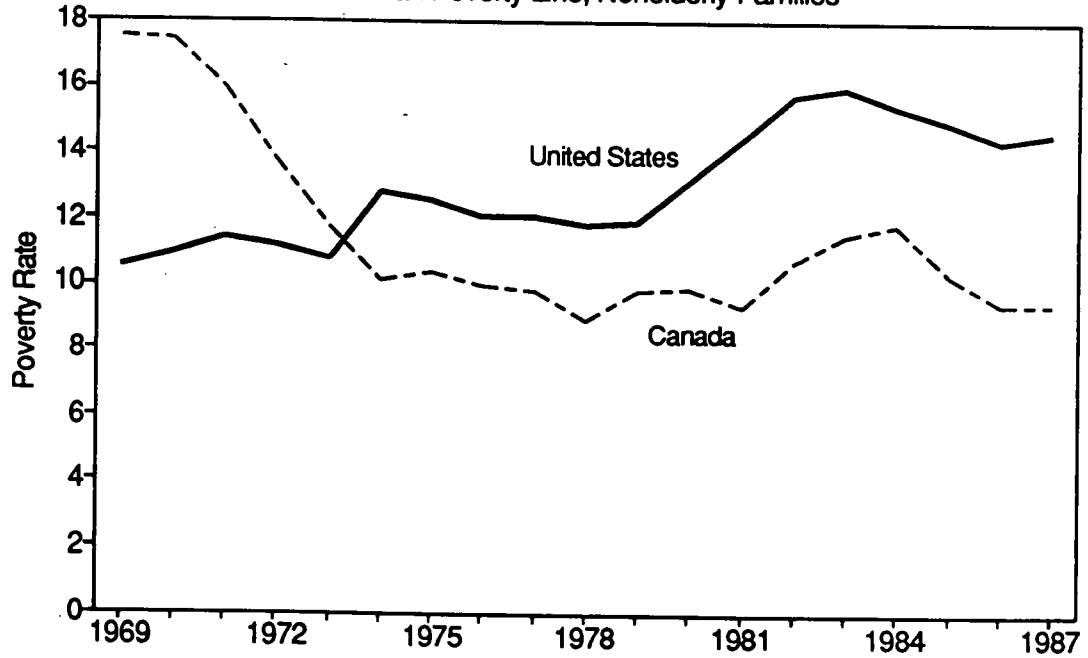
[The prepared statement of Rebecca Blank, together with figures, follows:]

Predicted vs. Actual U.S. Poverty Rates



Canadian vs. U.S. Poverty Rates

Canadian Poverty Line, Nonelderly Families



PREPARED STATEMENT OF REBECCA BLANK**TESTIMONY BEFORE THE JOINT ECONOMIC COMMITTEE
Hearings on the Current State of Poverty in the U.S.**

Any assessment of the current state of poverty in the United States must acknowledge both good news and bad news. The good news is that we have created a society where poverty is an exception; the bad news is that there are still over 31 million Americans living below the poverty line, an unacceptably high number in a nation as wealthy as ours. The statistics on poverty among women and children are particularly appalling: 1 in 5 children live in families below the poverty line; among children in female-headed families, over 50 percent live below the poverty line; among children in black or Hispanic female-headed families, two-thirds live below the poverty line. The particular problems that face these poorest groups in our society should be at the top of our domestic social agenda. As a society, we simply cannot afford to limit the opportunities of so many of our citizens, particularly our children.

In my testimony today, however, I want to step back from the problems facing specific groups among the poor, and focus on some of the larger economic issues relating to the poverty rate. I have two primary points to make in my testimony: First, macroeconomic growth was a far less effective tool against poverty in the 1980s than it had been in earlier decades.

Changes in the wage structure of the economy during the 1980s made it increasingly difficult to escape poverty through hard work. Attention to the labor market and the opportunities it provides for less skilled workers is absolutely necessary in addressing poverty in the 1990s. Second, I want to note that there is nothing inevitable about the lack of progress against poverty in this country. Poverty rates move in response to policy and economic changes. Canada, our closest neighbor and most similar economic partner has been able to make substantial progress against poverty during the past two decades, through macroeconomic growth but also because of an enhanced safety net that is particularly aimed at protecting families with children.

Let me talk first about the effect of macroeconomic growth on poverty. It is an axiom of public policy and political rhetoric that economic growth helps the poor. More than one president has claimed that "the best thing we can do for the poor is to make the economy grow." This strategy, often referred to as "trickling down," is extremely attractive, because it promises that we can fight poverty without substantial costs. Economic growth is expected to both make middle-income Americans better off and to decrease poverty at the same time. It's a no-lose solution to poverty.

Quite a bit of research evidence indicates that sustained economic growth was very important in the declining poverty rates of the 1960s and early 1970s. In the mid- to late-1970s, when

the economy faced a series of recessions and external price shocks, progress against poverty declined. (I should note that government transfer policy was also very important in these years. Had government transfers not increased over the 1970s, the deteriorating economy would have produced a much sharper rise in poverty than actually occurred.)

Between 1961 and 1970, the U.S. economy experienced its longest economic boom. Poverty fell 9 percentage points. Between 1983 and 1990, the U.S. economy experienced its second-longest economic expansion. After the sharp recession of 1981/82, the poverty rate exceeded 15 percent and it would have been reasonable to expect that the strong expansion that followed would have produced a sharp decline in poverty. This did not occur. While poverty clearly declined over the expansion, it still stood at 12.8 percent in 1989, well above its historic low of 11.1 percent in 1973, and at about the same level as in 1980. The macroeconomic expansion did not bring down poverty as quickly as historical evidence would have indicated. In 1988, for instance, when the overall economy grew by more than 4 percent, poverty fell by a statistically insignificant amount.

In the mid-1980s, my colleague Alan Blinder, of Princeton University, and I attempted to estimate the relationship between macroeconomic indicators and the overall poverty rate. Using data from 1959 (when official poverty numbers begin) to 1983, we were able to track poverty quite closely, using the core

unemployment rate, the inflation rate, the share of government transfers to GNP, and several other macroeconomic indicators. This relationship entirely fails, however, when used to forecast the poverty rate during the expansion of the 1980s. If we take the historical relationship between the macroeconomy and poverty through 1983, estimated by Professor Blinder and myself, and use that relationship to predict the poverty level in 1989, using the actual macroeconomic data of the 1980s, we forecast a 1989 poverty rate of 9.3 percent. The actual poverty rate was 12.8 percent, much higher. Figure 1 indicates this divergence between poverty trends in the 1980s and historical experience. Figure 1 plots the actual poverty rate from 1959 to 1989, against the fitted values of our equation from 1959 to 1983 and the forecast values from 1984 to 1989. As Figure 1 indicates, the predicted values diverge steadily from the actual poverty rate throughout the expansion of the 1980s.

I have been involved in a major research project over the past year trying to explain why poverty fell so little in the expansion of the 1980s. (This project was funded by the Jerome Levy Economics Institute.) Let me tell you what did not happen in the 1980s. The sluggish response of poverty to the expansion of the 1980s was not due to:

(1) Problems in the measurement of income and poverty, particularly the exclusion of in-kind income from poverty measurement statistics. Poverty rates that count in-kind income

decline by almost exactly the same amount over the expansion of the 1980s as do official rates. This is perhaps not surprising since in-kind income largely did not grow in real terms over this time period.

(2) The regional distribution of the poor. The poor and the non-poor were similarly located across regions and states. Thus, while the expansion of the 1980s was not as strong in all areas of the country, this did not disproportionately disadvantage poor families.

(3) The policy changes in transfer programs in the early 1980s. If the welfare programs of 1978 had been in effect in the late 1980s, the poverty rate would be virtually unchanged. It is true that welfare benefits fell in real terms over the 1980s. More poor families would receive more welfare income if the 1978 programs were still in effect, making them somewhat better off. But the differences are not large enough to move any substantial number of families across the poverty line.

(4) The changing demographic composition of the poor. Between the 1960s and the 1980s the composition of the poor changed; most notably a higher percent of poor families in the 1980s were single-parent families. If, however, the composition of the poor had remained identical from the early 1960s through the late 1980s, the poverty rate would have been just as unresponsive to the macroeconomy of the 1980s.

So what did happen? The answer is that the earnings of

heads of poor families grew much more slowly with the economic expansion of the 1980s than earnings did during the 1960s. Earnings are the product of wages times labor market involvement. Which of these two factors caused slower earnings growth in the 1980s?

As it turns out, labor market involvement was more responsive to economic growth during the 1980s than during the 1960s. Unemployment fell faster; weeks of work among low-income households expanded at a faster rate. Economic growth means new jobs and expanded employment opportunities. Traditionally, the poor have disproportionately gained during an economic expansion because they are most likely to be unemployed or underemployed. Thus, they can most benefit from expanded job opportunities. In the 1980s, low-income households took advantage of the growing labor market demand even more than they did in the 1960s. If we look only at labor market involvement, we would have expected poverty to fall faster in the 1980s.

The remaining factor is earnings. Among the poorest 10 percent of the population, which is entirely composed of families below the poverty line, real wages actually fell with economic growth. GNP growth of 1 percent in the expansion of the 1960s was correlated with a \$2.18 increase in real weekly wages. GNP growth of 1 percent in the expansion of the 1980s, was correlated with a \$.32 decrease in weekly wages. Near-poor families show similar patterns.

As the economy grew during the 1960s, low-income households worked more and their wages grew at the same time. The result was a rapid decline in poverty rates. In the 1980s, the poor worked more, but falling real wages offset the increased hours of work. The result was a much slower decline in poverty rates.

In short, "trickling down" didn't work very well in the 1980s because of flat or declining real wages among low-skilled workers. As I'm sure everyone on this committee has heard before, the distribution of wages has widened greatly over the 1980s. While wages fell for less-skilled workers, they increased sharply among more skilled workers. (In fact, wages rose more rapidly among high-income workers in the 1980s than in the 1960s.) There are variety of causes for these trends: changes in technology, changes in international markets that have produced changes in the skill-mix of labor demand, and changes in the relative supply of more and less-skilled workers relative to the rapidly growing demand for more skilled workers by employers. All of these issues seem to be correlated with the declining wage opportunities for low-wage workers.

At this point, it is not clear how long-term these changes are or if these trends will continue into the 1990s. If they do continue, then we cannot rely upon economic growth to solve our current poverty problems. Even sustained economic growth -- such as we had during the last eight years of the 1980s -- will do little to help the poor.

The policy implication of this is that we must address the labor market problems of this country. I strongly believe that among those who can work, employment is a better social and personal solution than long-term reliance on government assistance. When the jobs available to poor families pay less and less each year, however, it is hard to recommend work as a way out of poverty. We need to "make work pay" to use David Ellwood's much quoted phrase. This means ongoing attention to such strategies as the Earned Income Tax Credit, wage subsidies, education, and worker training.

Even as I've emphasized some of the labor market problems that have faced today's poor, however, I want to emphasize that we cannot ignore transfer programs either. While employment and job strategies are important, they are not sufficient in the short-term.

My best illustration of the potential effectiveness of transfer programs aimed at families with children comes from research I have completed comparing poverty programs and poverty rates in the United States and Canada. (This is joint work with Maria Hanratty, currently at Harvard University, that was funded by the Donner Foundation.) Comparisons between the United States and Canada are particularly interesting. Our populations and cultures are similar in many ways and our economies are closely linked. Yet, while the U.S. has faced stagnating poverty rates - our current poverty rate is essentially the same as it was two

decades ago in 1970 -- Canadian poverty has declined. In 1970, Canada had a substantially higher poverty rate than the United States. Over the next two decades, the U.S. poverty rate showed no trend, but Canadian poverty fell by more than 50%, so that it is now substantially below the U.S. rate. Figure 2 shows the different trends in U.S. and Canadian poverty rates. (Note that the comparison in Figure 2 is based on a comparable definition of poverty in both countries, as well as an adjustment for purchasing differences between the Canadian and the U.S. dollar. The poverty rates in Figure 2 are based on the Canadian low-income cutoff rather than the U.S. poverty definition because of data availability. If the U.S. definition were used, the levels would change but the trends would be identical.)

Over the 1970s, the Canadian decline in poverty was almost entirely due to stronger macroeconomic growth. Canada was not as badly affected by the initial oil price shock in 1973. Both the poor and the non-poor continued to experience strong increases in real income throughout the early 1970s, while U.S. real income began to stagnate. In these years, "trickle down" worked in Canada as well as it had worked in the U.S. in the 1960s.

Over the 1980s, however, the story is quite different. Canadian poverty rates have continued to decline over this decade. This is not because of a stronger macro-economy. In fact, if anything, Canada's economy has been weaker than the U.S.'s in the 1980s. Family income, excluding government

assistance payments, moved almost identically in the two countries. Canada remains a poorer country than the U.S. But it has fewer poor families, and those who are poor have higher average incomes than the U.S. poor.

What has Canada done over the 1980s that the U.S. did not do? In the U.S., public assistance benefits fell during the 1980s, while they expanded in Canada. This is particularly noticeable when comparing child poverty in the two countries. Poverty rates among Canadian families with children -- particularly single-parent families -- are substantially lower than in the U.S. Among female-headed families, equivalent poverty rates are one-third lower. The difference is almost entirely due to Canada's more generous public assistance system. In fact, it is worth noting that labor market involvement among female family heads -- the group who benefit the most from higher public assistance payments in Canada -- is virtually identical in the two countries.

A comparison of anti-poverty efforts in the U.S. and Canada is particularly interesting because in many ways these two countries are quite similar. Social Assistance -- the primary welfare program in Canada -- is run entirely at the provincial (and even municipal) level, unlike the nationalized welfare programs of many European countries. (Canada does have a nationalized health care system, however.) The result is large provincial differences in the public assistance income provided

to poor families on Social Assistance, similar to the differences within the U.S. in the state-run Aid to Families with Dependent Children program.

The Canadian anti-poverty system is different from the U.S. system, however, in at least two important ways. First, benefit levels are higher -- the support available from the least generous province is equivalent to the support available from the most generous state. Second, Canada supplements its Social Assistance program with two additional inflation-indexed programs aimed at families with children: They provide a refundable tax credit to all low-income families. (Unlike the Earned Income Tax Credit, this is not tied to labor force participation.) Second, the Canadian federal government mails a Family Allowance check to all families with children, regardless of income. Although neither of these programs provide a great deal of money, a poor family with two children might annually receive close to \$1500 (US) additional income from them -- a substantial advantage to a household whose income is near or below \$10,000 a year.

The point that I want to make is that there is nothing inevitable about the current-high U.S. poverty rates, particularly the rates among children in this country. Canada has been able to make continuing progress against poverty, even as they have faced the same macroeconomic problems as this country in the 1980s. We, too, could reduce poverty among children by enacting some form of a child allowance payment in

the U.S., available to all low-income families. The National Commission on Children, headed by Senator Rockefeller, made a similar proposal recently. Even small annual supplements, based on the number of children, can make a difference in very poor families, as Canada's program shows.

The last decade has taught us that there are no simple solutions to poverty in this country. Overall economic growth has not been very effective in reducing poverty over the last decade, due to shifts in the wage structure of the country that have increasingly disadvantaged low-skilled workers. This leaves us with two options, both of which we must continue to pursue: First, we need effective transfer systems for those who cannot work, or whose involvement with the labor market is not sufficient for support of their families. Some form of a child allowance is one direction to move. Second, we need to be sure that there are incentives for employment for those who can and should work. This means serious attention to our drop-out rate, to the skills and literacy of children from poor schools, to adult training and employment programs, and to income supplements, like the Earned Income Tax Credit and/or other wage subsidy schemes.

Our progress against poverty was slower in the 1980s than it should have been. The poor gained little from the macroeconomic expansion of the last decade because of demand shifts away from low-skilled workers that depressed wages. Real public assistance

benefits also fell, and poverty among children rose. To assure that the 1990s do not repeat the failures of the 1980s, we need to act now.

Thank you for your attention. I would be glad to answer any questions the Committee might have.

Representative SOLARZ. Thank you very much. That was really, in testimony, among the best I've ever heard. We have a vote on now, so you will have to forgive us. The Committee will stand in recess for about 10 minutes. When we return, we will hear from our remaining witnesses, who I hope and trust will meet the high standards' testimony set by the first two.

[Recess.]

Representative SOLARZ. The Committee will resume its deliberations.

Let me say that on the way over to the floor and on the way back, Congressman Army and I were talking about these hearings, and we agreed, first of all, that the testimony so far has been quite insightful. But, second, we also agreed that both of our opening statements and press releases, notwithstanding, these hearings are not for the purpose of scoring any partisan political points, but primarily for the purpose of gaining a better understanding of the problems of poverty in America and hopefully to come out of these hearings with some ideas about what we can do, as a country, to help deal more effectively with the problem of poverty. I don't know at the end of the day if we'll be able to agree on some joint conclusions and recommendations, but that would certainly be my hope. I think that what we're really talking about here is the fate of the poorest people in our society, if there ever was a problem or a situation that calls for honest, objective, bipartisan, nonpolitical approaches, this is the one because of the consequences involved. We are talking about human misery, we are talking about opportunity, we are talking about the quality of people's lives. So, I am really delighted to find out that we are both approaching it from this perspective, and perhaps if the two of us could reach some agreement, it might help convince some of our colleagues on both sides of the aisle to join with us. So, we appreciate the testimony we've heard, and we are looking forward with equal interest to hearing our other witnesses.

Mr. Mead, would you like to step up to bat.

**STATEMENT OF LAWRENCE MEAD, ASSOCIATE PROFESSOR,
DEPARTMENT OF POLITICS, NEW YORK UNIVERSITY**

Mr. MEAD. Thank you, Mr. Chairman. I appreciate this opportunity to appear before the Committee. I share the Committee's concern about poverty in America, which I think is the dominant question facing us in domestic policy.

What I have to say applies mostly to a particular element of the poor, which, I think, however, is the strategic element and that is the working aged, those who might be employed. The reason I concentrate on that——

Representative SOLARZ. The working——

Mr. MEAD. The working aged poor.

Representative SOLARZ. Working aged?

Mr. MEAD. Working aged poor.

Representative SOLARZ. I thought you said the working aged poor.

Mr. MEAD. I mean the nonaged, the nonchildren and so on. These are not all the poor, but I think they're strategic because, as I will make clear, I think that at the core of this problem and how to solve it is the issue of employment.

Now, it seems to me that most analyses of poverty are too impersonal in character. That is, they tend to focus on forces that are outside the poor that are faceless, such as the Reagan cuts in benefits, rising female headlessness, declines in wages due to the increasing inequality in the wage distribution, and that sort of thing. Those are all factors. I don't want to minimize that. But, in the first instance, the thing to focus on is that most poverty among the working aged is due to the fact that the adults in poor families seldom work normal hours. That is the great fact, which it seems to me, we don't make enough of.

Work levels have dropped sharply among the poor over the last 30 years. In 1959, 68 percent of the heads of poor families had at least some earnings, while in 1989 only 49 percent did. That's a drop of almost 20 points. The drop in full-year, full-time work is even sharper, from about 32 percent to about half of that. So, there is a very sharp dropoff. Now, there are a number of causes for that that we can go into. One cause, however, is not that the working aged population is becoming less employable. In fact, the share of that population that is working age has risen slightly over the last 30 years. At present, the work levels among the poor are radically lower than for the population as a whole. In my first table, you will see that (see Table 1 on p. 65). It shows that about two-thirds of the adults in several categories, including female heads of family, are employed sometime in the year. For these same groups among the poor, however, the figures are about 25 percentage points lower, so we have a very considerable difference in work level.

The greatest difference is in full-year, full-time work, where about 40 percent of the public are working these hours, where for the poor the figure is only about 9 percent. Now, notice I'm contrasting the entire population with the 1-year poor. If we would be able to contrast the nonpoor population with the long-term poor, which is our major concern, the contrast would be even greater. So, these are very large differences in work levels.

Now, they lead directly to large differences in poverty. Table 2 shows the overall poverty rate for each of these groups, and then the rates by work level (see Table 2 on p. 66). Among those who work at any time, the rates are considerably lower than overall, and then they drop lower for full-year, full-time work. And among those who did not work at all, the rates are radically higher. So, there is a tremendous effect of work level on poverty rates.

Now, poverty is a multifactor problem with many different causes. This table only gives one cause; other things are not controlled. I don't want to overemphasize what it says. But I don't know any figures any-

where in the poverty debate that show this kind of effect on poverty levels than employment levels.

Now, I should also say—and I won't go into this in great detail—that these same differences in earnings and work levels primarily explain the rise in inequality in the populations. If you look at Table 3, you will see that there is a very large difference in overall working hours between the top and bottom of the family income distribution (see Table 3 on p. 67). It is about seven times. And although there is no overall trend over time for all families, there is a trend for families with children, where we have rising work effort at the top of society and declining at the bottom. And that is largely the reason why we have a rise in inequality in family income.

Let me turn now to the question of the economy. It seems then, if we want to explain poverty among the working age, we have to focus upon employment. We have to see why it is that poor adults work at much lower levels than other people. That is the central question. Now, the tradition has been to blame this phenomenon on the economy. That, it seems to me, is not very plausible today. There are some influences but they are much less than we normally think. One argument is that there are working poor people, people who work normal hours and yet are poor. That is true. There are working poor people. But as you can see from Table 1, the number of the working poor, even defined in the most generous manner to include people with any earnings at all in the year, are about 8 million people. They are outnumbered by the nonworking, by 12 million people. So, you have a very considerable nonworking population. Another theory is that low wages or the minimum wage are the problem, because if people were paid more than they would be able to lift their earnings above poverty.

Now, it is true that there has been some decline in the wages for the low-skilled in the last 10 years, especially, as some of the other witnesses have alluded to. But far more important is the difference in hours worked. If you vary the hours worked, it has a much larger impact on whether people are poor than if you vary their wages. So wages, although they're a factor, are much less important than working hours.

It is also notable that during the 1970s and 1980s, when work levels were declining among the poor, they were rising for the rest of the population. Most Americans have responded to stagnant wages by working more hours rather than less, whereas for the poor the result has been lower working hours. That is the fundamental mystery. Why in response to hard times, do the poor work less while the rest of America works more? We have the population, as a whole, employed at the highest levels in history, working the longest hours in history, and yet for the poor population, we have the lowest work levels in history. That is the fundamental mystery.

Now, another theory is that jobs are unavailable because of changes in the economy, the decline of manufacturing, the rise of high-tech economy, that the poor cannot find jobs to work even if they wish. This is what is

known as the mismatch theory; the theory that the jobs are all in the suburbs or the jobs are all in computer companies. Well, there's exhaustive literature on this, and it doesn't come up with much. It doesn't look as if the inability to find work is the main reason for nonwork in the inner city. It simply isn't true that work is unavailable for most of the nonworkers most of the time. Obviously, in the midst of a recession, as we are today, jobs are not as available as they are at other times. But we are not in a depression on the style of the 1930s. For most people from all groups, unemployment is a transient phenomenon. The major difficulty is not that the poor are unemployed, it is that they are out of the labor force entirely; they are not even looking for work. That is the thing that we have a hard time explaining.

We also have other evidence that the labor market remains tight; for example, illegal aliens seeking to come into the country. Jobs are commonly available, at least at the margin for those seeking work at a given time. We don't know, and I don't assert, that jobs would be available for all the nonworkers if they all sought work right now. We can't know that. But at the margin, they appear to be commonly available. Now, the result of all this is that the working age poor have to be seen as substantially detached from the economy. Although there are some poor workers, the majority of which are not involved in the economy, and that is why, as everyone has said today, the economic growth of the 1980s was not a panacea for poverty. Between 1982 and 1989, the unemployment rate fell from 10 percent to 5 percent, a very sharp drop. And yet in that same period, the poverty rate fell from only 15 to 13 percent.

Now, if we look past the economy, a number of other barriers have also been said to explain nonwork among the poor; such as racial bias, the disincentives created by welfare where people appear to be paid not to work—that is a theory favored by conservatives—lack of child care, low skills, disability, a number of different contentions. For all of these, there isn't much evidence that they are very important. In every case, they explain a little bit of the picture. But if you add them all together, you are left with a mystery. Still, you cannot account for the curious passivity of the adult poor, that they seem not to seize the opportunities to get ahead, which are apparently available. I am not casting dispersions; I am not saying that this is something that they are necessarily to blame for; I am only saying that that is the central problem. I am not saying that barriers are a myth; I am not saying that various inequities don't exist in America; I think they do. There are differences of opportunity. But what they primarily explain, by my reading, is inequality among people who are working. What they usually do not explain is failure to work at all. Inequality among workers does have some reference to social structure, especially differences in educational background. But typically those factors do not explain failure to work at all, failure to enter the labor force at all, which is the overwhelming cause of today's adult poverty.

Representative SOLARZ. Mr. Mead, we have a vote on.

Mr. MEAD. I am at a good point to stop.

Representative SOLARZ. Ten minutes. I don't want to cut you short, but if you can wind up in 2 or 3 minutes, we will let you finish. Otherwise, we will recess now and come back and let you finish then.

Mr. MEAD. I think I need maybe 5 more minutes; is that all right?

Representative SOLARZ. If that's the case, why don't we vote and come back.

Mr. MEAD. Okay.

Representative SOLARZ. By the victims of misinformation—and I wouldn't suggest this information—but nevertheless we have to go vote. Why don't we let you finish so you don't feel rushed, because what you are saying is truly fascinating, and it raises a lot of questions in my mind. It is certainly a very important contribution.

Representative ARMEY. It had been our hope that this would be the last vote that we have to go back for.

Representative SOLARZ. This Committee will stand in recess until we return.

[Recess.]

Representative SOLARZ. The Committee will resume. Mr. Mead was approaching his peroration, but we wanted to make sure that he had ample time to make his points. We didn't want him to feel cramped or compromised, so please proceed, Mr. Mead.

Mr. MEAD. Thank you, Mr. Chairman. My last comment is simply about the policy implications of what I have talked about.

I think there is a strong desire to deal with poverty by transferring resources to the needy, particularly since so many of them are families with children. The children are clearly bystanders or innocent victims of this problem, and there is a desire to do something about it by helping them out directly. I think the National Commission on Children has recommended various new benefits.

Now, the problem with that—the great political reality that lies behind this—is that the public is unwilling to support transfers to families with children until the adults are working at something more like normal hours. The reason why we appear to be ungenerous to families, compared to other societies, is that no other society shows the pattern that we have of very high-work levels among the population and very low work levels among the poor. That combination is not found in any other western country. That is the political fact that deprives proposals to transfer resources of very much support.

Conversely, if one could do something to raise work levels, then there would be much more support. Indeed, Congress has shown its willingness to do things like increase the minimum wage, the Earned Income Tax Credit, and the child-care subsidies. Congress loves to help out working people, that is very popular. The problem is that most of today's poor are nonworking, so it becomes politically very difficult to help them.

Now, the traditional response to this has been to try to raise work levels by, in some way, expanding opportunity for the nonworking. The

conviction has been that there is some barrier, some impediment, that prevents people working, such as low wages, lack of jobs, lack of child care and so on, lack of skills. Thereby, if we can bring down those barriers, then people would work at higher levels.

Well, the problem with that, as I've already indicated, is that the research does not indicate that these barriers, although they do have an influence, are very important. They do not explain nonwork on the level we now find. And, as a result, policies that have aimed at the problem in this way have shown very little effect. Efforts, for example, to increase work incentives in welfare, voluntary training programs, government jobs programs, all of these are worthwhile things perhaps, but they have a very marginal impact on the problem. In particular, no policy of this sort has shown the power to raise work levels on an ongoing basis among the nonworking poor. And for this reason, these programs have lost support. The only thing that seemed to have an effect, in my view, is work requirements in the welfare system. Recently, we have seen an increase in these requirements due to the Family Support Act of 1988. For the first time, the country appears to be getting serious about requiring employable welfare recipients to do something to help themselves in return for support. This is what the public supports. And in this case, the public has the analysis correct. Such requirements have more effect on the problem than any attempt to change the parameters of opportunity.

The evaluations of welfare work programs are not very different than from other programs. They show marginal and sometimes larger than marginal, economic impacts, but not of an order that themselves would overcome poverty. What this sort of analysis misses, however, is that these programs have a much larger effect on activity, simply on effort, simply on people doing something. In my estimates, based on the MDRC studies, the share of clients that were involved actively in some way in these work programs rose by something like two or three times, compared to controls who were not in the program or who were in previous programs. That is a very large increase in effort. It means that in the typical, better program evaluated by MDRC, something like 60 percent or more of clients are involved in workfare programs in some way over the course of the year. That is a very large increase over what was previously the case. And under the Family Support Act, that level will have to become the norm for states, as a whole, because of the stipulations in the Act about raising participation levels. Workfare has more effect on actual activity, which is what the public wants to see, than anything else. I can't say that workfare up to now has shown a large effect on dependency. Why it hasn't remains something of a mystery. But there is a very sharp effect on activity and on work effort in these various forms: Working, looking for work, entering training and so on.

Now, my central recommendation is simply to implement the Family Support Act. Do not cave in to pressures from the states saying that they cannot meet those participation standards. My studies show that the participation level reached in these programs is the overwhelming deter-

minant of whether they are successful. Although it is difficult to raise participation, this, more than anything else, increases the share of people doing something to help themselves, and also the share that go into jobs. Even controlling the availability of jobs, the unemployment rate, the background of the clients, race, education, etc., what counts overwhelmingly is whether you obligate the clients to participate in the program. High participation rate is more than simply a moral symbol that conservatives insist on, it actually has a powerful effect, more than anything else, on whether people actually do something to go to work. So, tough though it is, that is the way forward.

Now, there are also other ways to raise work levels, which I go into in my statement, but I will just emphasize that one point. Implement the Family-Support Act. That is the best thing that Congress can do to deal with working age poverty in America.

[The prepared statement of Mr. Mead follows:]

PREPARED STATEMENT OF LAWRENCE M. MEAD

I am an Associate Professor of Politics at New York University. My research concentrates on the political and policy aspects of poverty and dependency in the United States. My publications on these questions include Beyond Entitlement (Free Press, 1986), an argument for work requirements in welfare, and a number of other studies of "workfare" and related issues. Much of my testimony is based on a new book, The New Politics of Poverty, to be published by Basic Books early next year.¹

In what follows I will define the poor as the government does, and I will concentrate on the controversial, or working-aged poor, rather than children or the elderly. What I say applies mostly to the long-term poor, who pose the greatest problems for integration, rather than the short-term, who are less distinct from the population at large. However, I am speaking of all the long-term employable poor, which includes most long-term welfare mothers and nonworking men, perhaps 4 or 5 percent of the population.² I do not mean only the most disordered poor, commonly called the underclass, or the homeless, though these are the most visible of the poor to the public.

I will discuss the close connection of poverty to employment problems among the poor, the apparent causes of these problems, and the policy implications. My theme is that poverty is much less due to economic problems or other "barriers" to opportunity than is commonly supposed. It is much more due to demoralization among the poor themselves. The implication is that the main solution to the work problem is not to reform society or radically alter the scope of government, as both left and right tend to propose. Rather, it is to organize the lives of poor adults better so they can take advantage of the opportunities that already exist.

POVERTY AND NONWORK

Many analyses of poverty blame it on impersonal causes that have nothing to do with behavior. One cause often cited is the Reagan cuts in antipoverty programs, which reduced benefits for the poor. Another is tax changes of the Reagan era that made the revenue system more regressive, to the disadvantage of the poor. Most commonly of all, poverty is thought to follow automatically from the rising incidence of female-headed families. Mothers without husbands must inevitably be needy.

None of these theories is persuasive. The Reagan cuts mostly hit recipients above the poverty level; the safety net for the "truly needy" was largely preserved. The tax changes hit the middle class more than they did the poor, most of whom were removed from the income tax rolls in 1986. Female-headedness does not dictate that families will be poor or dependent. Most female heads are employed, mostly full-time, and this allows them to avoid poverty and welfare. Welfare mothers, who seldom work, are the major exception to that the rule.

Much more evidently, poverty results from low earnings among the adults in poor families. Work levels among the poor have declined sharply over the last 30 years. In 1959, 68 percent of the

¹ Below, I can cite only some of the literature reviewed in the new book.

² Isabel V. Sawhill, "Poverty in the U.S.: Why Is It So Persistent?" Journal of Human Resources 26 (September 1988): 1080-1; *idem*, "The Underclass: An Overview," The Public Interest no. 96 (Summer 1989): 5.

heads of poor families had at least some earnings; in 1989, only 49 percent did. Over the same period, the share of poor heads working full-year and full-time dropped even more sharply, from 32 to 16 percent.³ These trends have operated as an undertow defeating the government's best efforts to overcome poverty.

Today, work effort among the poor is radically lower than among the population as a whole, as Table 1 shows:

TABLE 1: Employment Status of Persons 15 and Over, Family and Female Heads, and Unrelated Individuals, By Income Level, in Percent, 1989

<u>All income levels</u>	<u>All Persons</u>	<u>All family Heads</u>	<u>Female Heads</u>	<u>Unrelated Individuals</u>
Worked at any time in year	69.2	76.6	65.0	66.3
Full-year (50-52 weeks a year)	47.7	61.4	45.0	47.6
Full-time (35 hours/week or more)	41.8	58.0	39.9	43.3
Part-year (1-49 weeks a year)	21.5	15.2	20.0	18.7
Did not work	30.3	22.3	35.0	33.6
<u>Income below poverty</u>				
Worked at any time in year	41.1	48.9	41.6	38.7
Full-year	14.0	20.9	14.5	11.4
Full-time	9.2	16.2	8.8	5.7
Part-year	27.1	28.0	27.1	27.2
Did not work	58.7	50.8	58.4	61.3

NOTE: "Full-year" means at least 50 weeks a year, "full-time" at least 35 hours a week. Proportions working and not working do not add to 100 percent because heads in the armed forces are omitted.

SOURCE: Calculated from U.S. Department of Commerce, Bureau of the Census, Money Income and Poverty Status in the United States 1989, Series P-60, No. 168 (Washington, D.C.: U.S. Government Printing Office, September 1990), tables 22-24.

About two thirds of adults in all categories were employed in 1989, but among the poor the figure was around 40 percent. The difference in full-year, full-time work was 40 percent or more for the

³ Calculated from U.S. Department of Commerce, Bureau of the Census, Characteristics of the Population Below the Poverty Line: 1984, Series, P-60, No. 152 (Washington, D.C.: U.S. Government Printing Office, June 1986), table 4; *idem*, Money Income and Poverty Status in the United States: 1989, Series P-60, No. 168 (Washington, D.C.: U.S. Government Printing Office, September 1990), table 23.

population, versus 16 percent or less among the poor. If we could differentiate the long-term poor and compare them to the nonpoor, the contrast would be even greater.

Such work differences directly lead to large differences in the incidence of poverty, as Table 2 shows:

TABLE 2: Poverty Rates by Work Level of Persons 15 and Over, Family and Female Heads, and Unrelated Individuals, in Percent, 1989:

	<u>All Persons</u>	<u>All family Heads</u>	<u>Female Heads</u>	<u>Unrelated Individuals</u>
Overall	10.7	10.3	32.2	19.2
Worked at any time in year	6.3	6.6	20.6	11.2
Full-year (50-52 weeks a year)	3.1	3.5	10.3	4.6
Full-time (35 hours/week or more)	2.4	2.9	7.1	2.5
Part-year (1-49 weeks a year)	13.5	19.0	43.6	28.0
Did not work	20.7	23.4	53.7	35.1

SOURCE: U.S. Department of Commerce, Bureau of the Census, Money Income and Poverty Status in the United States 1989, Series P-60, No. 168 (Washington, D.C.: U.S. Government Printing Office, September 1990), tables 22-24.

Poverty rates run higher for female heads at all work levels than for persons in general, as they must support families unaided, but poverty declines just as sharply for them as work effort rises. Of course, other factors than work level determine who is poor, including skills and wages available. But it is evident from these figures that the presence or absence of steady employment is the greatest initial reason for poverty today, particularly among the working-aged.

Unfortunately, it is commonplace for analyses of poverty to ignore the question of work effort. The recommendation is to increase the pay and benefits of poor adults who are already working, and to build up income and health benefits for poor families. Almost nothing is said about how to cause more poor parents to work steadily in any job at all. This was the problem with the recent proposals of the National Commission on Children, which called for new children's tax credits and expanded health care but said very little about employment.

Although this hearing is about poverty, it is worth mentioning that differences in work effort also lie behind the much-noted trend toward greater inequality in America. Wages and family income have become more unequal in recent decades, though there is dispute about how large or permanent the trend is. One cause is relatively lower wages among the lowest-skilled workers, particularly younger

men with limited education, and higher salaries among the well-educated.⁴ More important, however, has been the fact that higher-income families have increased their work effort while lower-income families have reduced theirs. Relative to their needs, families with children in the lowest income quintile lost 6 percent of their income between 1979 and 1989, while families in the highest quintile gained 17 percent. The largest contributor to the change was the fact that the low-income families earned less and the high-income earned more; shifts in benefits or taxes were much less important.⁵

While less equal wages were one reason for the earnings changes, a greater reason appears to be that better-off parents are working more hours while lower-income parents are working fewer, often because they have withdrawn from the labor force.⁶ As Table 3 shows, working hours (measured in terms of equivalent full-year, full-time workers) in the top quintile of families in 1986 averaged about seven times those in the bottom quintile. Since 1970, that gap has not risen for families overall, but it has for families with children, including those headed by women:

Table 3: Average Number of Full-Year, Full-Time Workers by Income Quintile, 1970-1986:

	1970	1978	1986
<u>All Families at All Incomes</u>	.76	.75	.76
Families with children	.91	.94	.97
Married couples	.98	1.05	1.12
Single mothers	.36	.40	.42
<u>All Families in Top Income Quintile</u>	1.23	1.25	1.25
Families with children	1.28	1.36	1.42
Married couples	1.31	1.37	1.45
Single mothers	.75	.91	.92
<u>All Families in Bottom Income Quintile</u>	.19	.15	.18
Families with children	.42	.33	.27
Married couples	.63	.62	.61
Single mothers	.05	.03	.03

SOURCE: Congressional Budget Office, Trends in Family Income: 1970-1986 (Washington, DC: U.S. Government Printing Office, February 1988), table A-15. Entries are based on tabulations of Current Population Survey data, 1971-87.

⁴ Gary Burtless, ed., A Future of Lousy Jobs? The Changing Structure of U.S. Wages (Washington, DC: Brookings, 1990).

⁵ U.S. Congress, House, Committee on Ways and Means, Overview of Entitlement Programs: Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means (Washington, DC: U.S. Government Printing Office, May 7, 1991), pp. 1248-9.

⁶ Chinhui Juhn et al., "Unemployment, Non-Employment, and Wages: Why Has the Natural Rate Increased Through Time?" (Chicago: University of Chicago: Graduate School of Business, November 1990).

NONWORK AND THE ECONOMY

The importance of employment means that the causes of poverty today have to be sought mainly among the causes for nonwork. Exactly why do poor adults work so much less than the better-off, even though they would appear to need income more? The tradition has been to blame the economy. If working-aged people are poor, the reason must be either that pay is too low to support them or that jobs are simply not available. But experience and research have largely exonerated these factors.

There are "working poor," but, as Table 1 suggests, they are considerably outnumbered by the nonworking. Higher wages cannot help the nonworkers, nor is there much evidence that higher wages would cause many of them to work more steadily than they do.⁷ Even among the working poor, the main reason for poverty is that working hours for these families are below the norm for the society, not that their wages are low.

Many blame working poverty on the minimum wage, and it is true that working at \$4.25 an hour will seldom support a family. But most heads of family earn well above the minimum wage, and most minimum-wage workers can count on earnings from other family members. In 1985, only 710,000 workers at or below the minimum were the only workers in a poor family, and only 120,000 workers at the minimum or less were working full-year, full-time and were still poor.⁸ Unskilled wages are also sufficient for the majority of welfare mothers to work their way off the rolls, if reasonable assumptions are made about child care and child support.⁹

It is also probable that jobs are available to the nonworkers, at least to those seeking work at a given time. While the recessions of the 1970s and early 1980s, plus the coming of age of the baby boom, created a temporary surplus of jobseekers, the labor market steadily tightened during the later 1980s due to forceful job growth and the "baby bust"--the much smaller number of young workers now seeking jobs. The prospect is for a tight labor market to the year 2000 and beyond. That is one reason why unemployment has yet to top 7 percent in the current recession, compared to nearly 10 percent in the downturn of the early 1980s. Another indication that jobs are widely available is the fact that millions of immigrants, both legal and illegal, have flooded into the country in recent decades and largely found jobs, without, apparently, diminishing the opportunities of native-born poor people.¹⁰

William Julius Wilson and others have argued that, even if jobs in the aggregate are available, the urban poor cannot obtain them because most openings today are in the suburbs, not in the inner city, or--due to "high-tech" trends in the economy--openings today demand more education than poor

⁷ Among other evidence, federal income maintenance experiments of 1968-78 showed labor supply among heads of family to be remarkably unresponsive to changes in the gains from labor.

⁸ Congressional Budget Office, "The Minimum Wage: Its Relationship to Incomes and Poverty" (Washington, DC: Congressional Budget Office, June 1986), pp. 18-19.

⁹ Charles Michalopoulos and Irwin Garfinkel, "Reducing the Welfare Dependence and Poverty of Single Mothers By Means of Earnings and Child Support: Wishful Thinking and Realistic Possibility" (Madison: University of Wisconsin, Institute for Research on Poverty, August 1989).

¹⁰ George J. Borjas, "The Demographic Determinants of the Demand for Black Labor," in The Black Youth Employment Crisis, ed. Richard B. Freeman and Harry J. Holzer (Chicago: University of Chicago Press, 1986), pp. 195-207.

jobseekers have.¹¹ The "mismatch" theory sounds very plausible, but for 20 years economists have failed to find much evidence for it. Poor adults work less than other people even controlling for the proximity of employment,¹² and most available jobs in the economy still demand limited skills.¹³

Today, during a recession, jobs are no doubt less available than they were two or three years ago. Contemporary poverty, nevertheless, is very different from that of the Thirties, when most of the destitute had serious job histories and sought work actively. Most of today's poor, especially the long-term, are not just unemployed but out of the labor force entirely. They are so detached from the economy that labor market conditions, either good or bad, have little effect on them. "Better times" are no longer a panacea for poverty. Between 1982 and 1989, during the longest boom of the postwar era, the unemployment rate dropped from nearly 10 to 5 percent, but poverty declined only from 15 to 13 percent of the population.¹⁴

OTHER BARRIERS TO EMPLOYMENT

Other explanations for poverty look, not to economic conditions, but to impediments of a more social or personal nature that may keep the poor jobless. The evidence for these is weak as well.

Most of the poor are nonwhite. Are they denied employment by racial discrimination? It is true that many employers are hostile to low-skilled blacks, but the feeling is based mainly on unfortunate experiences with these workers rather than racism in the usual sense, the view that blacks are inherently inferior.¹⁵ Bias unrelated to personal merits also occurs, but the victims most often seem to be blacks in "better" jobs who, though they may be hurt, are seldom at risk of poverty. Some bias of an invidious kind is still detectable against black youth, but it is not of an order that could explain why unemployment is typically twice as high among black youth as white.¹⁶

¹¹ William Julius Wilson, The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy (Chicago: University of Chicago Press, 1987).

¹² Christopher Jencks and Susan E. Mayer, "Residential Segregation, Job Proximity, and Black Job Opportunities," in Inner-City Poverty in the United States, ed. Laurence E. Lynn, Jr., and Michael G.H. McGeary (Washington, DC: National Academy Press, 1990), ch. 5.

¹³ George T. Silvestri and John M. Lukasiewicz, "Occupational Employment Projections: the 1984-95 Outlook," Monthly Labor Review 108 (no. 11, November 1985): 42-57.

¹⁴ U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings 38 (no. 1, January 1991): 162; Bureau of the Census, Money Income 1989, table 19.

¹⁵ Joleen Kirschenman and Kathryn M. Neckerman, "'We'd Love to Hire Them, But . . .': The Meaning of Race for Employers," in The Urban Underclass, ed. Christopher Jencks and Paul E. Peterson (Washington, DC: Brookings, 1991), pp. 203-32.

¹⁶ Margery Austin Turner et al., "Opportunities Denied, Opportunities Diminished: Discrimination in Hiring" (Washington, DC: Urban Institute, May 1991), found that white youth advanced further in the hiring process than blacks in 20 percent of cases in Chicago and Washington, D.C., while blacks did so in 7 percent. In a survey in Boston in 1989, 80 percent of disadvantaged black youth said bias had posed no problem for them, and only 5 percent said it was a serious problem. See Richard B. Freeman, "Help Wanted: Disadvantaged Youth in a Labor Shortage Economy" (Cambridge, MA: National Bureau of Economic Research, October 1, 1989), figure 4.

A theory favored by conservatives is that the dependent poor are kept from working because welfare "pays" them more to avoid employment than to seek it. But research has shown that the "disincentives" in welfare are too weak to explain the very large difference in work effort between the poor and nonpoor. It looks like welfare mothers, especially the long-term, would work very little even if AFDC were cut back radically or even abolished.¹⁷ A related idea has been that mothers avoid working lest they leave welfare and lose the Medicaid health coverage for their children that goes with welfare. But the lure of Medicaid does not appear to make people more dependent than they would otherwise be.¹⁸

Are poor mothers prevented from working by large families? In 1989, 71 percent of welfare mothers had only one or two children.¹⁹ By lack of child care? No theory is more popular than this. However, child care is more available and affordable than most people think. Public debate assumes that costly government child care centers are necessary for mothers to work, but most working mothers, including welfare recipients when they work, use care by friends and relatives and pay little for it. In 1987, only 9 percent of child care arrangements relied on child care centers or nursery schools (only 24 percent involving children under 5). Two-thirds of the arrangements cost nothing at all, and the rest averaged only \$49 a week.²⁰ In most localities, the facilities already exist to accommodate poor children should their parents choose--or be required--to work at higher levels.²¹

Are poor adults too disadvantaged or disabled to be employable? It is true that they have less education and more disabilities than the population as a whole. The trouble is that the nonworkers do not appear to differ much from a great many other low-income people who are working. Many welfare mothers appear to be dependent for reasons that their measurable features do not explain.²²

My own view is that psychology is more important than either economics or demographics. The seriously poor fail to work mostly because they are demoralized. They want to work in principle, but they feel that the low-paid jobs they are offered are unfair, or they are defeated by the complex logistics of finding a job and arranging their private lives for employment. These reactions are exacerbated by living in the inner city.²³ They are also most common, very naturally, among groups that have traditionally lacked opportunity in America, notably blacks and Hispanics. Largely as a result, these groups account for most of the long-term poor.

¹⁷ Robert Moffitt, "An Economic Model of Welfare Stigma," American Economic Review 73 (no. 5, December 1983): 1023-35.

¹⁸ Rebecca M. Blank, "The Effect of Medical Need and Medicaid on AFDC Participation," Journal of Human Resources 24 (no. 1, Winter 1989): 54-87.

¹⁹ Committee on Ways and Means, Overview of Entitlement Programs, p. 622.

²⁰ U.S. Department of Commerce, Bureau of the Census, Who's Minding The Kids? Child Care Arrangements: Winter 1986-87, Series P-70, No. 20 (Washington, DC: U.S. Government Printing Office, July 1990), p. 14.

²¹ Ellen Eliason Kisker et al., The Child Care Challenge: What Parents Need and What Is Available in Three Metropolitan Areas (Princeton: Mathematica Policy Research, February 9, 1989).

²² Moffitt, "Economic Model of Welfare Stigma"; N.A. Barr and R.E. Hall, "The Probability of Dependence on Public Assistance," Economica 48 (1981): 109-23.

I do not mean that "barriers" to opportunity in America are a myth, but they largely explain inequality rather than nonwork. That is, differences background, particularly in education, do influence why some people "succeed" in competitive terms if they work and others do not. Barriers, however, seldom explain a failure to work at all, which is the much greater problem among the poor.

POLICY IMPLICATIONS

The most straightforward way to abolish poverty would be to transfer more resources to the poor. That, in essence, is that the National Commission on Children has proposed. Among experts, the urge to do this is strong, particularly to help children, whom everyone feels are the innocent victims of poverty. But this course is impolitic exactly because so much of poverty is rooted in nonwork. The public will not accept higher benefits for poor families until the parents work closer to normal hours. Politically, children may be "deserving," but they are hostage to adults who are seen as "undeserving." The work problem is a lion in the path blocking greater generosity toward the poor.

That problem is difficult to solve exactly because the search for "barriers" to opportunity has not come up with much. Merely to expand opportunity for the poor will not solve the work problem, because opportunity already seems to be widely available. Policies that took this tack have had little effect. Very briefly, efforts to strengthen support services or "work incentives" in welfare (chiefly by allowing working recipients to keep more of their benefits) have shown little effect on work levels, while voluntary training and employment programs have shown only small effects on work levels or earnings. The same was true of CETA and other programs that offered government jobs to the jobless during the 1970s; the clients seldom "transitioned" to employment in the private sector. The trouble with most of these programs was that they sought to raise the rewards of working without confronting the failure of poor adults to work steadily in the jobs they could already get, which is much the greater cause of poverty.²⁴

Increasingly, policy has turned toward requiring work of people dependent on the government. Since 1967, work requirements in AFDC have become increasingly stringent. In theory, recipients judged employable are supposed to work, look for work, or enter training as a condition of support. Traditionally, these requirements were little enforced, but the Family Support Act (FSA) passed in 1988 has a good chance to change that. Under the act, states will have to involve a substantial share of their employable recipients in work or training programs by 1995.

²³ Christopher Jencks and Susan E. Mayer, "The Social Consequences of Growing Up in a Poor Neighborhood," in Inner-City Poverty, ed. Lynn and McGeary, ch. 4.

²⁴ Lawrence M. Mead, Beyond Entitlement: The Social Obligations of Citizenship (New York: Free Press, 1986), chs. 2-3. For a recent review of antipoverty policy, see Phoebe H. Cottingham and David T. Ellwood, eds., Welfare Policy for the 1990s (Cambridge, MA: Harvard University Press, 1989).

These "workfare" programs have shown promise.²⁵ Most have encountered only minor problems with lack of jobs or child care or other "barriers." Most have recorded as good impacts on earnings and employment as voluntary programs, often better, though none has yet reduced dependency by much.²⁶

More important, workfare raises the share of the employable recipients who are working, looking for work, or training quite sharply, by two times or more.²⁷ The dependent, apparently, respond more strongly to the demands of public authority than they do to the opportunity to work. The main determinant of whether they go to work is simply whether they are required to participate in work programs; that is so even allowing for the supposed barriers to work, including the availability of jobs and the background of the clients. The higher the participation rate in workfare, the higher work levels will rise.²⁸

My main recommendation for overcoming poverty is simply to enforce work requirements. Congress should see that FSA is fully implemented and resist pressure from localities to relax the participation standards set in the act. Inevitably, such requirements now bear mainly on women, as most adult recipients of welfare are single mothers. I would attempt to qualify more fathers for workfare,²⁹ but work enforcement for men mainly involves institutions outside welfare. It means better law enforcement to suppress alternatives to legitimate jobs, particularly the drug trade, and improving the schools so that more poor youth will learn skills and good work habits at a formative age. Secondly, child support should be more fully enforced, if necessary by requiring absent fathers without earnings to enter work programs so they could pay child support judgments.

These steps would speak directly to the main public concern about the poor, that they show more effort on their own behalf. Once work levels rose, poverty levels would fall, and the remaining poor would appear more "deserving." Support for better benefits for them would then be much stronger than it is now. In short, more poor adults must become workers before more can be done to help poor families or children.

²⁵ I use "workfare" here to mean work programs for welfare recipients that offer a range of options, not only unpaid work in government jobs.

²⁶ U.S. General Accounting Office, Work and Welfare: Current AFDC Work Programs and Implications for Federal Policy (Washington, DC: U.S. Government Printing Office, January 1987). For a review of evaluations by the Manpower Demonstration Research Corporation, see Judith M. Gueron, "State Welfare Employment Initiatives: Lessons from the 1980s," Focus, vol. 11, no. 1 (Spring 1988), pp. 17-24. Sufficient jobs have been lacking in some rural areas, but not in the cities where most poor people live.

²⁷ Lawrence M. Mead, "Should Workfare Be Mandatory? What Research Says," Journal of Policy Analysis and Management 9 (no. 3, Summer 1990): 400-4.

²⁸ Lawrence M. Mead, "The Potential for Work Enforcement: A Study of WIN," Journal of Policy Analysis and Management 7 (no. 2, Winter 1988): 264-88.

²⁹ That means bringing more fathers into welfare. FSA required that states cover fathers in intact families but kept a requirement that such fathers work less than 100 hours a month. I would relax that rule so that more men could work and be supplemented by welfare if necessary, as working mothers already are.

Representative SOLARZ. Well, thank you very much for another very thoughtful statement; much food for thought. We will be exploring what you have to say in the question and answer period.

Mr. Farrell, you're the clean-up hitter here, your chance to hit it out of the ballpark. The bases are loaded.

**STATEMENT OF WALTER FARRELL, PROFESSOR OF
EDUCATIONAL POLICY AND COMMUNITY STUDIES,
UNIVERSITY OF WISCONSIN, MILWAUKEE; NATIONAL RESEARCH
AFFILIATE, CENTER FOR THE STUDY OF URBAN POVERTY, UCLA**

Mr. FARRELL. Hopefully I'll get a single.

Mr. Chairman and Representative Armev, on behalf of my research colleagues at UCLA, Professors James Johnson and Melvin Oliver, I am pleased to have this opportunity to testify before you today.

During the 1980s, there was renewed interest in the issue of poverty among social scientists and policymakers. This resurgence was stimulated by reports that the family life of black Americans, in particular, had continued to deteriorate and that the incidence of black poverty had increased sharply. This occurred despite the implementation during the 1960s of antipoverty, affirmative action, and a range of other antidiscrimination programs aimed at improving the life chances of blacks and other disadvantaged minorities.

In these remarks, we shall briefly examine the contemporary poverty situation and black Americans, with the focus on the following areas: current black poverty rates and their feminization; the nature of black poverty change; black poverty, unemployment and underemployment; and black poverty and educational attainment. These issues are discussed in serial order.

Between the late 1960s and the early 1980s, according to statistics compiled by the U.S. Bureau of the Census, the black-white income gap widened, and the number of black families headed by single mothers increased by 150 percent, compared to a 105 percent increase in the number of white families headed by single mothers. By 1984, nearly 60 percent of all black households with children were female-headed, compared to 20 percent of all white families. And the poverty rate for black families, 60.9 percent, was virtually the same as it was 14 years earlier in 1970 at 60.8 percent.

Whereas conservatives see welfare as causing high rates of single female-headed households, Professor William Julius Wilson sees high ratios of black male joblessness as the primary causal agent. In addition, J. Harvey Brennar, Professor of Economics at the Johns Hopkins University, has made similar observations for the larger community in a series of studies for the Joint Economic Committee during the 1970s and 1980s, which estimated effects of economic change on social well being.

Now, given the low ratios of eligible black men to black women in many central city communities, Wilson finds single female-headed house-

holds to be a function of the inability of black men to economically form and maintain two-parent families.

While conservatives concentrate on the values implied in having a child out of wedlock, Wilson stresses the combination of demographic and economic pressures affecting the black community. As he notes, and I quote, "The black illegitimacy ratio has increased precipitously in recent years, not because the rate of extramarital births has substantially increased but because the percentages of women married and the rate of marital fertility have both declined significantly."

Moreover, there is considerable evidence that shows that over the last two decades these and other poor families have become increasingly concentrated in inner-city ghetto communities, where the incidence of aberrant or so-called underclass behaviors—that is, out of wedlock births, family disruption, long-term welfare dependency, and illegal activities revolving around gang activity, drug trafficking and other criminal acts—is extremely high. It is this concentration of poor blacks in inner-city or ghetto neighborhoods, which are isolated both socially and geographically from the mainstream of American society, that distinguishes contemporary black poverty from its historical antecedents.

The concern with the growth and development of these concentrated poverty communities and the underclass has been driven by the nation's preoccupation with the increasingly disorganized and potentially volatile behaviors that have emanated from our urban centers.

Emphasizing the socially disorganizing effects of long-term welfare dependency, Murray and others tend to concentrate their attention on the rise in out-of-wedlock births, and the seemingly intergenerational transmission of poverty and welfare dependency occurring in these communities.

The central causal factor in the conservative model of the development of the underclass then is welfare. According to this view, welfare policy has shifted the nature of incentives for inner-city inhabitants away from engagement in the labor market and toward a dependency on public assistance. It is asserted that the underclass is created by a system where it is more profitable to collect money from the government dole than to work. The increase in black, single motherhood is often cited by conservatives as the direct consequence of rising welfare payments.

From our perspective, any theoretical model that posits changes in welfare policy as the primary causal agent in the development and growth of the underclass is flawed. There is, in fact, considerable evidence that seems to dispel the direct causal link between welfare and the growth of an economically disadvantaged population. The findings of Ellwood and Summers reflect the conventional wisdom of many poverty researchers on this issue. In their study, they concluded that:

... government transfer policies do not seem to be responsible for a large part of the problems of the disadvantaged: We found no support for the hypothesis that disability policies had seriously distorted the work patterns of older men; we found no evidence that AFDC was a major cause of family structure

changes; and we saw no indication that the problems of black youth were linked to the current welfare policies.

In view of this contrary evidence, we need to critically examine the theoretical models developed by analysts who view joblessness and other economic issues as central in providing the foundation for the growth of concentrated poverty communities and underclass behaviors in our urban centers.

The best known and economically informed theoretical discussion of these issues is found in the works of William Julius Wilson. He argues that the development of an underclass is the direct consequence of changes in the economic structure of society. Among the changes having the most far-reaching impact are the increasing polarization of the labor market into low- and high-wage sectors, and the relocation of manufacturing industries out of the central cities.

The economic consequences of these changes for undereducated and unskilled inner-city residents is a reduction in the opportunity to work in jobs that pay a living wage. The simultaneous coming of labor-market age of large numbers of black youth and the sharp increase in the number of new workers in the labor market—women and newly arriving foreign immigrants—creates a situation that is aggravated by the previously described economic restructuring.

Black males in many central city communities have become superfluous, at least in terms of potential labor force participation. Therefore, it is the rate of joblessness among this sector of the population that many view as an important contributor to the expanding concentration of poverty and underclass status.

Being trapped in communities that are bereft of mainstream role models, black inner-city residents in concentrated poverty areas and others find it difficult to aspire to mainstream norms and conventional patterns of behavior. Crime can become a way of life, as the economic rewards of a few successful petty hustlers take the place of the gainfully employed male role model. An ecological niche that affords few positive role models, no economic opportunity, poor schools, and access to few marriageable partners can produce the types of behavior patterns that, when viewed from the outside, appear to provide support and/or evidence for the existence of a culture of poverty. But viewed from the inside, however, it simply reflects a "system of constraints." In short, conditions of extreme poverty effectively limit the opportunities available to the urban poor and narrows their horizon.

Over the past two decades, the Nation's economy has undergone fundamental changes in its basic structure. This restructuring includes the decline of traditional, highly unionized, high-wage manufacturing employment, and the growth of employment in high-technology manufacturing, informal and advanced service sectors of the economy.

These sectoral shifts in employment growth and decline have affected various segments of the labor force in different ways. In Los Angeles, an estimated 70,000 heavy manufacturing jobs were lost during the 1970s as

the result of plant closings, where a disproportionate number of Hispanic and African-American males and females were employed. Many of these manufacturing jobs in Los Angeles and in other large cities all across this Nation have been lost to the Mexican border towns, in what has come to be labeled the maquiladora process, where large corporations in the U.S. export jobs to low-wage countries with minimal or no requirements in the areas of health care and other work rules.

Black employment losses, as a result of that decline of heavy manufacturing, have not been offset by the growth of employment in either the high-technology manufacturing, advanced services, or the competitive sector of the economy. Very few employment opportunities exist for blacks in this latter sector. Firms in this sector survive only to the extent that their prices remain competitive, vis-a-vis, their national and international counterparts. Thus, they offer very low wages, have unattractive working conditions, and often structure their work forces in illegal ways.

These firms have been able to survive because of the labor surplus environment in which they find themselves. The influx of working women and disadvantaged migrants into the labor market has enabled them to offer low wages to workers, who are either only temporarily tied to the labor force, supplementing household income, or who are preferred over blacks in such rapidly growing competitive sector industries as garment manufacturing, subcontracting, and hospitality.

Concomitant with the deleterious effects of economic restructuring and the steadily increasing stream of disadvantaged immigrants, urban black males and others have been further impacted by recently implemented policies that seek to remedy a failed and failing system of public education. These are the so-called "get tough" policies. Such policies have led to tightened requirements for both high school graduation and college admission, without focusing on teacher qualifications and whether the necessary facilities and supports are available at the primary and secondary school levels in our concentrated poverty communities. This has been especially problematic for urban blacks from impoverished backgrounds, most of whom attend economically and intellectually inferior public schools. There is also an increased reliance on standardized tests as the ultimate arbiters of educational success, despite the well established cultural biases that are inherent in them.

The black underclass has thus become a major focus of both public and social policy. The perspective presented here is designed to broaden our knowledge and understanding of the range of factors responsible for the growing incidence of selected underclass behaviors; out-of-wedlock births, family disruption, criminal activity, and long-term welfare dependency. This view is predicated on the premise that the high rates of joblessness and school dropouts among black males are largely responsible for the emergence of these and other urban underclass behaviors. Moreover, this view allows us to pinpoint the relative contribution of factors in several policy domains—economic, education, and immigration—on black joblessness. If this perspective can be further validated, we

will be in a stronger position to develop intervention strategies that can effectively ameliorate these negative social outcomes.

I shall be happy to elaborate on these points further pursuant to your questions. Thank you.

[The prepared statement of Mr. Farrell follows:]

PREPARED STATEMENT OF WALTER C. FARRELL

**CONTEMPORARY POVERTY AND BLACK AMERICANS:
A PRELIMINARY PERSPECTIVE
(Testimony)**

Mr. Chairman and Members of the Joint Economic Committee, my name is Walter C. Farrell, Jr., and on behalf of my research colleagues, Professor James Johnson and Melvin Oliver of UCLA, I am pleased to have this opportunity to testify before you today.

During the 1980s, there was renewed interest in the issue of poverty among social scientists and policymakers. This resurgence was stimulated by reports that the family life of black Americans has continued to deteriorate and that the incidence of black poverty has increased sharply. This occurred despite the implementation during the 1960s of anti-poverty, affirmative action, and a range of other anti-discrimination programs aimed at improving the life chances of blacks and other disadvantaged minorities.

In these remarks, we shall briefly examine the contemporary poverty situation and black Americans with a focus on the following areas: (1) current black poverty rates and their feminization, (2) the nature of black poverty change, (3) black poverty, unemployment and under-employment, and (4) black poverty and educational attainment. These issues are discussed in serial order.

Current Black Poverty Rates and Their Feminisation

Between the late 1960s and the early 1980s, according to statistics compiled by the U.S. Bureau of the Census, the black/white income ratio widened, and the number of black families headed by single mothers increased by 150% (compared to a 105% increase in the number of white families headed by single mothers). By 1984, nearly 60% of all black households with children were female-headed (compared to 20% of all white families), and the poverty rate for black families (60.9%) was virtually the same as it was 14 years earlier in 1970 (60.8%) (Nicholas-Casebot, 1988).

Whereas conservatives see welfare as causing high rates of single female-headed households (Murray, 1984), Wilson (1987) sees high ratios of black male joblessness as the primary causal agent. Given the low ratios of eligible black men to black women in many central city communities, Wilson finds single female-headed households to be a function of the inability of black men to economically form and maintain two-parent families.

While conservatives concentrate on the "values" implied in having a child out-of-wedlock, Wilson stresses the combination of demographic and economic pressures affecting the black community. As he notes, "The black 'illegitimacy ratio' has increased precipitously in recent years not because the rate of extra-marital births has substantially increased, but because the

percentage of women married and the rate of marital fertility have both declined significantly" (Wilson, 1987, p.67).

Moreover, there is considerable evidence which shows that, over the last two decades, these and other poor families have become increasingly concentrated in inner city ghetto communities where the incidence of aberrant or so-called "underclass behaviors" (e.g., out-of-wedlock births, family disruption, long-term welfare dependency, and illegal activities revolving around gang activity, drug dealing and other criminal acts) is extremely high. It is this concentration of poor blacks in inner-city or ghetto neighborhoods which are isolated, socially and geographically, from the mainstream of American society which distinguishes contemporary black poverty from its historical antecedents.

The concern with the growth and development of these concentrated poverty communities and the underclass has been driven by the nation's preoccupation with the increasingly disorganized and potentially volatile behaviors that have emanated from our urban centers (Lemann, 1986). Conservative commentators were among the first to document and describe these behaviors, at least in terms of their policy relevance.

Emphasizing the socially disorganizing effects of long-term welfare dependency, Murray (1984) and others tend to concentrate

their attention on the rise in out-of-wedlock births and the seemingly intergenerational transmission of poverty and welfare dependency occurring in these communities.

In a similar vein, conservative analysts also see as one of the driving forces behind the growth of the underclass the dysfunctional and under-developed nature of inner city social institutions.

The central casual factor in the conservative model of the development of the underclass, then, is welfare. According to them, welfare policy has shifted the nature of incentives for inner city inhabitants away from engagement in the labor market and toward a dependency on public assistance. In their view, the underclass is created by a system where it is more profitable to collect money from the government dole than to work. The increase in black single motherhood is often cited by the conservatives as the direct consequence of rising welfare payments.

From our perspective, any theoretical model that posits changes in welfare policy as the primary causal agent in the development and growth of the underclass is flawed. There is, in fact, considerable evidence which seems to dispel the direct causal link between welfare and the growth of an economically disadvantaged population. The findings of Ellwood and Summers (1986, p. 102) reflect the conventional wisdom of many poverty

researchers on this issue. In their study, they concluded that:

...government transfer policies do not seem to be responsible for a large part of the problems of the disadvantaged: We found no support for the hypothesis that disability policies had seriously distorted the work patterns of older men; we found no evidence that AFDC was a major cause of family structure changes; and we saw no indication that the problems of black youth were linked to current welfare policies.

In view of this contrary evidence, we need to critically examine the theoretical models developed by analysts who view joblessness and other economic issues as central in providing the foundation for the growth of concentrated poverty communities and underclass behaviors in our urban centers.

The best known and economically informed theoretical discussion of these issues is found in the works of William Julius Wilson (1978;1987). He argues that the development of an underclass is the direct consequence of changes in the economic structure of the society. Among the changes having the most far reaching impact are the increasing polarization of the labor market into low wage and high wage sectors, and the relocation of manufacturing industries out of the central cities.

The economic consequences of these changes for under-educated and unskilled inner city residents is a reduction in the opportunity to work in jobs which pay a living wage. The simultaneous coming of labor market age of large numbers of black

youth and the sharp increase in the number of new workers in the labor market (i.e., women and newly arriving foreign immigrants) creates a situation which is aggravated by the previously described economic restructuring.

Black males in many central city communities have become superfluous--at least in terms of potential labor force participants. Therefore, it is the rate of joblessness among this sector of the population that many view as an important contributor to the expanding concentration of poverty and underclass status. Transformations in the economy have placed many people outside of the existing labor market and have encouraged them to combine benefits from welfare and participation in the illicit sector of the economy as an alternative way to make a living.

Nature of Black Poverty Change

Being trapped in communities that are bereft of mainstream role models, black inner city residents in concentrated poverty areas find it difficult to aspire to mainstream norms and conventional patterns of behavior. Crime can become a way of life, as the economic rewards of a few successful petty hustlers take the place of the gainfully employed male role model. An ecological niche that affords few positive role models, no economic opportunity, poor schools, and access to few marriageable partners can produce the types of behavior patterns

which, when viewed from the outside, appear to provide support and/or evidence for the existence of a culture of poverty. Viewed from the inside, however, it simply reflects a "system of constraints."

In short, conditions of extreme poverty "effectively limit the opportunities available to the urban poor and narrows their horizon" (Johnson and Oliver, 1991, p. 4).

Black Poverty, Unemployment and Under-employment

Over the past two decades, the nation's economy has undergone fundamental changes in its basic structure (Bluestone and Harrison, 1982; Kasarda, 1989). This restructuring includes, the decline of traditional, highly unionized, high wage manufacturing employment, and the growth of employment in high technology manufacturing, informal, and advanced service sectors of the economy.

These sectoral shifts in employment growth and decline have affected various segments of the labor force in different ways. Blacks have been negatively impacted by the restructuring of economic opportunities (Kasarda, 1989; Squires, 1982). In Los Angeles, an estimated 70,000 heavy manufacturing jobs were lost during the 1970s as a result of plant closings (Oliver, Farrell and Johnson, 1990). The majority of plants that were closed were concentrated in low-income black and Hispanic communities.

Over 200 Los Angeles based firms set up production facilities in Mexican border towns during this period. Such capital flight from Los Angeles and other major U.S. cities, in conjunction with plant closings, has essentially cut-off black access to what were formerly good paying, unionized jobs (Bluestone and Harrison, 1982; Squires, 1982; Farrell, Johnson and Oliver, 1991).

Black employment losses as a result of the decline of heavy manufacturing have not been offset by the growth of employment in either the high technology manufacturing, advanced services, or the competitive sector of the economy. Very few employment opportunities exist for blacks in this latter sector; firms in this sector survive only to the extent that their prices remain competitive vis-a-vis their national and international counterparts. Thus they offer very low wages, have unattractive working conditions, and often structure their workforces in illegal ways.

These firms have been able to survive because of the "labor surplus environment" in which they find themselves (Farrell, Johnson and Oliver, 1991). The influx of working women and disadvantaged immigrants into the labor market has enabled them to offer low wages to workers who are either only temporarily tied to the labor force, supplementing household income, or who

are preferred over blacks in such rapidly growing competitive sector industries as garment manufacturing, subcontracting, and hospitality. (Farrell, Johnson and Oliver, 1991).

Black Poverty and Educational Attainment

Concomitant with the deleterious effects of economic restructuring and the steadily increasing stream of disadvantaged immigrants, urban black males have been further impacted by recently implemented policies which seek to remedy a failed system of public education. In the process of dissecting and challenging the "crisis" in American education, educators and policymakers have instituted procedures that educationally disenfranchise large numbers of inner city black (and other minority) youth. These are the so-called "get tough" initiatives (Orfield, 1988).

Such policies have led to tightened requirements for both high school graduation and college admission without focusing on teacher qualifications and whether the necessary facilities and supports are available at the primary and secondary school levels. As a number of recent studies point out (Orfield, 1988; Astin, 1982), this has been especially problematic for urban blacks from impoverished backgrounds, most of whom attend economically and intellectually inferior inner city schools. There is an increased reliance on standardized tests as the

ultimate arbiters of educational success, despite the well established cultural biases that are inherent in such tests.

Summary

The black underclass has become a major focus of both public and social policy. The perspective presented here is designed to broaden our knowledge and understanding of the range of factors responsible for the growing incidence of selected underclass behaviors (i.e., out-of-wedlock births, family disruption, criminal activity, and long-term welfare dependency). It is predicated on the premise that the high rates of joblessness and school drop-outs among black males are largely responsible for the emergence of these and other urban underclass behaviors. Moreover, this view allows us to pinpoint the relative contribution of factors in several policy domains--economic, education, and immigration--on black joblessness. If this perspective can be further validated, we will be in a stronger position to develop intervention strategies that can effectively ameliorate these negative social outcomes.

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Representative SOLARZ. Thank you very much, Mr. Farrell, for offering yet another perspective on this vexing problem.

Congressman ARMEY, why don't you go ahead, and then I will watch the fireworks and try to pick up the pieces.

Representative ARMEY. Well, thank you Mr. Chairman.

Let me say at the outset that I am an economist by trade; I am not a labor economist; I am not a macroeconomist; I am not a national income economist. I am what I like to call a real economist, a microeconomist by trade. But you know in that regard as a microeconomist, the most fascinating part of our discipline—and I hope you will forgive me my little microeconomic chauvinism here—but I believe over the years that you really frankly cannot be a good economist unless you are at least a pretty decent amateur psychologist, because we are really looking at trying to understand human action, if I can go one of the better titles in our wonderful literary history. Sooner or later, it seems to me, we boil down.

I want to come back to that point because I think you are talking about psychology, social psychology. Mr. Mead, you made a big important point. And it seems to me, to some extent, we have divided the testimony in such a way that the first two witnesses, at least, caused me to think in terms of the empirical problems of gathering an accurate data base, making good measurements and, in effect, get a clear picture of where we are. And there has been, of course, as you might have noticed, something of a fight going on here in Washington. How do we, in fact, keep our data; what data base do we use?

Chairman Solarz and I were talking on the way over on one of our trips to vote that if we are going to talk about, say, income distribution—and, of course, poverty being one segment of the shares of income—we have to look at the term you use, Ms. Ruggles, "real income." And I think an awful lot of our official reporting statistics don't really do that. It seems to me that if I want to talk about a comparison between my income and Mr. Farrell's income, or my family versus his family, we have to really, in the final analysis, get down to what basket of goods are available for my family as compared to what are available. And since these are real families, they must be real goods, real food, real clothing and so on. It strikes me that all too often some of these income comparison data report in terms of earned income, at any of the quintile; that is, pretax income. Now, if you look at my pretax income, I'm doing fine. I mean, really good. But after the government rips me off for more than they deserve and certainly more than they'll spend wisely, my real income for my family is reduced considerably. So that I feel, if you are going to compare me with somebody else, compare me in terms of what I have available to me and my family. We don't, I think, in a lot of our data, include the after-tax income.

And then looking at the other end of the spectrum for those who receive public assistance, we look at their cash income and probably again count before tax, making the same methodological error, I would argue. But we look at that sans benefits so that, in fact, if we're looking at the

bottom quintile and we are not saying, well, what benefits did they receive, then we have the same problem.

Ms. Ruggles, you raised an interesting point. You are saying if you modernize our whole way of measuring benefits, measuring real income, you would find that our percentage of people in the lower quintile—I am sorry—in the poverty level, with the more realistic definition would go up. I guess my question is, do we really get from the basic sort of fundamental methodological get-go, do we get a real comparison of real incomes available to the people in the various quintiles. I don't think we do.

Ms. RUGGLES. Well, I'll tell you, the official poverty statistics published by the Census Bureau are indeed based on cash income. But it is possible to calculate what incomes would be after taxes and after benefits. And calculating after taxes, of course, increases the number of people in poverty because, of course, it reduces income just as you pointed out. Your after-tax income is lower than your pretax income. And if you include in-kind benefits—of course, cash benefits are already in the census measure—things like AFDC are already in the census measure. But if you include in-kind benefits, like food stamps and housing, it has almost no effect on the poverty rate. It has an effect on how poor those people are, but almost all the people who get those benefits are poor enough, so that adding those benefits into their income doesn't push them above even the Census Bureau's poverty line, let alone one that I think would be more realistic.

The only thing that you can include in income that would have a big effect—and this mostly affects the elderly—is if you count their medical benefits as if they were cash. Now, I would say that is not a real reasonable thing to do because you run into this problem where you're treating people as if they were rich, or if they were essentially sicker or more likely to be sick, and I don't think that's a very sensible thing to say. So, I think there are real problems with counting medical benefits as if they were cash. And if you count all the other benefits, it not only doesn't have very much impact at all on the poverty rate, but it makes the trend over time look slightly worse.

Representative ARMEY. Well, I think your point is well taken, but if in fact we were to further adjust our data to include in-kind benefits from Medicaid, then it seems to me only fair on the part of the person with whom the comparison is being made that say we will take your income without tax and medical expenses.

Ms. RUGGLES. Well, what you would want to do is not without medical expenses. You want to do it without their health insurance, which is indeed exactly how you do it now. So, in fact, we do have comparable treatment on the poor and the nonpoor in that area.

Representative SOLARZ. Would the gentleman yield for just one minute?

Representative ARMEY. Sure, sure.

Representative SOLARZ. I want to make sure I understand your point. You're saying, in effect, that if you get somebody on Medicaid who is

hospitalized 365 days of the year in a hospital that is charging say \$600 a day, and you count as income for that person the hospitalization costs that Medicaid has to pay, that such a person, merely by virtue of being confined to a hospital for a year, would be in the top 1 percent of income earners in the country.

Ms. RUGGLES. That's right. And that is just not sensible.

Representative SOLARZ. In a way, it's kind of a reverse Horatio Alger story; if you want to zoom into the top 1 percent of income earners in the country, then get a debilitating illness, and check into your local hospital and Medicaid will put you there.

Ms. RUGGLES. That's it. In fact, the method the Census Bureau uses doesn't exactly do that.

Representative SOLARZ. Back under those circumstances you would probably have a higher income than Congressman Armev, particularly after he pays taxes, and that would be inequitable.

Ms. RUGGLES. The Census Bureau actually uses ... it doesn't attribute your actual hospital expenditures, but it does attribute hospital expenditures for people like you so that elderly people, for example, get attributed the average expenditures for people in their age category. And that means that in most places, it is actually impossible for an elderly person over about age 75 to be poor, because they would qualify for so much in medical benefits that if you count those medical benefits as if they were cash they are already over the poverty line.

Representative ARMEY. Well, I've already conceded the point. I think your point is well taken, but frankly it is news to me for you to tell me that the income distribution shares are shares that are toted up minus insurance premiums. When I show them up in this statistic in the second quintile where I was as a professor, that the money that I paid out for my insurance isn't—

Ms. RUGGLES. Excuse me. I may have misspoken there. What I meant to say was that to the extent that employers provide health insurance that's not counted in the income of people who work.

Representative ARMEY. Frankly, through the last few years of my academic life, I drifted into this area that's known as public choice theory that I always like to define as the study of the aberrant behavior of public policymakers. But it seems to me, like in the case of all choice, whether it be choice for yourself or choice for others, you've got to have good accurate information. If you don't have accurate information, you can't make a rational choice. Now, we intuitively, in making choices on our own behalf, more often than not have more accurate information than somebody external would have. But public policy is, of course, making a choice on behalf of other people, where the empirical data base—and I have to tell you that I am very, very distressed about the condition of our public data base—I think, is in awful condition.

I have to say that despite the fact that the Chairman and I found it very easy for us to reach a political truce, I think it would be productive for both of us——

Representative SOLARZ. Not a truce, a concordat.

Representative ARMEY. Even that, even in language I don't understand, we are going to put these political things aside. Politics is in some degree, I think, responsible for this sorry condition of our public data base, and we have to find a way to work on that. And then we go from there to solutions. I was fascinated by the comparison of the testimony of Ms. Blank and Mr. Mead. The 53.7 percent, I think you said, Mr. Mead, that the worse case in terms of a statistically definable category in your Table 2 was 53.7 percent, I believe, which were unemployed female heads of household.

Mr. MEAD. Yes, that's right.

Representative ARMEY. I have written it down right here, unemployed female heads of household. Now, I think that's the single worst case and would represent over half of our poverty. You had argued that one of the things we fundamentally need to do is to increase the participation in the work world. We have, I think for very good reasons and understandable reasons, a need to be concerned about the extent to which unemployed, female heads-of-household—unmarried woman with all of the incredible demands of parenting falling on the shoulders of one parent as opposed to two—their ability to participate has to be reduced considerably compared to two parent families. So, that the other part of the solution that you were talking about, Mr. Mead, was that perhaps the Earned Income Tax Credit was a way to do the Friedmanian thing—and any time you do what Mr. Milton Friedman suggests, you are doing the right thing—and we all agree on that. The negative income tax concept, the direct income subsidy, would probably be very useful where you have the workers, but as you say that doesn't address the problem. And Ms. Blank, you had an alternative to that. I am trying to remember—a way to get income directly—direct income transfer.

Ms. BLANK. I was talking about something like a child allowance plan, such as the National Commission on Children recently——

Representative ARMEY. That's right. So, if you were not working, you could get that direct income transfer.

Mr. MEAD. But the problem, as I indicated, is that that's not politic. The public just doesn't accept that. And this, I think, goes back to the understanding of poverty that we started off with. There is an unreal quality to these technical discussions of the poverty line, because the public really doesn't understand poverty in those terms.

On the one hand, the public is more generous than the official measure. There are a number of studies that would suggest that the public sees about half the median income as the minimum that the family needs to get along on. And they think, somehow, ordinary people ought to be assured of that. So, there is a desire to flatten the bottom end of the

income distribution and avoid the very low incomes that we sometimes find today. In that sense, the public is more generous and would be receptive to some of the higher poverty lines proposed by Dr. Ruggles.

On the other hand, the public confines their consideration of who should benefit from that sort of policy to those who were seen as functioning citizens. And that means people who are employed, or who have a track record in the labor market. And that means, to a certain extent, that the public does understand poverty in terms of the most dysfunctional poor, the underclass, the homeless and so on, groups that we all admit are a very small part of the overall picture. The public defines poverty as having an element of dysfunction to it, not simply low income. And if one defines poverty that way, then the public is likely to say that many fewer people are poor than the economists say. They will say that there are these people who are not functional and are somehow outside society, but other people are functioning. So, even though the functioning poor might be seen as needy, in a narrow economic sense, they would not be seen as poor in the sense of being outside society. That would include a lot of rural poor, a lot of transient poor; people who we, as economists or policymakers, would say were poor, but whom the public would not see as poor. The sort of people who would say that are people who lived in the 1930s and who would say, "we had no money but we never thought of ourselves as poor." So, simultaneously the public's idea of poverty is broader than the official vision but also very narrow. From the public's point of view, poverty could almost be said to have been abolished except for these small and very troublesome groups that are extremely distressing, partly because they are very visible in cities. Again, it is dealing with that that opens the door to higher benefits. I think the reason why the National Commission is not going to be heard very much is simply because their proposals didn't address these employment questions seriously.

Ms. BLANK. Can I make a comment on that? If we are talking purely about the political feasibility of some form of a child allowance, there are a lot of different ways to do this. The one thing that we clearly don't want to do is call this welfare. The point is, it's not welfare. It is aimed at children. And I think the political feasibility of running a program that talks about poor children and the needs of poor children is quite different than something like a general negative income tax. Those are two quite different programs, and the politics of them—certainly the way you think about them, the extent to which they might be acceptable within the public—are potentially quite different as well.

Representative ARMEY. But you're right about the public. You know, Milton Friedman had a wonderful experience. If you were as fascinated by microeconomics as I was, you must have been frustrated because you were taught both the Slutsky and the Hicks ways, and two variations of each on how to separate the income from the substitution effect, and then you moved on to something else and wondered why in the heck did I learn this. But Friedman had this wonderful exercise addressing this

question where he demonstrated with the substitution versus income effects that you could get more benefit to the recipient per dollar of assistance by giving the direct income transfer and allowing that recipient freedom of choice on the expenditure of it than by the in-kind transfer such as the food stamps. But you run into what I call the Archie Bunker reaction where the public tends not to trust the recipient to spend that money wisely. Our heart goes out most quickly and most generously to the children, but we can't give the income subsidy to the children; we must give it to the parents, and we tend not to trust the parents. They won't buy milk for the baby, they're going to buy beer for dad. Now, that's the idea. I think that is an unfortunate attitudinal thing, but one that policymakers would have to deal with, because those people with those attitudes are the people we're going to go back and ask our job back from. So, we can't be indifferent to them.

Now, we also have—and I think that there is good documentation here—some reason for the public to be cynical about the extent to which the very generous amount of their tax dollars taken for income maintenance doesn't actually get to the poor. That a large portion of the money goes to people who are not the needy, as we see them, and at the same time a large portion of the needy don't get the money that we had hoped would go to them. And at some place in the middle, there's a middleman that is taking a share, and he either uses it very inefficiently or for some purpose that would not be endorsed if it were fully disclosed.

The reason I make that point is that we tend to measure what we're doing in terms of the total dollars appropriated, in our case, with entitlement spending not appropriated but evolving and yet that, I am afraid, might be the very measure of what really becomes assistance to those who need it. So, if the public has this sort of schizophrenic combination of their generosity—which I think is very real and considerable—with their cynicism, their doubts about whether or not it will help the needy children, either because somebody is intercepting the bucks in the meantime or parents can't be trusted to use them wisely if they get them, this has to have been consequently a public concern that is resolved in the formulation of a policy, or we will have no policy.

Ms. BLANK. I'd like to make a cross-country statement between the United States and Canada with regard to the targeting of these programs and trying to do them effectively. It is always difficult to do cross-country comparisons because there are a lot of things that are different across countries, obviously, as well as things that are similar. Over the 1980s, Canada has gone through many of the same debates with regard to its poor population that the United States has. They also are implementing an increasing number of work programs, worrying about dependency issues, etc.

Interestingly enough, one of the programs that has expanded the fastest in the 1980s and that has not been subject to those concerns is the Child Tax Credit Program, which explicitly gives tax credits to low-income families with children. There is a strong sense in Canada—as I have

talked to Canadian policymakers, statisticians, and academics—that the targeting of that program, the naming of that program, has given it an invulnerability that some of the general income assistance programs have not had.

Ms. RUGGLES. If I could for a minute, I'd like to return to a point that you made earlier and that is that, indeed, we do need to have good data, and we do need to understand what things really look like before we can make public policy. And it isn't, I think, realistic to make public policy on the basis of misconceptions that are held by the public. I think it's our role to take a more realistic look at what the data actually are. One of the points I try to make——

Representative ARMEY. If I might just interrupt. That was a luxury that I enjoyed immensely when I was a professor with tenure, not subject to reelection every two years. And that is our dilemma.

Ms. RUGGLES. Yes, well I can see that that is a dilemma. Nonetheless, I think that it is our role here to help you understand what we think the actual facts are.

Representative ARMEY. Right.

Ms. Ruggles. And as I tried to point out in my first chart that looked at the composition of the poverty population, what Dr. Mead said about this nonworking population, is absolutely true. It is very, very small. By the time you take out—Mr. Mead includes in his numbers all nonworking female heads—the ones that are over 65 and the ones that are disabled, you are talking about a very, very small number of people. And even among that group, if you then eliminate the ones that also have disabled kids, you are down to something like 3 percent of the poverty population. This is just not very many people at all.

Representative ARMEY. Mr. Chairman, I don't want to monopolize it.

Representative SOLARZ. I am waiting for you to pass the baton.

Representative ARMEY. Let me pass the baton for a moment then and maybe he will even pass it back. I want to thank you all again. To this point, at least, this has been the most enjoyable hearing I've experienced on this Committee, and I expect it will only continue to be. So, I will pass it over.

Representative SOLARZ. I appreciate the gentleman's yielding. I do have a whole series of questions, but I hope the gentleman will feel free to come in at any time, and then if you want to pursue a separate line of questioning, let me know and I will yield to you.

Let me start out by asking if any of you could give me some perspective on the poverty rate in the United States compared to the poverty rate in the other major industrial democracies, recognizing there are differences of definition and the like. First of all, it is not even clear to me that the other industrial democracies measure poverty in their own countries, and if so, which ones and what are they compared to what we claim to be the poverty rate here.

Ms. BLANK. Let me respond to that quickly, and then people have other things to say. There are not a lot of cross-country comparisons because obviously you have these problems of wanting to get comparable data and comparable poverty lines and all of that. Timonthy Smeeding, a professor at Syracuse, has done quite a bit of work in this. He finds the following comparisons. I think he looks at the top eight industrialized countries, including the United States. He finds that the United States has the highest child poverty rates; they also have the highest poverty rates among families with children. We fall somewhere in the middle with regard to poverty rates among the elderly. We also have the lowest spending on social services as a share of GDP. We have the lowest transfer benefit levels compared to those countries that he is looking at.

Representative SOLARZ. In comparing the poverty rates in these other countries, is he taking each country's own definition of poverty?

Ms. BLANK. NO. Actually, what he does is take a standardized definition.

Representative SOLARZ. Pardon?

Ms. BLANK. He takes a standardized definition and adjusts for purchasing power differences across the countries. He is looking as closely as one can at cross-country data equivalent definitions.

Representative SOLARZ. And what are the poverty rates, according to him, in countries like England, France, Italy, Japan, Germany?

Ms. BLANK. The comparisons that he has ... I am not going to be able to give you the exact numbers. I can provide them for you.

Representative SOLARZ. Well, if you can for the record, but give us what you can now.

[This information was subsequently supplied by Mr. Timothy Smeeding in his prepared statement for the second hearing on poverty, "The War on Poverty, Part 2," September 25, 1991.]

Ms. BLANK. The U.S. poverty rate obviously is around one in five, around 20 percent, if you scale that comparably using these calculations from other countries.

Representative SOLARZ. That is his estimate. The official estimate here is 12.8 percent, but his estimate is 20 percent.

Ms. BLANK. This is for children, I am sorry. I am talking about poverty among children, which is one of the main things he has focused on.

Representative SOLARZ. He takes our official figure then, which is 20 percent?

Ms. BLANK. Yes. If you look at the equivalent numbers that then come out of other countries, comparing as close as you can equivalent definitions, you find that Sweden has the lowest poverty rate among children, which is around 6 or 7 percent. You find that Germany and Switzerland are somewhere there below 10 percent. Canada is around 11 percent. The United Kingdom is around 12 or 13 percent, I believe. And Australia is somewhere around the same as the United Kingdom.

Representative SOLARZ. Japan?

Ms. BLANK. Japan, he does not have on his charts. I don't think he has comparable data with which to do that. It would be a fascinating question to know what Japan looks like. From what we know of Japan with regard to the income distribution, it's a much narrower distribution of income, and there is probably a lower poverty rate.

Representative SOLARZ. Did he only compare the poverty rate among children, or did he do it among the populations as a whole?

Ms. BLANK. He looks at different groups. He looks at elderly and children primarily. And we fall more in the middle with regard to elderly poverty than as opposed to the higher end.

Mr. MEAD. My memory is that he does have an overall rate and, in that respect, the United States is somewhere in the middle also. The place where we are clearly doing worse is children's poverty, and there are two basic reasons for that. One of them is that the social support systems in these other countries are more generous. And the reason for that is that they are less work-connected. That is, those societies don't ask the questions we do about employment.

Representative SOLARZ. Well, focusing just for a minute on the question of poverty among children, 20 percent of the children in this country live under the officially defined poverty level. Have any of you calculated what impact it would have on the percentage of children living under poverty if the recommendations of the Rockefeller Commission to provide \$1,000 benefit to each child were actually implemented?

Ms. BLANK. I did a calculation of looking at what happens if we implemented the Canadian programs in the United States, taking into account the fact that ... I mean, that's a different issue but that does include some of these child-benefit programs.

Representative SOLARZ. But are the Canadian benefits more or less than what the Rockefeller Commission recommends?

Ms. BLANK. They're more.

Ms. RUGGLES. They're more, but they're in the same general ballpark. The Canadian benefits are about——

Representative SOLARZ. Because Ms. Ruggles made a very interesting point, I hadn't been aware of this. You claim that when you count up all of these in-kind benefits it really doesn't have a material impact on the poverty rate, it simply means that people are closer to the poverty level but are still below it.

Ms. RUGGLES. That's right.

Representative SOLARZ. Would the same be true for the children living in poverty if they got this \$1,000 or would it take 50 percent of them above the poverty level?

Ms. RUGGLES. I don't really know the answer to that. When you do your estimates of what the Canadian-type child allowance—which is about \$1,500——

Ms. BLANK. My estimates include that plus social allowances, which also have higher amounts, we get poverty among female-headed families down to 15 to 20 percent, and that's taking into account labor supply effects——

Representative SOLARZ. Where, in Canada or here?

Ms. RUGGLES. Here.

Ms. BLANK. If you implement Canada in the United States.

Representative SOLARZ. You bring it down to 15 or 20 percent from what?

Ms. BLANK. From 43 percent.

Representative SOLARZ. So, you more than cut it in half?

Ms. BLANK. Yes.

Representative SOLARZ. If you have the Canadian package?

Ms. BLANK. Yes. Now, that includes both this \$1,500 in child-benefit programs plus slightly higher social assistance, so that is more than you would get from a family allowance.

Representative SOLARZ. Here in the United States, what percentage of the poor are elderly and what percentage of the poor are children, and what age do you cease to be a child?

Ms. RUGGLES. Eighteen.

Representative SOLARZ. Eighteen, OK.

Ms. RUGGLES. About 40 percent of the poor are children and almost 11 percent are 65 or over.

Representative SOLARZ. So, that's roughly 50 percent.

Ms. RUGGLES. Right there.

Representative SOLARZ. So, the other 50 percent are of working age?

Ms. RUGGLES. RIGHT. And half of them work.

Representative SOLARZ. Half of them work?

Mr. MEAD. Rather, they have earnings.

Representative SOLARZ. Well, that leads me to another question I want to ask. What percentage of the poor in the country are working?

Ms. RUGGLES. About 25 percent of the poor are between the ages of 18 and 64 and working.

Representative SOLARZ. Now, 25 percent?

Ms. RUGGLES. Yes.

Representative SOLARZ. Now, if you add the children of these working people or part of the overall poverty percentage—

Ms. RUGGLES. About two-thirds of the kids in poverty have at least one family member who works.

Representative SOLARZ. The kids can't work as that is against the law. So, it seems to me if you're calculating the percentage of the poor people in the country who are working poor, you have to include not only the people who are working themselves but their dependents. So, if you add the dependents—you said the number of people who are actually working among the poor population is 25 percent—what does it go up to?

Ms. RUGGLES. It would be plus two-thirds of 40 percent, so—

Representative SOLARZ. You're flinging numbers around like—

Ms. RUGGLES. It would be up to about 55 percent. And then if you add the ones that are retired, which is another group that most people don't expect to work, that would add another 11 percent. So, you would be up around two-thirds of the poverty population just with those groups right there.

Representative SOLARZ. OK. And what percentage of those who are working are poor?

Ms. Ruggles. What percentage of—

Representative Solarz. Those who are working are poor?

Ms. Ruggles. A much smaller percentage of those who are working are poor, as you would expect.

Representative Solarz. What is it, 5 percent, 10 percent?

Ms. Ruggles. I think it is about 8 percent.

Mr. Mead. The nearest approximation to the figures that you want are in my Tables 1 and 2. They are not precise, but that's what these tables are designed to do. Now, it is true these are all poor people 15 and over, not simply people of normal working age. And within that group, 41 percent have earnings of some kind during the year. Fifty-nine percent, therefore, are not working during the year. That includes elderly, that is true. It doesn't include children below 15.

Representative SOLARZ. Now, I think Ms. Blank made the point that real wages among unskilled workers declined in the 1980s. Why was that? I didn't quite understand.

Ms. BLANK. You're not alone.

Representative ARMEY. May I interrupt? Now, is this going to be a discussion of real wages or is it going to be a discussion of money wages?

Ms. BLANK. I will discuss only real wages.

Representative ARMEY. Total compensation, OK.

Ms. BLANK. And real wages declined, I think that's clear.

Representative ARMEY. Thank you.

Representative SOLARZ. Real wages among unskilled workers in the 1980s declined?

Ms. BLANK. Yes.

Representative SOLARZ. Is that the first time in American history that that has happened?

Ms. BLANK. It's not the first time in American history that it has happened. It is probably the first time it has happened during a sustained economic expansion like the late 1980s, so far as we have data.

Representative SOLARZ. It's the first time since the end of the Second World War?

Ms. BLANK. Yes, absolutely.

Representative SOLARZ. And real wages for other Americans went up?

Ms. BLANK. The income distribution, you see exactly——

Representative SOLARZ. No, for skilled.

Ms. BLANK. For skilled, you see a strong——

Representative SOLARZ. What is your definition of unskilled labor?

Ms. BLANK. Most of the people who look at this divide it by educational background. Unskilled labor is typically people either without a high school degree or with only a high school degree, so that skilled work becomes people with some college, college or post-college education.

Representative SOLARZ. Well, give me a dozen examples of typical unskilled jobs that meet this definition.

Ms. BLANK. Yes, I mean, unskilled jobs include everything from various forms of janitorial services within plants; many of your service-sector jobs; many of your people who would work at such places as clerks in retail establishments or fast food establishments; it would include a number of clerical jobs that are relatively straight forward. It also includes a substantial number of production-line-type manufacturing jobs, which, of course, are shrinking in this economy, but which have been a major conduit of good jobs for less-skilled work.

Representative SOLARZ. Now, why do you think the wages of these people—the real wages—declined in the 1980s when the wages for skilled work were going up? By the way, was this decline in real wages for unskilled workers true in other industrial democracies?

Ms. BLANK. Yes, it was actually. One of the interesting things is that this is happening in Canada; it is happening in Germany; it is happening in the U.K. From what we know it is not happening in Japan. Those are the countries for which I know there have been some pretty good studies done. It is happening more strongly in the United States than some of those other countries, but it is an international trend.

Representative SOLARZ. It is happening elsewhere except for Japan.

Ms. BLANK. Except for Japan.

Representative SOLARZ. Tell me why do you think it is happening here and why it is not happening in Japan?

Ms. BLANK. If I had an absolutely final answer to that, I would be a more famous economist than I am.

Let me tell you what I think is correlated with the trend. The evidence that we have right now says the following things are happening. The overall statement is that demand in the labor market has shifted away from less-skilled workers. The underlying reasons for that include changes in international competitiveness, which have moved a lot of previously unskilled jobs out of the United States and decreased demand for that group here. It relates to technological change—

Representative SOLARZ. Well, that explains why jobs are lost, but it doesn't—it seems to me—explain why the jobs that remain are getting paid less. Presumably, employers don't hire people unless they feel the need for them. Now, they may have once needed 100, and now they only need 10. But if they didn't need the 10, they wouldn't hire them.

Ms. BLANK. What has happened is that within the manufacturing sector, you found a shrinkage of these sorts of relatively well-paid, low-skilled jobs. Now, those workers had to go somewhere. Where those workers have gone has been largely to the service sector. That has increased the number of workers in the service sector that are lower skilled, which just by itself will bring wages down as you have this influx of additional workers. And the type of jobs available to people with lower educational levels in the service sector are paid less than equivalent jobs in the manufacturing sector. So, that even without the supply effect of shifting more low skilled workers into the service sector you still would find lower paying jobs for that group of workers. And the supply effect goes on top of that and brings wages down further.

Representative SOLARZ. I yield to Congressman Armev.

Representative ARMEY. The Chairman and I discussed this too. It's a puzzle. The question, I think, the puzzling question is why did this happen? But, you know, I have to tell you quite frankly that I am still concerned about whether or not it did happen. I have before me a chart that is a publication by Dr. Marvin Kosters of the American Enterprise Institute. When he takes the BLS data, he gets real wages declining throughout all the 1980s; when he takes the Social Security Administration's data, it is rising; when he takes the household survey, it's rising; and when he takes the data from State Employment Security Agencies, it's rising. So, obviously, you have three measures by some definition that has it rising, one measure by another definition that has it falling when you talk about comparison with other countries and what definitions do they use, how much can we use?

Now, I tell you the fascinating thing that came to me because, understand, I have not been in public office and in these national debates for very long. I was elected in 1985 and came right from the classroom and campus politics to the much more congenial world of Washington and the

real world. It has been an interesting experience. But I remember hearing so much about this infamous "Mcjob" study—and I am sure that you have all heard about it—that said that all of the jobs created in the 1980s were lower paid jobs. And yet in 1977, I think, we raised the minimum wage, and then in 1988 we had the great debate on raising the minimum wage. And the argument for raising the minimum wage, as I remember at best, was that the real wage had doubled in the ensuing years. And since the principal was the minimum wage should be half the real wage, we ought to double the minimum wage. Now, if in fact real wages went down throughout most of this period of time and you juxtaposed that experience against the clearly mathematical requirement that the average can only be brought down when the margin is lower than the average, which is fundamental and irrefutable law in mathematics, then how can we have it both ways? And it was a real puzzle to me to watch this argument. On one end, people are arguing that, you know, the minimum wage is needed because people's real wages are going so much lower, and then, on the other hand, to say that the reason we have to have it is because the working wage has doubled. So, it frankly is very much of a puzzle to me about what really has, in fact, been the experience. I have seen both arguments made, depending on what policy position we were working for.

Mr. MEAD. Let me just comment on that. This is a very abstruse question. I have just gone through most of the articles on it. All I can say is that most economists today would say that, at least among the least skilled, there is a deterioration. Perhaps, if you look at the average wage or the median wage, there may have been some improvement. Among low-skilled workers, it is clear there has been deterioration. But the point that I want to make is that this entire question is to a certain extent irrelevant to this hearing, because the question of quality among workers is being decided over the heads of the poor. This is an issue being fought out among workers. Most poor people are not employed regularly; they have earnings here and there; they work part year; they are not employed year in and year out. And these studies of wages usually involve full-year, full-time workers to maintain comparability. These are not people who are usually at risk of poverty, even at the bottom end of the distribution. So, I don't think we should get sidetracked. If, in fact, our problem was that poor people were working and they were in the lowest fifth of distribution and they weren't making enough, we'd have an altogether easier problem to solve than the one we have, which is primarily moving nonworking poor people toward employment.

Representative SOLARZ. If the gentleman will permit me to come in here. I want to see if I can join the argument. You are making, if it's accurate, a very important point. If I understand you, what you're saying is yes, it's true that real wages for the unskilled have gone down, but that's not really relevant to the persistence of poverty because most of the poor people aren't working. But is it not possible, Mr. Mead, that one of the reasons that poor people are not working is that the real wages of the unskilled have gone down, and since most, who are only qualified for

unskilled work, look at what they can make by getting a regular job and perhaps conclude that it is not sufficient to make the effort worth their while.

Mr. MEAD. See, that argument is the one——

Representative SOLARZ. Then after you comment, Mr. Farrell.

Mr. Mead. Sure. That argument is traditionally made——

Representative SOLARZ. I'm not making it, I am just asking the question.

Mr. MEAD. I understand that. However, we don't have evidence that the work effort of heads of family, anyway, is very responsive to the wages they are able to get. And this goes back to the income maintenance experiments. It isn't the case that work effort responds very strongly to the wages people can get.

Now, the other important fact is that during a period of stagnant wages the bulk of the population has responded by working harder. It is only the poor who are working less. So, what you are really saying, to get back to something that Congressman Arney mentioned, is that the substitution effect dominates among the poor, who decide that working isn't worthwhile, where the bulk of the population works more and the income effect dominates, why do we have this differing response? That's the mystery. I mean, you're stating a plausible interpretation of what is going on, but then why does the rest of the public not decide that it is less worthwhile to work than they previously did?

Representative Solarz. OK. You've raised a profoundly important question, and I see some of the panelists want to answer. Mr. Farrell and then Ms. Ruggles.

Mr. FARRELL. I have been fascinated by this discussion because when we make all of these comparisons often times we are comparing apples and oranges. When we look at the poor, we know that they are disproportionately comprised of individuals who have certain skill, racial, and, in many instances, gender characteristics. So, then it becomes, in my view, not at all plausible to have international comparisons. We know, as Congressman Arney indicated, you can look at real wage assessments at different levels, and it is going up over here and down over there. It is like the Census but with different size base numbers. Who has been counted, who is likely to be counted, and it never can be assumed that the individuals who are poor, as my esteemed colleague has indicated, actually have not tried to work because in certain instances for the low-skilled—and particularly for the low-skilled of color—not all service jobs paying even minimum wage are available to them. And we have studies to document that. You know, some of the work by Mercer Sullivan of the New School for Social Research in New York shows that when you take black, Puerto Rican, and white youth and send them out with exactly the same skills to get exactly the same low-wage jobs, that white youth had a disproportionately high success rate as compared to their black and Puerto Rican counterparts.

Representative SOLARZ. How much disproportion?

Mr. FARRELL. More than 20 percent.

Representative SOLARZ. What percent?

Mr. FARRELL. Much more than white. Young minority males were, on the average, 20 percent or more less successful in getting work with the same kind of skills and in the same kind of jobs.

Representative SOLARZ. In other words, let's say, if 80 percent of the white kids got the job and 60 percent of the black kids got the job, 20 percent differential, more than 50 percent of the black kids would still be getting a job if they went out to work. So, the question would be if the figures showed that a majority of the black kids—I don't know if this is the case, I am just positing the question—were not looking for jobs to begin with, you could hardly say that it was because it's harder for blacks to get jobs than whites, if over half of the kids who go out and get the jobs, get them. I mean, you have to know the total figures.

Representative ARMEY. May I interject a thought here? You're from the big city; right?

Mr. FARRELL. That's what they say. [Laughter.]

Representative SOLARZ. Do you know that 1 percent of the American people live in Brooklyn?

Representative ARMEY. Is that right? [Laughter.] There you go. I am always a little worried about these big city fellows.

Representative SOLARZ. And I have here a deed to the Brooklyn Bridge at a good price for a friend like you.

Representative ARMEY. I think we've kind of come to a point—and let me see if I am correct—where we are saying that when you look at who is poor, one of the primary things that you have to look at is are they working or are they not. And then the question is if they are not working and therefore they have the greatest probability of being poor may be the single greatest determinant that they choose not to work or look to work? You talked about the psychological influences in your paper, Mr. Farrell. I think you are suggesting that perhaps they don't have the same opportunities for work and feel rejected, which you two may be making the same argument—you, in psychological terms; you, in social psychological terms—the youngster is feeling what is the sense of my trying, I don't have a chance anyway. You talked about the environment, and you also, Ms. Ruggles, made an interesting point that brought to my mind that the rational person is going to trade leisure for work if the rewards for work are high and the cost for leisure is high, then they'll work more. You don't agree with that, Mr. Mead?

Mr. MEAD. No.

Representative ARMEY. Well, let me complete my thought. One of the things that I think may occur here—it's populations that have a geographic definition like inner-city youths—is the incidence of the underground economy. Now, I mentioned that you're a big city fellow, and I'm a small town guy. In my environment, there simply is not much incidence of

underground economic activity, ways to earn income without reporting it to the IRS, or having it reported to the police, or whatever. In the inner-city—my impression, at least—having not lived there—is that there is greater, as it were, employment opportunities in underground economic activities that would not show up in—

Mr. FARRELL. But it doesn't rival a formal economy, the illegal economy doesn't. Certainly, the individuals who participate in it tend to be a smaller percentage of the overall number of individuals who are not working.

Representative ARMEY. What I'm saying is that if, in fact, I have an opportunity to refrain from legal, reportable, countable work in the statistics and take my income supplement through official sources, and then I, in turn, supplement that with underground economic activities that, in an official sense of working/not working, would show up in the data, I have lowered the cost of not working in a formal, countable sense. I have decreased the cost of my leisure time and have raised the cost of my official work time.

Ms. RUGGLES. That would be true, but in fact there isn't very much evidence at all that there is an enormous amount of income being made in the underground economy by people who are not working.

Representative ARMEY. Well, that's why it's underground because we don't have any evidence.

Ms. RUGGLES. No. I think there have been some studies on this and they do find that.

Can I return to the first point Mr. Mead made, and he has said over and over again that he has characterized the poor as being less likely to work or having lower work effort. I guess I really don't see that in the numbers. My feeling is that what you're seeing in Mr. Mead's numbers is almost entirely an effect that is based on the demographic changes that have taken place since 1959. Families that were higher income in the first place had more people who could enter the labor force, namely wives. Single-parent families didn't have wives who could enter the labor force.

If you look within family types, the work effort of the poor has increased more than the work effort of higher income families. So, that if you look, say, at all female-headed families, poor female-headed families have higher increases in work effort than better-off, female-headed families.

Representative SOLARZ. What do you mean by work effort?

Ms. RUGGLES. In terms of the number of hours that they work.

Representative ARMEY. If they work outside the home for pay.

Ms. RUGGLES. Work for pay, right.

Representative ARMEY. If they are staying home with the kids, they are working pretty hard.

Ms. RUGGLES. Oh, no question. [Laughter.]

Representative SOLARZ. You're saying that a woman who heads a single-person household, the more likely they are to work?

Ms. RUGGLES. No, no, not the poorer they are; that low-income earners have increased their work effort more over this period.

Representative SOLARZ. Wait, before you comment, Mr. Mead, I want to make sure I understand exactly what you mean when you say low wage earners have increased their work effort. Low-wage earners are working longer hours?

Ms. RUGGLES. People who work at low wages have had greater increases in their hours than people who work at high wages.

Representative SOLARZ. Even though the people who work at high wages may be working longer hours, the increase in the hours that they work is greater for the low-wage earners than for the high-wage earners?

Ms. RUGGLES. Yes, yes. And the main reason why there are more hours of work in higher income families is because there are more adults in higher income families, so they have more available hours of work.

Representative SOLARZ. Mr. Mead, that seems to directly contradict your—

Mr. MEAD. We are not really disagreeing here. What I think Dr. Ruggles is saying is that in the last decade there have been greater increases in work effort among people at the bottom than at the top. That might be true. But they are increasing from a much lower level. It is still the case that there is a large difference of overall work effort between the top and the bottom. That's what my Table 3 shows. The top quintile, including family, single mothers—

Representative SOLARZ. Let me get that.

Mr. MEAD. Page ?? of my testimony.

Representative SOLARZ. Wait a second.

Mr. MEAD. Table 4—

Representative SOLARZ. Table 4?

Mr. MEAD. I am sorry, Table 3, which appears on page ??.

Representative SOLARZ. Right, I have it.

Mr. MEAD. OK, if you look at all families at all incomes and then you look at all families in the top quintile, single-mother families—take the extreme case—have in 1986, .92 percent equivalent full-time, full-year workers.

Representative SOLARZ. What does that mean?

Mr. MEAD. That means that if you add up all the working hours in the family they came to the equivalent of .92 percent of a full-year, full-time worker.

Representative SOLARZ. That was 92 percent?

Mr. MEAD. No, .92 percent. That is 92 percent of a single full-time, full-year worker. That is the average work level in that type of family, families in the top quintile who are female-headed. Then in the bottom quintile the equivalent figure is .03 percent. Now, it could be that since 1986, especially, there's been a sharper increase in work level at the bottom than at the top. I am prepared to concede that. I think that's likely,

partly because it would be hard to increase the work effort further at the top. It was already at an extreme, whereas there is tremendous room to increase it at the bottom. And since conditions were very favorable in the late 1980s, I also would expect to see some increase in work effort at the bottom of society. But the increase is from a much lower level, that's the point.

Representative SOLARZ. Now, Ms. Ruggles or Ms. Blank, can you comment on what we have just heard?

Ms. RUGGLES. It's naturally going to be the case that people at the top of the income distribution work more than people at the bottom of the income distribution. It is true that—

Representative SOLARZ. Excuse me. If you look at the figures in this chart, single mothers at the top of all families at all incomes ... Oh, I see. I am sorry. Go ahead.

Ms. RUGGLES. The only way a single mother can get to be in the top quintile is if she works. So, it's not too surprising to find that virtually all the single mothers in the top quintile work. Similarly, it is not that surprising to find that the ones in the bottom quintile typically don't work because that's how they got to be in the bottom quintile. That doesn't mean that they haven't looked for jobs; it doesn't mean that they could work; it doesn't mean that they aren't disabled; it doesn't mean that it would be worth it for them to work.

Representative SOLARZ. Well, then, let me refine the question a little bit. As I understand Ms. Blank's testimony, and I think you've made the same point, it's your view that the poorer have increased their work effort during the 1980s?

Ms. RUGGLES. Yes.

Representative SOLARZ. But this appears to contradict Mr. Mead's testimony, because you seem to be suggesting not working—

Mr. MEAD. No, actually we are saying much the same thing. I mentioned that the share of the heads of poor families with any earnings fell from about two-thirds to a little under half between 1959 and 1989. Most of that decline is up to 1975. After that there is little change. And then in the 1980s, there is a slight increase. So, it could be the case that you find rising work effort among the poor and among the bottom fifth of the income distribution in the 1980s, more than you would find among the top quintile. So, if you look just at the last 10 years, yes, indeed, there is an improvement, but it is coming off a very low floor that was established in the 1960s and 1970s.

Representative SOLARZ. Do I understand your essential point to be that the main reason for poverty—and obviously there are several—is that you have a lot of poor people who are not working and the reason they are not working is not because there aren't jobs for them but basically because, for one reason or another, they're dispirited; they're not looking for jobs; they've given up; they don't want to work or whatever. That's your point; is that correct?

Mr. MEAD. Not quite. I think that all of these factors play some role. I am not saying that they are totally unimportant, but the largest factor is the demoralization that we were talking about. The demoralization doesn't mean people don't want to work. I am not asserting that. Because if they didn't, then it would be much easier to explain this problem. However, they say they want to work. There is every reason to think that they would want to and are sincere, but for various reasons they don't feel they can work in practice.

Representative SOLARZ. But you believe objectively that the jobs are there?

Mr. MEAD. No. I think jobs are there in most situations at the margin. That's all we can be sure of. That is, for most people looking for jobs at a given time, jobs appear to be available.

Representative SOLARZ. What do you mean "at the margin"?

Mr. MEAD. For those looking for work at a given moment. Representative ARMEY. The way that I understand what he is saying is that you can not explain the individual's inability to have a job by the shortage of jobs.

Mr. MEAD. That's right.

Representative ARMEY. Now, if you want to ask the question, why don't 100 percent of the people have a job, then the shortage of jobs argument works out.

Representative SOLARZ. OK. But, however, if I understand what we've heard from the other witnesses, even if you are right with the kind of pay that's provided for the kind of jobs these people would get even if they were working, they would still be below the poverty level.

Mr. MEAD. No, not usually. Of all 32 million poor people today, there are only about two million who are working full-time, full-year and are still poor. Now, that's not unimportant, but we have a much larger number who are not working at all.

Ms. RUGGLES. Dr. Mead, there have been a lot of studies of how women, who do not work or are poor, would fare if they did work. For example, Barbara Wolf from the University of Wisconsin has one that has come out very recently that indicates that, indeed, if these women were working at their full earnings capacity most of them would not only still be poor but many of them would not even be able to cover their child-care costs.

Mr. MEAD. I think it's true that many of them would still be poor, and the level of working poverty would rise. No question about that. But the overall poverty level would also fall because most people who work steadily escape poverty.

Representative SOLARZ. Let me stop right there because there are two key points that I want to ask the other witnesses about. First, how do you respond to Mr. Mead's point that most of the poor people who are not working could, in fact, get jobs if they really—

Mr. MEAD. I am not really saying that.

Representative SOLARZ. Well, what are you saying?

Mr. MEAD. I am saying that at the margin now jobs are available. Now, if all the nonworkers started to go to work at some point—we don't really know what would happen at that point—no doubt the labor market would become more difficult, but we can't say what share of them—

Representative SOLARZ. Well, do you agree or disagree with his point that at the margin—by which you mean the individual whose—

Mr. MEAD. For today.

Representative SOLARZ. Today, you pluck out at random a poor person who is not working and who is able-bodied and that person could get a job if they really went out and looked for a job.

Mr. FARRELL. There are too many gray areas as to what type of job, what are the benefits of the job. Professor Mead has taken the posture that the playing field is level and that the employer does not make, in most instances, decisions about the type of employee he or she wants, or the kind of cultural and social attributes he or she wishes that employee to possess. That would come in as an intervening factor as to whether or not one was employed. And I think that the fact of the matter, when you look at the economic restructuring in this country, when you look at those low-skilled jobs that are being pushed out of cities where there are large numbers of the poor—and out of rural areas—they're moving to Third World countries; they're moving to Mexico. As we look in areas of Chicago, New York, Milwaukee, and Los Angeles, you can see that the corporations that had the largest number of low-skilled jobs have pushed more of them out of the country, away from those people who, as you would say, want to work at the margin. It is a rather complex situation.

Representative SOLARZ. Mr. Mead, you're shaking your head.

Mr. MEAD. Well, what Mr. Farrell is referring to is the arguments that economic restructuring have deprived a large part of the poor of the chance to work. In fact, the trend is very equivocal. Yes, manufacturing has declined and moved out of the cities, but there has been an explosion of service employment that, on balance, is not inferior to the manufacturing employment. Yes, high-paid factories in Michigan are paid more, but a lot of other manufacturing employment, for example, textiles in the South, were very low paid. It is not clear overall that things are worse.

And above all, there has been a whole string of very technical studies that have attempted to explain inner-city poverty with reference to economic structure. For example, the proximity of jobs in the suburbs, the educational quality of the jobs and so on. And these studies haven't come up with much. In fact, there have been a couple of literature reviews recently that concluded that this hypothesis really hasn't checked out. It might check out in the future, but right now there isn't much to support it. And there is a lot of evidence on the other side. So, the whole Wilson mismatch theory, right now, stands on very shaky ground.

Representative SOLARZ. Well, if the jobs that these people used to fill are diminishing, what alternative jobs can they get?

Mr. Mead. It isn't the case that today's poor used to be employed in the factories. In fact, there is very little overlap between displaced workers and the inner-city poor. In fact, in many cities—New York is one example—the groups that are now poor often had nothing to do with the factories. Blacks in New York were never heavily reliant on the factories. Puerto Ricans were. And today both groups are heavily poor for the same reason. They have withdrawn from the labor market, they've gone on welfare. It doesn't seem to have very much to do with economy at all.

Mr. FARRELL. There are no welfare programs for males in any large payment scheme.

Mr. MEAD. Officially.

Mr. Farrell. Yes. And if we are talking about "mother's day," where males go to females' homes when they have received their welfare checks, I don't think that is picking up the slack in the job need. But I think what I would like Professor Mead, and perhaps he can clarify it for me, what he means when he says working at the margins. What jobs are we talking about? Because when we're talking about the service-sector jobs, there have been studies that have been focused on Milwaukee, where employers will replace local workers with immigrants who are likely to be more amenable to working a dirty, unsafe job, than a resident. And so they play these games with all of these different populations.

Representative SOLARZ. Let me refer to residents also. Once they are here, if they have green cards, they are entitled to work, and they have the same rights, and responsibilities, and privileges as anyone else. But I want to pick up on what Mr. Mead said and get the response of Ms. Blank and Ms. Ruggles. His argument is that most of the working people, people who work full time, are in fact not poor. And of the working poor, only a relatively small percentage are working full time. He said that even though there has been a decline in the real wages of unskilled people, that's not the explanation for the increase in poverty because if these people got out and got jobs, even though they were full-time jobs, most of them would be above the poverty level. And he says at the margin they can go out and get jobs.

Ms. RUGGLES. Yes, I think the evidence is that they would not be above the poverty level, that most of them are, in fact, sufficiently low skilled and have sufficiently large numbers of work disabilities and other problems of that nature, so that if they went out and got jobs they would not, in fact, be able to——

Representative SOLARZ. Even if they were full-time jobs?

Ms. RUGGLES. Well, the thing is that a lot of them cannot hold full-time jobs because they have work disabilities and things of that sort.

Representative SOLARZ. Well, how can they hold any job?

Ms. RUGGLES. Sometimes they are not totally disabled.

Representative Solarz. No. Give me some examples. I mean, if somebody is dysfunctional in the sense that they are incapable of showing up on time for a job, or they are an alcoholic, or they wander off because

they take drugs and that kind of thing, presumably that disqualifies one even for a part-time job. Whereas, if you're handicapped, presumably if you're capable of working part-time, maybe in a wheelchair, couldn't you work full time?

Ms. RUGGLES. No. There are people who have things like high blood pressure, or heart conditions, or things of that sort that limit the hours that they can work. There are also people who have diseases like asthma that recur periodically, and this makes it hard for them to work during periods when the disease is active. Things of that sort. And this characterizes a fairly large proportion, a really quite surprisingly large proportion of the AFDC population.

Representative SOLARZ. Do you know what percentage of the unskilled jobs in the country provide a wage that leaves people below the poverty level?

Ms. RUGGLES. Well, it would depend on how big their families are, because the families ... it is a little hard to calculate that.

Mr. MEAD. I can give you one figure that's relevant. It depends on many variables, but it is worth noting that, in welfare, when people leave welfare to go into a job through work programs connected to welfare, about half or 60 percent of the mothers leave welfare immediately. Now, that doesn't get them out of poverty, you realize.

Representative SOLARZ. When they get a job?

Mr. MEAD. Yes. In other words, to get a job through these work programs takes you off welfare 50 or 60 percent of the time. That's just one relevant figure.

Representative SOLARZ. On that point I also wanted to ask, to what extent is welfare intergenerational? Are there any studies that indicate what percentage of the people who are below the poverty level come from families where their parents or grandparents were on poverty? In other words, it's passed on from generation to generation?

Ms. BLANK. It's quite a small percent.

Mr. MEAD. It's not very large. I do think it's larger among the long-term poor and the inner-city poor, but it's not as large as people think.

Ms. RUGGLES. I think there's no evidence to support the idea that people who are long-term poor have—

Representative SOLARZ. And by definition everyone on welfare is poor?

Ms. RUGGLES. Yes.

Representative SOLARZ. And do we have any statistics about the extent to which those on long-term welfare—recipients permanently on the dole, as opposed to people who get on for a year or a few years—and then they will—

Mr. MEAD. We've good numbers on that. It's about 50/50. About half the cases end within 2 years, and about half go on beyond 2 years. Now, if you look at multiple spells, then the distribution is more long term. But it is clear that it is a distribution divided between very short-term cases and very long-term cases. Most of the concern, I think, appropriately

should fall on those long-term cases. They are the ones who less often are employed, who stay on welfare for long periods.

Ms. BLANK. It's also worth noting that with regard to the long-term welfare spells there is quite a disproportionate number of women who are on welfare long term, have some form of work disability—something like 30 or 40 percent. It is quite a high number.

Representative ARMEY. Can I interject? It is the question about work disabilities or afflictions. You talked about the fairly large population of people counted among the poor who have these afflictions that prevent them from working. I would argue that if you examine the Nation's labor force, you will find a surprisingly large number of people at work day in and day out that have those same afflictions and worse. So, one person's disability or debilitating ailment is another person's problem or nuisance, but they go to work anyway. I think—

Mr. FARRELL. It depends on the type of job, I think.

Representative ARMEY. It is pretty hard to compare a type of job with no job. I really feel that if you did a little Marshallian synthesis, Mr. Mead and Mr. Farrell, and through my wife here, who is a family therapist—a psychologist by trade—who uses a concept called family of origin that goes directly to the point of your role models, your environmental thing that takes us back to the psychological phenomenon, I don't think that we can avoid looking at that. I am absolutely convinced. I have seen too many people overcome what would to me seem to be the most debilitating affliction and go to work 40 hours a week, 50 hours a week.

Mr. MEAD. Actually, you have hit on one of the major question marks here and that is to what extent disability disqualifies working age people from working. Now, I have no control for that in my figures because there wasn't any way to do it. In the latest figures, which Dr. Ruggles has, I think it's 11 percent of the working age heads are classified as disabled. And there are other estimates too. But the answer to it is the one you've already made, and that is that there is a comparable incidence of disability among people who are employed.

Ms. RUGGLES. No, it's not.

Mr. MEAD. It isn't the thing that can explain our problem.

Ms. RUGGLES. It's not a comparable—

Representative ARMEY. If I could go on with my thoughts, though, because Mr. Farrell really, I think, made an important point when he talked about this. The fact of the matter is that you can go to the kind of social psychological values that are governing behavior, and you can find some cultures or families in certain times that say, look, work is always necessary, desirable, honorable and welfare is always unnecessary, undesirable, dishonorable—welfare in any form. And if you find that kind of a value structure, it may seem rigid, but it clearly will be defining in terms of behavioral patterns.

If, on the other hand, you find that a value that says it is acceptable to take, as it were, charity in some form—public or private, or what-

ever—and work is not a necessary part of my personhood, then that will give you another perspective. And it strikes me that if you are looking at a trend in this country where more people seem to be more willing to accept less work and more income subsidy from nonwork sources, you're talking then about a possible explanation that cannot be overlooked.

Mr. FARRELL. Probably what we need to do here—and I think that Professor Mead and I may not be that far apart—I am willing to accept the fact that there will be numbers of individuals who may have an aversion to work, and they may be of the psychological, sociological disposition from the environmental context whereby they would reject regular and meaningful work. My point is simply that they don't constitute the majority of individuals who are not employed. And I think that certainly is what Professor Mead has indicated that needs to be plugged into a statistical equation.

Representative SOLARZ. Do you disagree with that, Mr. Mead?

Mr. FARRELL. But I think I understood him to indicate that this is the primary reason why individuals are not working. I think that there are too many other subtleties here, based on a number of qualitative and quantitative studies, that suggest that, yes, that's a factor but it is not a driving factor.

Representative SOLARZ. Do you disagree with that?

Mr. MEAD. I do in degree. I think if you were to look at the 1-year poor, including all of the transient cases, ambivalence about work might be outweighed by the more impersonal factors. I think that could well be true. If you look at the long-term poor, which is my focus, people who are unemployed—more importantly, who are poor year in and year out.

Representative SOLARZ. And took out those who are long-term poor because of disability.

Mr. MEAD. That is very judgmental. The disability question is something that I really can't address rigorously. It's an issue, but it is very hard to deal with. There is just no way to say how much of that disability is prohibitive or not.

Representative SOLARZ. I am talking about people who are clearly incapable of work.

Mr. MEAD. But most of them are going to get on disability programs and, as a result, they are not going to be a consideration. Let me just finish my point on the attitudes. What we see in the literature on this is the desire to work is almost universal. People do want to work, and I don't contest that for a moment. I think that's what makes the problem interesting. They say that and then for various reasons they don't work. The two attitudes that seem to dominate in explaining why people, in fact, don't work are, first of all, a reservation wage problem. Among some people, including young men particularly, there is a feeling that yes, I want to work in principle, but I feel it's unjust to have to accept a wage below a certain level, particularly below what white kids get or nonpoor kids get. Whites have the same feeling. So, there is a tendency not to

work, even though one is worse off as a result. I don't view this as economizing behavior. This is really moral behavior of a certain kind. It is a protest against the options that are being offered.

More important, for women I would say it is what I would term as simply defeatism. These are people who want to work but are overwhelmed by the logistics of working. They feel that, although in principle they could work and there is opportunity, they just can't get it together. They feel demoralized about work, and they find that welfare is an acceptable substitute.

Representative SOLARZ. Do you mean, for the women, the problem is they don't have day care for their children——

Mr. MEAD. No, it isn't that they can't get it. We don't see evidence that the lack of day care is usually a problem. It is rather that, although they could in principle get it, they would have to organize themselves and connect all of the pieces together, and so on. It is just too much.

Mr. FARRELL. I don't think that the available data really backs you up. Let's take it back. Now, in the last quarter century, black male participation in the labor force has decreased by more than 20 percent. At a time when we had, as I indicated at the beginning of my remarks, more programs for affirmative action, more antidiscrimination, and other initiatives designed to really create a level playing field. There were, you know, very specific initiatives that were launched on both sides of the aisle in this Congress. And so, if we take the position that is advanced by my colleague, then we are saying that there was nothing going on in the labor market. No, on the other side, were the employees' skill levels during this period and everything that happened on the employers' side. And I think, as I indicated earlier about immigration, certainly immigrants who have green cards, who have become citizens of this country or are in the process of becoming citizens, should have all of the access to the fruits of this country. At the same time, there are data available to show that in a surplus market employers sometime manipulated those undocumented workers, and they used them in the sweat shops, in the large cities and small cities across this country. Now, that was not as readily available in the public domain, but that happened. So, you had that because we know that immigration policies have changed over the past two census periods where we have had a great influx of low-skilled workers. We also know that there have been some changes in the economic structure of the jobs available. So, I would again encourage my colleague that since there has not been a static situation on the employer's side, we cannot assign all of the responsibility to the employees in terms of attitudes toward work.

Mr. Mead. I just want to speak to the immigration question. There have been a number of studies by George Borgas that have effectively disposed of the theory that the aliens—legal or illegal—are diminishing the opportunities for the native born poor. In fact, to the contrary, the areas where immigrants are numerous appear to be doing better economically. Now, I don't think that the evidence in this is totally conclusive, but

it doesn't look as if immigrants are the reason for the problem in the inner-city.

Mr. FARRELL. I am not saying that they alone are responsible. Congressman, I apologize for that; I am not saying that it is either/or, I am saying it is a collage; it's a multifaceted set of factors that we have to examine before we come up with what caused this problem.

Representative SOLARZ. I would like to ask Ms. Ruggles and Ms. Blank to respond to what I think is the central thrust of Mr. Mead's testimony. And then I would like to ask Mr. Mead to respond to what I believe to be the central thrust of Mr. Farrell's testimony.

Now, Mr. Mead says—and I am now quoting from his summary—"poor adults work at much lower levels than the nonpoor." That is the initial reason for most poverty among families and children. Then he goes on to say, "Nonwork is not due, in most instances, to low wages, lack of jobs, racial bias, or other barriers to opportunity. Mostly nonwork is due to demoralization. The poor want to work, but feel they cannot in practice." Now, let me come back to the first paragraph. Comment on that if you will. Poor adults work at much lower levels than the nonpoor. That is the initial reason for most poverty among families and children. Do you agree or disagree, and why?

Ms. BLANK. It is certainly true that the poor work less than the nonpoor and that's one of the reasons that they're poor. I guess what I disagree with are some of the implications of the further statements there in a number of ways. First of all, I think that there is enormous evidence that when you increase opportunities through expansion of employment, falls in unemployment, the ways in which one increases job opportunities in this country, that there is an enormous response on the part of low-income families and individuals. When it happens every time that we have an economic expansion that hours and—

Representative SOLARZ. But we just heard the expansion of the 1980s didn't produce that.

Ms. BLANK. It had an enormous effect in terms of labor-market involvement. Weeks of work per year went up by two or three among the bottom quintile in the population over the 1980s.

Representative SOLARZ. But I thought the bottom line of Ms. Ruggles's testimony was that in spite of the economic expansion the poverty rate didn't decline, which it had in the past?

Ms. RUGGLES. That's right, because they earned less while they were working. They were working more and earning less.

Ms. BLANK. So, the net effect on poverty was very mild. I mean, poverty fell very slowly.

Representative SOLARZ. But, do you agree that there are two reasons for poverty. Either nonwork or low wages. Mr. Mead is saying that the primary reason for poverty is nonwork rather than low wages. Do you agree or disagree with that? Obviously they are both factors, but—

Ms. BLANK. I think it is important to distinguish populations here. There is some group in the population for whom the effect is clearly nonwork, who you don't think could possibly work. I mean, the fact that they can't work is really the problem. For those who are employable, I think the issue is opportunities, together with low wages. I mean, the sorts of jobs that are available, you know, are problematic. I don't want to deny that for people who have been discouraged from work over a long period of time that those problems become psychological, as well. Psychology and environments clearly interact here.

Representative SOLARZ. Well, I have been given one figure that would seem to somewhat counter Mr. Mead's argument—that 31 percent of the workers in 1987 earned wages too low to lift a family of four out of poverty, even on a full-time, full-year basis. This suggests, for example, that for all of the single-person-headed-households that, even under the best of circumstances, if they got a full-time job all year round, if they had three children, then one-third of them would still be below the poverty line.

Ms. RUGGLES. That's right. And the research that I cited earlier by Barbara Wolfe finds, looking at the welfare population specifically, that the vast majority would indeed still be poor if they worked up to their earnings capacity.

Representative SOLARZ. OK. Then let me move on to the next point he makes. Nonwork is not due, in most instances, to low wages, lack of jobs, racial bias, or other various opportunities. Mostly nonwork is due to demoralization. The poor want to work but feel they cannot in practice. Do you agree or disagree with that?

Ms. RUGGLES. I disagree. I think that the reasons why the poor don't work are, most of all, because the people who are long-term poor are particularly likely to be elderly or disabled and can't work. And then among those who could work, but are long-term poor—which again is a very small population—I think that the main reasons for not working are an interaction of things like having low skills that would qualify them for very low wages, having children for whom they do not have relatives who can provide care, so that they would need to earn enough to pay for child care. Having other barriers to work, like minor disabilities of one nature or another, and those factors combine to make it difficult for people to work.

I think when Congressman Arney, for example, was talking about how many individuals who are disabled manage to work anyway, I think there is no question that that is true. But if you have to do a job that involves physical labor, that's a different problem.

Representative SOLARZ. Actually, I am trying to work my way through this. This is enough to boggle anyone's imagination, and you folks work at it full time. But I gather that someone said before that a substantial percentage of the people in poverty are not long-term poor.

Ms. RUGGLES. That's right.

Representative SOLARZ. What percentage?

Ms. RUGGLES. About half.

Representative SOLARZ. Half. OK, so by definition, half are not working to the extent that they are poor because they're out of work; it's not because they don't want to work but they haven't been able to find work.

Mr. MEAD. That's true. Among the short-term cases that is very often the case. My numbers apply to a given year. So, you have a lot of short-term cases in there. The surprising thing is how large a gap there is in work level, even dealing with the 1-year poor. If you talked about the long term and compared them to the nonpoor, which is not the case in my tables, you would have an even greater contrast.

Representative SOLARZ. Now, he goes on to say policies that promote work by trying to raise skills or wages have little effect on work levels.

Ms. BLANK. I think all of the evidence that we have and what happens when wages rise for any group in the population, and when job opportunities increase and employment demand grows, you see a clear response in the labor market. I don't know of any studies that say the opposite.

Representative ARMEY. May I interject? I should point out that I did my Master's thesis on the implementation of the Manpower Development and Training Act of 19—

Mr. MEAD. 1960.

Representative ARMEY. And then, of course, I watched CETA and all of the various aberrations under this basic thing. And quite frankly I don't believe that any of these efforts in the MDTA tradition were very successful; were they?

Ms. RUGGLES. I think there's a difference between success in creating higher wages, which is indeed a problematic thing to do, and success in getting people to work more when they have higher wages.

Representative ARMEY. And I think Mr. Mead's point was any policy effort designed to—how was it?—would be described by MDTA, CETA and those programs that, frankly, I think have been pretty much abject failures and a wasted opportunity.

Mr. MEAD. They are not in every respect a failure. The evaluations do show that these programs produce useful effects and they usually justify their cost, in a cost-benefit sense. What none of them have done—and this is more judgmental because the evaluations really don't speak to this—is cause for the nonworking poor to work at higher levels for sustained periods. In most cases where these programs have generated impacts, it has been by increasing hours rather than by increasing skills and wages. Yet, when you are out of the program, then you're not in a structure where you're going to have to go on working at those higher levels.

What workfare does is put people in a structure where they do have to go on working, and at the same time they get support to do it. It is that structure that seems to do the trick.

Ms. BLANK. But what's important to say about these past programs is that many of them put somebody into the job for a short period of time,

particularly the CETA programs, and then that job ran out after 9 months or a year. They were out. That that job was never meant to be a long-term job.

Mr. MEAD. But then they didn't transition to the private-sector. The idea behind PSE was that they were going to get used to employment, and then they were going to go on to a private-sector job and that seldom happened.

Representative ARMEY. I might just mention that I had a very good personal friend who was handicapped. I don't know what the technical language would be. He had a mental handicap. I am not quite sure—I am sure there is a technical label that psychologists would apply. He frankly wasn't very bright. He worked as a janitor, and he was removed from his job when we raised the minimum wage in 1977, because the University could not afford to pay him, and his family did go on welfare, to his shame. I saw him later, and I felt really badly for him because he was so embarrassed about it. We then replaced him with a CETA trainee that did nothing for about 9 months and then disappeared. I frankly saw very little good in that. One must never want to legislate by anecdote, but in that little homely story it didn't leave me with much of a favorable impression.

Ms. BLANK. Part of the comment I think you're making about many of our job and training programs of the 1960s and 1970s, which were of another time in some ways—economically at least—is that they weren't designed to provide any sort of educational or training component. And I think one of the strong issues of the labor markets of the 1980s and 1990s is the skill issue that the workers most in demand are workers who have particular skills. High school dropouts are in real trouble in this economy right now. And if we are talking about doing some form of training or job programs, those need to have attention to skills and not just, you know, put someone in a job, any job, and keep them in it for 6 months, and then let them go. But make sure that there is some attention here to giving this person something that will get them a long-term job.

Representative ARMEY. I might also say on behalf of my friend, Charlie, that most people would have considered his intellectual difficulties a debilitation that would have been preemptive to his ability to work. Charlie never would have accepted that. He would have been insulted by the suggestion. I always loved him for it. I am sorry.

Representative SOLARZ. Mr. Mead, in Mr. Farrell's testimony, he quotes—and I think this is really the heart of his own argument—William Julius Wilson as saying that among the changes having the most far-reaching impact in creating an underclass are the increasing polarization of the labor market into low-wage and high-wage sectors, and the relocation of manufacturing industries out of central cities to the suburbs, where it is difficult for these inner-city people to go in order to get jobs. The economic consequences of these changes for undereducated and unskilled inner-city residents is a reduction in the opportunity to work in jobs that

pay a living wage. And this is advanced as one of the major reasons for the fact that the poverty rate has not gone down, even though there was economic growth in the 1980s. How do you respond?

Mr. MEAD. As I said before, rigorous efforts to confirm this theory have failed. We simply don't have strong evidence for it. There are a couple of studies that find some effects, but the majority of the studies do not.

Representative SOLARZ. Is there any evidence that denies it?

Mr. MEAD. Yes, there are a number of studies that explicitly reject the theory that the spatial mismatch—the fact that the jobs are in the suburbs and that the inner-city people are in the middle of the city—is the reason for lower work effort in the inner-city. A couple of recent surveys of this literature by people who, I think, wanted to find the opposite conclusion, concluded that there's not much there.

Now, on the educational mismatch, the argument that the jobs are becoming high-tech, we don't have as conclusive studies or as many of them. Those that we have suggest that, in fact, the drift toward high-tech is much less than people think, and furthermore that the problems that people have in working are not predominantly lack of advanced skills but problems of basic discipline.

Representative SOLARZ. Isn't common sense an adequate substitute for an academic study from time to time? I mean, if the number of low-skilled jobs is declining—

Mr. MEAD. But that's not true, that's really not true. All you can say is that the proportion of jobs in the economy that are high-skilled is growing slowly, but that the largest increments of new jobs coming into the labor market are still low-skilled.

Representative SOLARZ. We know there's been a big loss of manufacturing jobs in the cities; is that not correct?

Mr. MEAD. That is true.

Representative SOLARZ. Are you saying that a comparable number of low-skilled jobs have been developed outside of the manufacturing center?

Mr. MEAD. Yes.

Ms. BLANK. But at lower wages.

Mr. MEAD. Yes, that's true. If you just compare manufacturing jobs, yes, there has been a fall in the pay offered for low-skilled jobs. But the importance of manufacturing in the overall economy has been exaggerated. The work problem is nationwide. The importance of this manufacturing employment is confined to a few cities in the East and Midwest, and again, attempts to verify that the decentralization of jobs explains non-work simply have not succeeded.

Representative ARMEY. Mr. Chairman, to get back again to the confusing ... the empirical things are so difficult because again the argument, the big argument that was the big rage in the mid-1980s, was that all of the jobs being created were McJobs. So, if you took that argument, even the study that both did, you would say all of the job expansion that we had

in the 1980s were exactly these kinds of jobs that today we hear don't exist. And in terms of the spatial thing, every nation in the world has to deal with it in Europe, in the Common Market. It has been a critical problem. Every nation in the Common Market being concerned about the number of people—aliens—coming up from Italy, coming from other countries. I hear the expression, "trapped in the inner-city, the jobs are in the suburbs, and I am trapped in the inner-city." But the person that is doing the job in the suburb is likely to be resented because he came up from Mexico. So, people do move to where the work is, quite routinely, in terms of an empirical fact. For very low-skilled jobs, you find people move across borders, across great vast distances. If that job is precious to them, they will move to it.

Representative SOLARZ. If there's housing.

Representative ARMEY. Again, there's no less help for a Mexican who comes up from South of the Border

Mr. MEAD. Professor Wilson says jobs able to pay a living wage. Now, that is a crucial qualification. What he means by that is a job able on a single earning to support a family. Well, as you can see in my third table, for all incomes, the typically married-couple family now has 1.12 full-time, full-year workers. So, the average American does not expect to support a family on one person's earnings.

Representative SOLARZ. Can you tell us what percentage of the people whom we acknowledge to be poor, using Census data, are black; what percentage are white; what percentage are Hispanic?

Ms. RUGGLES. I don't actually have it broken down that way. About 30 percent of the poor are black. The poverty rate for white is about 15 percent—this is for kids, sorry, the poverty rate for white kids is about 15 percent.

Representative SOLARZ. Of the total poor population, roughly 30 percent are black?

Ms. RUGGLES. Over half are white.

Representative SOLARZ. Over half are white?

Ms. RUGGLES. Yes.

Representative SOLARZ. The remainder Hispanic?

Ms. RUGGLES. Yes.

Mr. MEAD. If you look at the long term, it is more heavily black.

Representative Solarz. But are whites still the majority of the long term?

Mr. MEAD. No.

Representative SOLARZ. Of the long-term poor?

Ms. RUGGLES. I don't think we know that, Larry.

Mr. MEAD. Well, I am going on the Greg Duncan study. There, about 65 percent of the people who were poor at least 8 years out of 10 were black.

Ms. RUGGLES. I think that that's been revised, and I don't think that that is their current estimate. I think their current estimate would be that our best guess is that about half of the long-term poor are white.

Representative SOLARZ. And over half of the short-term poor are white?

Ms. RUGGLES. And over half of the short-term poor are white.

Representative SOLARZ. Do you disagree with that, Mr. Mead?

Mr. MEAD. No. The situation of the 1-year poor is very clear.

Representative SOLARZ. Now, Mr. Farrell, let me ask you a question. You said before that there are a lot of young black males who chose, in effect, not to seek certain kinds of employment because they thought it would be a dead-end job, or they deserved better, or that compared to what white kids were getting they got better jobs.

Mr. MEAD. I said that.

Representative SOLARZ. You said that. Well, maybe—any of you who want to answer this—but this is very impressionistic, and please correct me if I am wrong, but when I go to restaurants, for example, in New York City, I notice a lot of Hispanic or Asian immigrants. They may not be immigrants, but Hispanics or Asians who have jobs as busboys, kitchen help, that sort of thing. I very rarely see blacks in those jobs.

Now, presumably, they are very low-paid jobs. Is there some reason for it? Do you not find blacks in those jobs because there is a pervasive pattern of discrimination when a black goes for a job as a kitchen helper—I will say a black who didn't graduate from high school, so he can't get a job as a teacher or as a bank teller, or whatever. They won't give jobs to these people because they discriminate, or is it because they don't want the jobs because they think it is either beneath them, or it doesn't pay enough, or what?

Mr. FARRELL. A sizable portion of the explanation is that the employers do not wish to hire black males. And there are instances of certain black males who want a better job than what they perceive to be a low-wage job. But instances of discrimination are rampant and growing more so in the service sector of the economy.

Representative SOLARZ. Is it your view that there are more blacks who are not working because they either are denied jobs for reasons of race, or are not seeking jobs because they believe that for racial reasons they won't get them, as compared to the number of blacks who are not seeking jobs because they feel the jobs they could get are beneath their station, or not as good as they should be entitled. I am trying to get a sense of which is the greater problem?

Mr. FARRELL. The former would be the greater. And the latter would be the smaller group. Then you have other factors coming in. Because what has happened is that black males, in particular, have not been able to transition to the service sector of the economy as these other jobs became unavailable. And even moving across the borders as Congressman Arney indicated, the housing affordability crisis that blacks oftentimes have in moving into the suburban jobs, the transportation problems, and

the access to live in the area to make it worthwhile because the transportation costs have become exorbitant.

In the State of Wisconsin, the Governor over the last several years has increasingly enhanced and tinkered with what he developed in his first term, a job-ride program. Although my colleague would say that there is no such thing as a spatial mismatch, the Governor allocated millions of dollars trying to make jobs in suburban areas more accessible to inner-city minorities.

Representative SOLARZ. Ok. If we had a truly full employment economy where everybody who wanted a job got a job and was able to earn a wage sufficient to lift their family above the poverty level, how many people would still be in poverty? In other words, if the poverty rate was limited to those who are truly incapable of working either because of age or because of disability—and I am talking about children now because if their parents are able-bodied they would have jobs and the kids wouldn't be—what percentage does that leave?

Ms. RUGGLES. My best guess would be about half of today's poor would not be poor under those circumstances, and that is a real rough estimate.

Mr. MEAD. I agree with you.

Representative SOLARZ. So, the poverty rate would drop from about 12.8 to roughly 6.4—it would be about 6 percent, 6 to 7 percent. These are people who are, by definition, incapable of working.

Mr. MEAD. Well, but when I say I agree, I mean only that if the nonworkers went to work—those who could work—we would be left with about 5 or 6 percent.

Representative SOLARZ. That's what I mean.

Mr. MEAD. I do not believe that to merely generate full employment would cause that.

Ms. RUGGLES. Right. We don't need to argue about the macro aspects of this at the moment.

Representative SOLARZ. Because your argument would be that even with the full employment economy, some of these people wouldn't work.

Mr. MEAD. Or couldn't or wouldn't for various reasons.

Representative SOLARZ. Do any of you have any idea of what percentage of the poor are in the underground economy and by a more rational definition of poverty, really are not poor? You know, they may be making \$1,000 a week in the numbers racket, or they are selling crack, or something, but they are officially unemployed. Do people like that get counted as poor or not poor?

Ms. BLANK. There are very few people in that situation from what we know. It is true that a substantial number probably make some money off the books that doesn't get reported, but it tends to be very small amounts of money. Those who make big money in the underground economy are not the poor.

Representative SOLARZ. How do you get counted as a poor person for the purposes of—

Ms. RUGGLES. Well, first of all, you have to be alive and not in jail. So, right off—

Ms. BLANK. Most of the people who make big money off the underground economy have some sort of legitimate business that hides what they're actually doing. And that money does get reported, so that they're up there in the middle to upper incomes.

Representative SOLARZ. I had the impression that there are a lot of people in the underground economy who do things like sell dope or run numbers, and they make enough money from that that they don't need other—

Mr. MEAD. There is very little evidence on this, but the best surveys indicate that the underground is smaller than most people think. It is about 15 percent of GNP, not 30 or 50 percent as some people have said. Most of those involved are small businessmen who are working off the books part of their life, while they are making legitimate money on the other side.

The drug trade is small relative to the number of nonworkers and the number of poor, and most people involved in the drug trade are not making much money off of it. A few people get very rich but most people make very little money, and furthermore end up dead or in jail. To say that it is somehow a rational decision to go into the underground is just not supported by the facts.

Representative ARMEY. Will the gentleman yield?

Representative SOLARZ. Certainly.

Representative ARMEY. I hope you'll give that testimony to the Ways and Means Committee, because I believe on a couple of occasions that they have put special appropriations in for the IRS in order to increase the economy. They assume it's very big.

Mr. MEAD. But sometimes what people mean by underground, people who are on welfare and are working legitimate jobs and not reporting the income to welfare, that, I think, is more common. But even there we have only one study that I know of that looks at the income sources of welfare mothers, and finds that their earnings are something like 12 percent of it, so it's not a large number.

Representative SOLARZ. Mr. Mead, one of your points is that the poor are working less today. What is your evidence for that?

Mr. MEAD. Mainly, the decline in the share that report either any earnings or full-time, full-year earnings in the annual poverty survey.

Representative SOLARZ. Do one of your charts—

Mr. MEAD. I didn't have a chart on this, but I had numbers on pages 1-2, footnote 3 is the source. It says at the bottom of page 1: "In 1959, 68 percent of the heads of the poor families had at least some earnings in 1989. In 1989, only 49 percent did."

Ms. BLANK. Between 1959 and 1989, I think I have some serious problems as to what we are talking about in this hearing.

Representative SOLARZ. You say in 1959, 68 percent of the heads of poor families had at least some earnings. In 1989 only 49 percent did. That is about a 20 percent drop. Over the same period, the share of poor heads, working full-year and full-time, dropped even more sharply, from 32 to 16 percent. Now, Ms. Blank and Ms. Ruggles, do you quarrel with these figures?

Ms. BLANK. I think the issue is that that drop occurs primarily up to the mid- to late 1970s, not over the last 10 years.

Mr. MEAD. That's true.

Ms. BLANK. If you look at what is happening to poor families, by family type, every family type shows more work. In fact, if you look at female-headed families—

Representative SOLARZ. Shows more work from when to when?

Ms. BLANK. Between 1979 and 1989.

Mr. MEAD. That's true, but it's from a very low base, and we are not anywhere near where we were in 1959 and the early 1960s.

Ms. RUGGLES. But the families that were working more, where the heads were working more in 1959, were predominantly male-headed families that had a woman at home, and now these poor families are single-parent families. So, it is not surprising that they have different rates of work.

Mr. MEAD. No, that is not entirely persuasive. First of all, we have rising work rates among nonpoor female heads and among women generally—

Ms. BLANK. And also among poor female heads.

Mr. MEAD. No, I don't think that's true.

Ms. BLANK. It is true.

Mr. MEAD. Or only in the last few years.

Ms. BLANK. So?

Mr. MEAD. And what you don't see is that the working age share of the poor has declined. In fact, it has increased over that time.

Representative SOLARZ. What is working age?

Mr. MEAD. Working age is 18-65. That share of the poor population has not dropped, as would be true if what Ms. Ruggles is saying is true. On the contrary, it has risen. The main cause is that Social Security is lifting the elderly out of poverty, so the poor population is less elderly than it used to be. Second, the size of families has fallen, so we have fewer children per poor family than we used to have. And actually, therefore, the share of the poor who are working aged—and again, I am not dealing with disability—which may or may not have changed in this interval has actually risen between 1959 and 1989.

Representative SOLARZ. Let me ask Mr. Mead, Ms. Blank, and Mr. Farrell a concluding question, and Congressman Armey may have some

of his own. How do you respond to Ms. Ruggles's initial observation that the current basis for poverty really understates it; that even if you include the in-kind contributions that she claims it doesn't really lower the poverty rate, it simply puts people closer to the poverty line; and by not taking into account evolving standards and changes in the standard of living, we are seriously understating a realistic responsible definition of the poverty rate, if we had a realistic and responsible definition of poverty?

Ms. BLANK. Our current poverty line is based on consumption data from the late 1950s and reflects an America that has not existed for 30 years. I think it is increasingly a not terribly useful concept, which is a real problem because we need the—

Representative SOLARZ. It is the Orshansky model adjusted for inflation?

Ms. BLANK. Yes. And that model, when it was developed in the mid-1960s, was the best that we could do. But we can do much better now.

Representative SOLARZ. This was Mollie Orshansky?

Ms. BLANK. Yes.

Representative SOLARZ. And when Ms. Orshansky developed her model, she took the food basket for a family of four and multiplied it by three. Why did she choose three rather than two, or four, or five, or six?

Ms. BLANK. Because the consumer expenditure surveys that had been done in either the late 1950s or early 1960s showed that people, on average, spent one-third of their expenditures on food. So, that if you take food and multiply it by three, you get up to total expenditures.

Representative SOLARZ. Well, what percentage did the studies show people spend of their income on food today?

Ms. BLANK. Around 17 percent.

Ms. RUGGLES. Yes, around a sixth.

Representative SOLARZ. Pardon?

Ms. RUGGLES. About one-sixth.

Ms. BLANK. You would now multiply by almost twice of what you did then. If you are going to calculate the poverty line exactly the way she did, you would get a poverty line that would be far higher than what she got.

Representative SOLARZ. Unlike my good friend, I was not an economist in school; I didn't teach it and took no courses in it, so I suppose I am like most Americans in that I have to work my way through this. Ms. Orshansky said that one-third of the average person's income was spent on food, so she took the amount of money you'd have to spend to feed a family of four and then she multiplied it by three. So, now the studies show that the average person spends one-sixth of their income, so you are saying that if you took her formula you would then have to figure out what a family of four spends on food, multiply it not by three but by six, and so, basically, the poverty line would be twice as high.

Ms. RUGGLES. It makes it about 70 percent higher.

Representative SOLARZ. Why isn't it 100 percent higher if you multiply it by six rather than three?

Ms. RUGGLES. You are right. It makes it twice as high as her original poverty line from the early 1960s; that's right.

Representative SOLARZ. And her poverty line is what?

Ms. RUGGLES. The current poverty line for a family of three is just under \$10,000.

Representative SOLARZ. So, basically using the Orshansky formula, adjusted for the latest figures on the percentage spent on food, the poverty line for a family of three would not be \$10,000 but \$20,000?

Ms. RUGGLES. That was why I sort of stopped for a moment there. It would actually be a little bit lower than that because some things were done when it was adopted as the official measure in the 1960s.

Representative SOLARZ. But if you took the Orshansky model and you adjusted it only for the change in the percentage of income spent on food and did nothing else; didn't count the in-kind contributions; didn't adjust it for things that are now necessities like air conditioning, say, or indoor plumbing that you didn't consider a necessity then, what would that do to the poverty rate?

Ms. RUGGLES. Your poverty line would be around \$17,000 for a family of three and your poverty rate would be about 26 percent.

Representative SOLARZ. Twenty-six percent. Now, if you retroactively adjusted the figures going back and you wanted to look at poverty over time, which we've been talking about a lot here, would the changes in the poverty rate more or less, reflect the changes under the existing Orshansky model?

Ms. RUGGLES. No, you would get a completely different pattern. In particular, over the 1980s, since the recession, instead of having poverty rates fall since 1983, you would see poverty rates that were rising slightly over that period. You would actually see higher poverty rates in 1989 than you saw in 1983.

Representative SOLARZ. When Ms. Orshansky did her model, what was the poverty rate with the model?

Ms. RUGGLES. The poverty rate from 1965 was right around 23 percent.

Representative SOLARZ. Twenty-three percent. Now, if you went back to 1965 and multiplied the thing by six rather than three, what would it be?

Ms. RUGGLES. If you did everything the same for 1989, using only the current multiplier, it would be about 26 percent, so you would be just about back where you were.

Representative SOLARZ. No, if you went back to 1965 and multiplied the food basket by six rather than by three, what percent would be in poverty?

Ms. RUGGLES. That would be under about twice her poverty measure. So, it would have been a pretty substantial proportion of the population.

Mr. MEAD. But the multiple wasn't really six back then.

Representative SOLARZ. What I am trying to get at is, of course, if you were to take the current figures, which are 17 percent, and apply it then, there would still be a significant decline in the poverty rate from 1965 to 1989. But as I see it, the bottom line is if you use Orshansky's model, adjusted for the current percentage of the family budget that goes for food, then you are looking at a poverty rate, which is about 25 percent.

Ms. RUGGLES. That is right.

Representative SOLARZ. Which is extraordinarily high.

Ms. RUGGLES. Yes, that is exactly right.

Representative SOLARZ. And of those people who are living in poverty—and let me just make sure that I have this straight in my own mind—what percentage are people who have someone in the family working full time?

Ms. RUGGLES. Under the current official poverty definition, it is not that large, but the more you raise the poverty line, the higher the proportion of the population.

Representative SOLARZ. So, that would suggest that one of the real problems is the wage structure, but the wage structure is driven by competitive considerations; is it not?

Ms. RUGGLES. Right.

Representative SOLARZ. So, I am curious then. One thing I certainly totally agree with Congressman Armev on and I feel more strongly about this than anything, is that we need accurate information. Of course, this is, we found out, fraught with political implications. But let's assume we had what I would consider to be a more realistic definition, and we came to the conclusion that 25 percent of the American people were living below poverty. This would be shocking to most Americans. But if it also turned out—and you would agree with this, I gather—that the substantial majority of these people were working families with that revised definition of poverty.

Ms. RUGGLES. Most of them would be either working or elderly. A substantial proportion of the people you would add would be elderly also.

Representative SOLARZ. They would? You mean people whose Social Security and pensions now bring them over the poverty level with the current definition but would not—

Ms. RUGGLES. That's right. Elderly people who have total incomes in the range of \$10,000, who are not considered poor now if they are in a couple, but would be under this.

Representative SOLARZ. So, the main political consequence presumably would be to generate pressures for increases in Social Security benefits?

Mr. MEAD. I am not sure that any of us want to see that.

Ms. RUGGLES. I think that there are a couple of things. I mean, there would be some tendency to see higher poverty rates for the elderly, but I think it would also help us to recognize the extent to which there are very large numbers of working families that are really not making it. I

mean, part of the reason why you get a decline in the number of workers is that, as the poverty line goes down, you are looking at a more deprived population.

Representative SOLARZ. But I want you to speculate on this just a little bit. Let's assume we had a poverty rate of 25 percent, say more elderly, more working poor under those, and what would be the policy implications of this to the extent that the country wanted to significantly diminish that poverty rate?

Ms. RUGGLES. I think that the implication would be that you do, indeed, need something like some sort of wage support program, like an EITC or a family allowance, or something like that, that gives low-income workers the ability to bring their income, with earnings, up to a level that permits them to stay out of poverty.

Representative SOLARZ. Have you or anyone else ever calculated how much money it would cost, through various mechanisms like Earned Income Tax Credits and increased Social Security payments, to bring the people in poverty under a revised Orshansky model above the poverty level?

Ms. RUGGLES. I have not calculated that, but it would be a substantial amount of money.

Representative SOLARZ. My guess is that you are probably talking about a massive redistribution of income.

Ms. RUGGLES. Yes.

Representative SOLARZ. Would it be greater than the income redistribution that took place in the 1980s, in which it is said—this chart notwithstanding for a moment—that the rich got richer and the poor got poorer?

Ms. RUGGLES. I think if you were to try and eliminate the entire poverty gap, yes, that would be a greater redistribution.

Representative SOLARZ. I will yield in one second. Could I just ask you to comment on this chart, because I have to confess that when Congressman Armev pointed to it it looked fairly sensible to me, and I seem to be making a good point, and I was a bit nonplussed because it also seemed to be contradicting my opening remarks. I am asking you now, as we approach the end of this long hearing, to come to the rescue of the humble Chairman. What are the implications of this chart that I, as a layman, who never took a course in economics did not notice, but if I had been more astute and sophisticated might have picked up?

Ms. RUGGLES. Well, I would say the biggest implication is that it really matters what you pick for your base year. If you have a recession, people's incomes go down, and when you have a recovery, people's incomes go up. This is sort of a known fact.

Representative SOLARZ. Well, he says over here ... wait a second.

Ms. RUGGLES. No, it is the other chart.

Representative SOLARZ. No, I think this was his real average. I had made the point that the poverty rate really hadn't gone down, and Congressman Armev made the point that—

Ms. RUGGLES. And, indeed, the poverty rate hasn't. And what this chart is telling you is that that lowest fifth of the population, even though their incomes have gone up in constant dollars——

Representative SOLARZ. It went up a thousand bucks.

Ms. RUGGLES. It went up a thousand bucks from the bottom, but they still haven't gotten back to the level they had in 1979.

Representative SOLARZ. You are saying that even with that \$1,000 increase, it didn't bring people above the poverty level?

Ms. RUGGLES. That's right. Whereas, if you looked at the top quintile, you would find that their incomes had far exceeded where they were.

Representative SOLARZ. So, in other words, you are saying that we were both right?

Ms. RUGGLES. Uh-huh.

Representative ARMEY. Excuse me, Mr. Chairman. Insofar as you and I agreed that what we want is a very straightforward, professional, honest examination of the questions of poverty in this country, are our programs working and how can we fix them, these charts are really quite redundant to our purposes and probably not something that you and I need to concern each other with. Basically, the gist of that chart is that if you are going to examine the Reagan years, don't count in the Carter years, and that's another argument that we decided that we are not going to be involved in.

Representative SOLARZ. Good.

Representative ARMEY. I want to go back to—I hope I pronounce the name correctly—Orshansky? Now, I am just kind of curious. I do not know this person. Was she an economist by trade?

Ms. RUGGLES. She was a policy analyst at the Social Security Administration. I think her training was in economics. Gordon knows more about this than anybody.

Representative SOLARZ. Did she come from Brighton Beach in Brooklyn?

Mr. Mead. PROBABLY.

Representative ARMEY. I think the base year that we're talking about was 1965 when——

Ms. RUGGLES. Well, she produced the estimates in 1965. I think she actually used 1963 data.

Representative ARMEY. As her baseline, OK. But if you take that from my point of view, a rather effective but certainly simplistic approach of one-third the budget goes for food, and then you make the comparison with today, where it's roughly one-sixth the budget goes for food. If, in fact, we were going to make an Orshansky update and go to the one-sixth, we would then, de facto, accommodate to the qualitative changes in the consumption basket that has taken place?

Mr. MEAD. That is exactly right.

Ms. RUGGLES. That's right.

Representative ARMEY. There would be—in fact, that would just sort of fall into place.

Ms. RUGGLES. That's right.

Representative ARMEY. So, we would essentially say, let's transplant the methodology employed at that time to this time, and so it would be. But it was an interesting point.

I want to go back to another point I made earlier. You estimate that even if you made that adjustment, one of the things that—I don't know where you would come with your raw number, it is around 10,000 now—but again if you are going to make a public policy position, you are going to end up having to have a position that would end up with designating a poverty level. That level, as designated, would have to be generally acceptable to the American public. And if you designated it at a level at or above the median salary of the American working man—

Ms. RUGGLES. No, it works out to about half the median income, which is just about where it was in relative terms when Ms. Orshansky did hers.

Representative ARMEY. That is interesting. But you don't understand that—

Ms. RUGGLES. I certainly do.

Representative ARMEY. —that would be a big problem.

Ms. RUGGLES. But as Mr. Mead has said, we have done, in fact, quite a lot of surveys at this point on what people think would be a reasonable poverty level, and indeed they give you a number that is in the neighborhood of what we're talking about, that is around \$15,000.

Representative ARMEY. I want to make one final point. I just wanted to make the point that the one envelops the other.

In 1988 we spent about \$173 billion, according to the Congressional Research Survey, CRS. I always get these government agencies mixed up. \$173 billion dollars. Now, if we took the poverty population and did a direct income payment—a la Milton Friedman's negative income tax or however we defined it or worked it out, that just happens to be administratively very easy to work with—it would have cost us only \$52.3 billion to have brought every single American citizen up to the poverty level. So, out of \$173 billion spent, where we failed to bring everybody up to the poverty level, depending on how you measure it—and nobody knows how to measure it, but officially the statements are we didn't do it—we could have done it with \$52.3 billion. Now, there is a tremendously ineffective administration of the taxpayer's money, which is one of the things that gives us a sick feeling.

Representative SOLARZ. What was that \$152 billion spent on?

Representative ARMEY. If we spent \$173 billion, and by all reports—

Representative SOLARZ. On what?

Representative ARMEY. On needs-tested public assistance.

Ms. RUGGLES. But that presumably includes medical benefits, for example.

Ms. BLANK. Yes, that has to include medical programs.

Representative ARMEY. No, but you don't want to count them against the poorest share of the income anyway. So, I mean——

Ms. RUGGLES. Right. But you can't count them on one side and not the other.

Representative ARMEY. I am not counting them on this side. This excludes them.

Ms. RUGGLES. No, it can't. We don't spend this much money, and we don't count the medical benefits.

Representative ARMEY. Needs-tested public assistance spending. Oh, you don't want to exclude them.

Ms. RUGGLES. In other words, the Medicaid benefits that make up a very large share of that total don't go to reduce the poverty gap.

Representative ARMEY. You want to hold medical spending totally and 100 percent aside?

Ms. RUGGLES. Well, since we don't count them in income, it doesn't make sense to count them in spending.

Representative ARMEY. You have to forgive me, I kind of fell back on my own experience. I am a taxpayer and I kind of feel like—Lord have mercy—I give so much at the office, and I'd like to have it counted when people reckon up, am I doing my fair share of the sharing around here, and should I be sharing more. I'd like to be giving full credit for what sharing I have done already.

Ms. RUGGLES. Well, absolutely, and I would never argue that we shouldn't have those medical programs or anything like that. They are very necessary. All I am trying to say is that it isn't a realistic measure of how well we're meeting total needs.

Representative ARMEY. Well, you are saying then that the difference between the \$173 billion and the \$52.3 billion, some \$120 billion, is probably all in Medicaid?

Ms. RUGGLES. A good piece of it is in Medicaid. Other than that—I don't know what it is in——

Representative ARMEY. Let's take \$66 billion as medical care, so half of the \$120 billion goes to medical care.

Ms. RUGGLES. I don't know what else is in there. I mean, the AFDC program total expenditures is around——

Representative ARMEY. Well, I have taken all of the Medicaid out, Mr. Chairman. This is the thing that is fascinating me. I have taken the medical care out. We then have, after we take out the medical care and after we take out the \$52.3 billion——

Ms. RUGGLES. I think you also have to take out Medicaid.

Representative ARMEY. Is that Medicaid?

Ms. BLANK. All medical care is \$66 billion.

Representative ARMEY. All medical care is \$66 billion.

Ms. RUGGLES. There is something strange with your numbers, I'm afraid.

Representative ARMEY. The CRS says that there was \$66 billion spent for all medical care in 1989.

Ms. RUGGLES. I'll tell you what, I could provide a breakdown for the record.

Representative ARMEY. Well, let's say, assuming CRS is correct in this instance, which is a brave assumption for any government data processing agency, we would have ended up with \$54 billion unaccounted for, where did it go when it would only have taken \$52 billion in direct outlays to the folks to bring them all up to the poverty level.

Ms. BLANK. One problem with that is that the \$52 billion is what you need to take people from where they are now in terms of their income to the poverty level. Some of what where they are now is transfer income, so that part of that is filling some of the gap, and you don't take that into account in that calculation.

Representative SOLARZ. Is it true that in the 1980s the value of the AFDC payment, in real terms, declined about 30 to 40 percent?

Ms. RUGGLES. About 20 percent over this decade, about 40 percent since 1970.

Mr. MEAD. I am not sure it's that great. There's an estimate that I have seen that is smaller because they make adjustments for Medicaid.

Representative ARMEY. Let me just, Mr. Chairman, correct a point. The gap that you thought about doesn't really exist because, of course, we measure the income pre-transfer, and that wasn't in there in the first instance.

Ms. RUGGLES. You can't have measured—you have to have before in-kind benefits, but I don't think you have a pre-transfer ... we can talk about the numbers——

Representative ARMEY. Well, I think we are getting bogged down. I want to make a final point.

Representative SOLARZ. Let me just ask this question, and then you can make your final point, and I'll make mine. You said that there has been a decline in the real value of AFDC benefits of about 40 percent from when?

Ms. RUGGLES. 1970.

Representative SOLARZ. My question is, assuming that AFDC benefits had been adjusted annually for inflation the way that we adjust Social Security benefits, what impact would that have had on the poverty rate in the country?

Ms. BLANK. It would have brought it down but not by a lot.

Mr. MEAD. Most welfare is below the poverty line anyway.

Ms. RUGGLES. Well, that's true now, but I mean that wasn't as true in 1970.

Mr. MEAD. But it was mostly true even then.

Ms. RUGGLES. It's true that it would have less impact than you might think because a lot of the people——

Representative SOLARZ. If we had to estimate, would it be 1 percent, 3 percent, 5 percent?

Ms. RUGGLES. No, I think you could probably eliminate a reasonable share of childhood poverty, in particular, that way.

Ms. BLANK. I have never seen that number calculated exactly that way. My guess is that it wouldn't bring it down more than 5 to 8 percent, in terms of total poverty counts.

Representative SOLARZ. You mean from 12 percent to 7 percent, or 4 percent?

Mr. MEAD. Well, a couple of points.

Ms. BLANK. I was thinking more of 3 percent of the total 12 percent.

Representative SOLARZ. But that would be 25 percent of all the people in poverty.

Mr. MEAD. I think that is quite possible.

Ms. RUGGLES. Yes, I think that's a reasonable guess. I mean, we could think about doing a little work.

Representative SOLARZ. See, I think this illustrates one of the great conundrums we face here, and that is there is a tremendous logic behind the case for means-testing these programs. There is no reason that the wealthy should get benefits that they don't really need, and we could save a lot of money. There is no question that it is wasteful to give money to people who don't really need it.

On the other hand, when you look at the experience of AFDC, which provides benefits to people who, by definition, are the neediest people in the whole society, they get short changed. Social Security is adjusted annually for the cost of living because it has tremendous political clout behind it. The poor people who are on AFDC have very little political clout, and their benefits are not adjusted.

Mr. MEAD. The political difference is not primarily that Social Security is a large program. It is rather that Social Security reflects a work history that has expanded steadily since it was first instituted 15 years ago. It is a small program but very popular with Congress because it is work connected. So, the key is not that a program is large, it is that a program is work connected. If you could somehow connect more of the poor to the labor market, then you would see much greater willingness to transfer money to them.

Representative SOLARZ. How much of the AFDC goes to working families? Any?

Ms. RUGGLES. Very little because under the changes of the AFDC law it is almost impossible for working families to qualify for AFDC.

Mr. MEAD. But even before that the working level was very low.

Representative SOLARZ. I think Congressman ArmeY would like to make some concluding observations.

Representative ARMEY. I was going back to what I think probably is the overall survey, relating a good deal to Ms. Blank's excellent testimony. We started the war on poverty in the 1960s; that is, what is known in

our budget vernacular as entitlement spending, with about 12 percent of the budget, I think, at that time. In the ensuing years, it has grown to the point where it is 52 percent of a one and a half trillion dollar budget. I think that is something like \$750 billion. A great deal of it is Medicare, the fastest growing portion of it being Medicare. And after all of these years of all that expenditure and all of that growth of expenditure, most of it was in programs that were of and pursuant to the declaration of the war against poverty. You disagree with that?

Ms. RUGGLES. No, it is mostly Social Security.

Representative ARMEY. Ok. Much of it, at least. I guess that one of the things that we really have to accept, as an overall concept—no matter how you measure it, correctly or incorrectly—is that frankly we haven't really changed the incidence of what is officially designated as poverty much in all of these efforts in all of these years.

Ms. RUGGLES. Well, I don't think we've tried very hard to change the incidence.

Representative ARMEY. But we have certainly spent a lot of money on it.

Ms. RUGGLES. No, most of that money doesn't go to poor people.

Representative ARMEY. Well, that is my point. We spent a lot of money on a lot of programs, but very little of it went to poor people. But my point is that judging from what you said, Ms. Blank, if we are going to have a success in the next 25 years where we failed in the last 25 years, we are going to have to try to look at doing something different than what we've done in these past 25 years. I mean, I see no evidence of any success; do you?

Ms. RUGGLES. Yes. I think we have made substantial progress up through the mid-1970s, and we've lost ground since then.

Ms. BLANK. The elderly. I mean that is the group that we have continued to expand Social Security quite substantially, and it has showed up in their poverty rates. It has been a striking success.

Mr. MEAD. Actually, there are two successes that I would mention. One is Social Security in the reduction of poverty among the elderly. The other is reduction of poverty among the working poor. In the 1960s, you had a much larger working poor population than you do today. Much of that gain is due to economic growth, to the growth of real wages since the 1960s.

Representative ARMEY. Well, then Social Security, which is not part of the war on poverty, and the growth in the economy affecting improvement in the conditions of the working poor is where we have had progress. Where we've had progress that was presumably—

Ms. BLANK. Well, there has been other progress though as well, but I think it is worth noting that the Food Stamp Program has basically eliminated many instances of really severe malnutrition-related diseases that you could see in this country in the late 1960s and that you almost

can't find today. Virtually all research has attributed that to the expansion of our food and nutrition programs.

For all of the problems that we still have with the uninsured, for those people who do now receive public health insurance—Medicaid—who didn't before, their health has substantially improved, and there is evidence that it relates to Medicaid.

Representative ARMEY. For all the good food stamps have done, it frankly in my estimation is one of the most cruel possible forms by which you could make the transfer.

Ms. BLANK. I wouldn't do it in coupons. I think you are absolutely right.

Representative ARMEY. I think it is an abomination that you subject people suffering so much hardship to that humiliation. And we ought to be able to do better than that. I think I have probably had my say, Mr. Chairman.

Representative SOLARZ. In 1965 when the war on poverty was launched, what was the poverty rate in the country as a whole?

Ms. RUGGLES. About 23 percent.

Representative SOLARZ. Well, on the face of it, one would have to say that for all of the failures it certainly hasn't succeeded in abolishing poverty. Since that time the poverty rate in the country, using the Orshansky model, has declined by about half; right? From 23 to 12 percent.

Ms. RUGGLES. Yes. It declined a substantial amount right at the very beginning of that period. But since the mid-1970s, we have really not made much progress.

Representative SOLARZ. Right. But looking at it from the inception, there has been significant progress.

Well, I want to thank all of you very much. The hourly wage, which each of you get compensated for, is below the poverty line. But we are richer intellectually for having benefited from your accumulated experience, and we are very grateful to you for taking so much time. Nobody asked for permission to leave and go to the bathroom while it went on, so we trust you were engaged also. And I think this has been a helpful beginning.

In our next hearing, I gather we are going to look at the specific successes and failures, programmatically, of the war on poverty. Then in our final hearing, we will focus on solutions for the future, where we hope to hear what the Administration has in mind and what some others, who have been giving some thought to the problem, have in mind. But you certainly put this in a very helpful framework for all of us, and I want to thank you very much for sharing your accumulated wisdom with us.

The hearing is adjourned.

Representative ARMEY. Mr. Chairman, if I could just make a point. Since I joined this Committee, thanks to you and thanks to our witnesses,

this has been the only JEC hearing that I have had the privilege to participate in as to what it should be. I want to thank you all for that. It has been a very validating experience for me with respect to the wishes I had for my service on this Committee. Thank you.

Representative Solarz. On that note the Committee is adjourned.

[Whereupon, at 6:25 p.m., the Committee adjourned, subject to the call of the Chair.]



THE WAR ON POVERTY: WHAT WORKED?

WEDNESDAY, SEPTEMBER 25, 1991

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The Committee met, pursuant to notice, at 2:00 p.m., in room 2359, Rayburn House Office Building, Honorable Stephen L. Solarz (member of the Committee) presiding.

Present: Representatives Solarz and Arney.

Also present: Lucy Gorham, Valerie Minz, and Teresa Sewell, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE SOLARZ, MEMBER

REPRESENTATIVE SOLARZ. The Committee will come to order.

Tomorrow, the Census Bureau will release its official poverty statistics for 1990. It is likely that these figures will tell a grim story of the millions of Americans whose families have suffered great economic hardship as a result of the recession. Therefore, it is especially timely that today we continue our series of hearings exploring the War on Poverty and its legacy.

Today, conventional wisdom maintains that the War on Poverty, launched over 25 years ago, has been a failure. Former President Reagan was often quoted as saying that in the 1960s we fought a War on Poverty and poverty won.

President Bush and his Administration blame antipoverty programs for promoting welfare dependency over the work ethic, government paternalism over individual initiative, and immorality over traditional values. The poor—the Administration seems to believe—would be better off if Congress would only agree to cut capital gains for the rich rather than raise the minimum wage or increase unemployment benefits.

But what is the true record of this most ambitious social agenda since the New Deal? Can its critics brush aside the widely recognized achievements of Head Start—the early childhood education program which has brightened the bleak futures of hundreds of thousands of our Nation's children? Can they deny the investment in the Job Corps training program for disadvantaged youth has paid off? And can they ignore the fact that

millions of senior citizens were lifted out of poverty through Medicare and other programs?

The great vision of the War on Poverty's planners was to provide equality of economic and educational opportunity for America's poor—a hand up, not a handout. Nearly three decades later we need a frank and honest appraisal of our efforts.

Who has benefitted from the War on Poverty? Which programs and strategies have proved successful and which have failed? What role did economic growth play in supporting or undermining these initiatives? What has happened to our Nation's commitment to ending poverty? Do these programs and policies of the 1960s have anything to teach us in the 1990s?

In addition to these questions, it is useful, in trying to assess our own experience in combating poverty, to look at the efforts of other western industrialized nations over the past several decades. What approaches have they found helpful in reducing poverty among children and the elderly?

What kinds of education and training programs do they invest in to reduce the incidence of long-term poverty?

This is the second in a series of hearings addressing the plight of America's poor. Our first hearing focused on the current situation, including who the poor are and how we measure poverty in America.

Today's panel will examine the successes and failures of the War on Poverty and other antipoverty efforts. Our final hearing will review the current Administration's strategies, as well as nonprofit and private-sector initiatives to wage war on poverty.

Today, we have with us a panel of distinguished scholars to help us explore these critical issues. We will begin with Dr. Sheldon Danziger from the University of Michigan. He will be followed by Dr. Sar Levitan of George Washington University, after which we will hear from Dr. Walter Williams of George Mason University. Our final witness will be Dr. Timothy Smeeding of Syracuse University.

But before I ask our witnesses to give us the benefit of their accumulated wisdom, I would yield to my good friend, the ranking Republican, the gentleman from Texas, Congressman Armeý.

REPRESENTATIVE ARMEY. Thank you, Mr. Chairman.

Let me preface my formal opening statement with a personal confession.

It's been my observation that there comes a time in every old man's life when it is safe for him to confess the sins of his youth. I'm also convinced that the confession is good for the soul.

So, I am going to begin my observations today by confessing that in my youth, during the 1960s, as a young student and even as a young professor—both emotionally insecure and intellectually underdeveloped—I was a Galbraithian. I am today of course known and quite proudly admit to being a Friedmaniác.

But in my Galbraithian days, when the War on Poverty was being developed and programs were being pieced together, and the excitement

and the optimism was there, I was a young scholar, full of optimism. And it is now, I think, a time to have a retrospective look at that.

So, with that personal observation, let me go to my opening statement.

OPENING STATEMENT OF REPRESENTATIVE ARMEY

REPRESENTATIVE ARMEY. I am pleased to welcome our panel of witnesses to the second in a series of hearings on poverty issues. Today, we focus on what worked about the War on Poverty. In assessing the programs inaugurated by the Johnson Administration, we must examine whether conditions have actually improved for those targeted by the Great Society programs and, if so, whether the enormous government expenditures unleashed since the 1960s significantly accelerated the positive trends that were already occurring in our society at that time.

In undertaking such an analysis, it is necessary to examine the goal of the social program and if that goal was realized. The War on Poverty's primary goal was to make people self-sufficient.

A strategy of education, vocational training, and motivation was to change the behavior of the poor by making them more productive members of the society. Cash and in-kind benefits were seen as a temporary means for those who could work; thus, transfers were expected to diminish as recipients' skills and opportunities improved.

Based on its stated objective of promoting self-sufficiency among the poor, the War on Poverty must be judged a failure. Work levels among the poor have declined sharply over the last 30 years, with the share of poor heads of households working full year and full time, declining from 32 to 16 percent, according to recent Census data. The single most important distinguishing factor in a family's economic status is the level of work effort by family members.

The War on Poverty did not fail because of a lack of generosity toward the poor on the part of the American people. As Chart 1 illustrates, total welfare spending since the 1960s has continued to increase, in constant dollars, I might say, for nonmeans-tested programs, so that we now spend in excess of \$180 billion on means-tested welfare programs (see chart below).

Yet, over 30 million individuals remain in poverty, despite the fact that we currently spend more than enough to lift every nonaged poor person out of poverty. This is illustrated by Chart 2 (see chart below).

However, our best efforts to overcome poverty will fail if large numbers of poor individuals are imprisoned by a culture of dependency. The lofty goal of the War on Poverty cannot be faulted, nor can it be denied that many of the programs benefit millions of deserving Americans.

But even its most ardent supporters acknowledge that it is time to reevaluate our approach to meeting the needs of the poor, given the malignancy of welfare dependency. The challenge is to combine the social safety net with economic growth, so as to assure progress for the least advantaged in our society. The social safety net cannot be allowed to

become a web that captures and holds these people through a lifetime and through generations.

We know that welfare can never replace work as the means to capture the American dream. And I might add here that, like one of my current heroes, Thomas Sowell, I am talking here not on faith, but on evidence.

Thank you all for coming to discuss these very important issues and thank you, Mr. Chairman.

[The written opening statement of Representative Arney follows:]

WRITTEN OPENING STATEMENT OF REPRESENTATIVE ARMEY

Good afternoon. I am pleased to welcome our panel of witnesses today to the second in a series of hearings on poverty issues. Today, we focus on what worked about The War on Poverty. In assessing the programs inaugurated by the Johnson Administration, we must examine whether conditions have actually improved for those targeted by Great Society programs and if so, whether the enormous government expenditures unleashed since the 1960s significantly accelerated the positive trends that were already occurring in our society at that time.

In undertaking such an analysis, it is necessary to examine the goal of the social program and if that goal was realized. The War on Poverty's primary goal was to make people self-sufficient. A strategy of education, vocational training and motivation was to change the behavior of the poor by making them more productive members of society. Cash and in-kind benefits were seen as a temporary means for those who could work, thus, transfers were expected to diminish as recipients' skills and opportunities improved.

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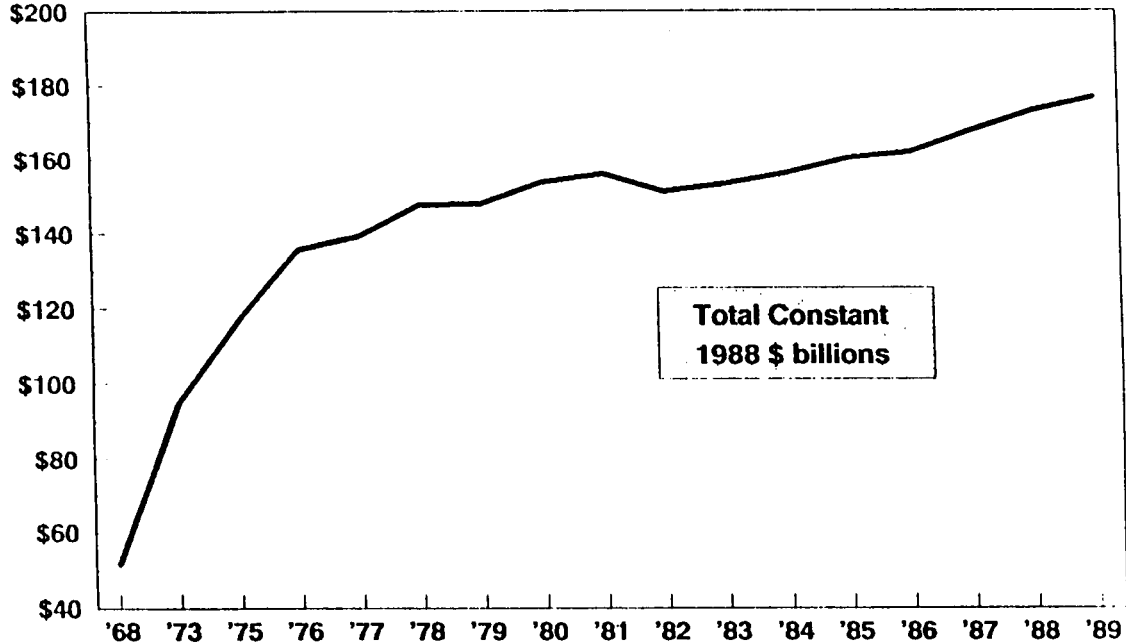
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The lofty goal of the War on Poverty cannot be faulted, nor can it be denied that many of the programs benefit millions of deserving Americans. But even its most ardent supporters acknowledge that it is time to reevaluate our approach to meeting the needs of the poor, given the malignancy of welfare dependency. The challenge is to combine the social safety net and economic growth so as to assure progress for the least advantaged in our society. We know that welfare can never replace work as the means to capture the American dream.

Thank you all for coming to discuss these very important issues.

CHART 1

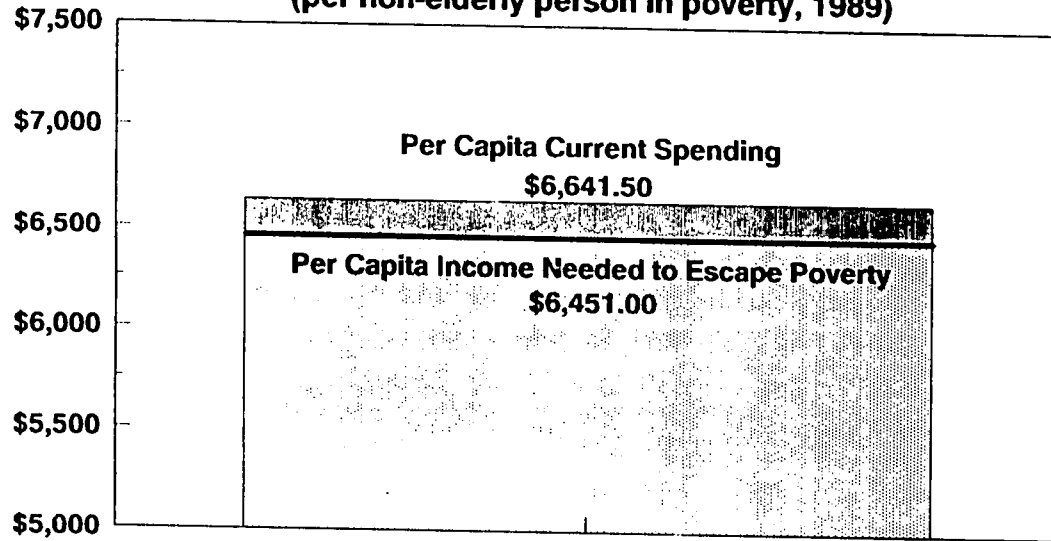
FEDERAL, STATE, AND LOCAL MEANS-TESTED WELFARE SPENDING



Source: U.S. Bureau of the Census; Congressional Research Service Report, "Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY 1986-88; and unpublished data for 1989.

CHART 2

MONEY IS NOT THE PROBLEM: TOTAL WELFARE SPENDING V. INCOME THRESHOLD (per non-elderly person in poverty, 1989)



Source: U.S. Bureau of the Census; Congressional Research Service Report, "Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY 1986-88; and JEC Republican staff calculations.

REPRESENTATIVE SOLARZ. Thank you, Congressman Arney.
We'll hear first from Dr. Danziger.

I'll say this to all the witnesses. Your testimony will be included for the record. So, if it's possible to summarize your views and complete your testimony in 5 or 10 minutes, that would be helpful in leaving the maximum amount of time for questions.

**STATEMENT OF SHELDON DANZIGER, PH.D.,
PROFESSOR OF SOCIAL WORK AND PUBLIC POLICY,
SCHOOL OF SOCIAL WORK, UNIVERSITY OF MICHIGAN**

DR. DANZIGER. Thank you, Congressman Solarz.

I have submitted for the record a paper titled "The Causes and Consequences of Child Poverty in the United States," which provides documentation for the views I will express in my testimony.

I contend that the War on Poverty provides an important example of what government can accomplish if presidential and congressional leadership and adequate funding are concentrated on a difficult domestic problem.

The War on Poverty made a difference precisely because it kept the Nation focused on the following question: How can we make the economy and societal and political institutions more responsive to the poor?

In fact, a major reason that the War on Poverty is often—and I would argue—falsely perceived as a failure is that unexpected changes in the economy made fighting poverty more difficult. Fighting poverty today is more difficult because the public policy concern with how the economy and society could be made more responsive to the poor was set aside in the early 1980s.

In my view, the War on Poverty should be considered rather broadly. I consider the last program of the War on Poverty to be the Low Income Energy Assistance Program, which was constituted at the end of the 1970s. The program was developed to cushion the poor from the negative price rises associated with energy deregulation. It shows that a concern for how the poor would be affected by changing national priorities remained an integral factor in policy debates, as late as 15 years after the declaration of the War on Poverty.

Such concern has been mostly absent in the 1980s. The Reagan Administration, for example, in pursuing anti-inflation and deregulation policies, paid little attention to their adverse distributional consequences on the poor.

Poverty in America is too high. When we get the official numbers for 1991 and 1992, we will find out that the poverty level is higher. Poverty is too high relative to what it was in the early 1970s, and it is high relative to what it is in a number of other industrialized countries that approach our standard of living.

Nonetheless, poverty would be much higher today if the War on Poverty had never been declared. Because of its programs and policies,

millions of poor and near-poor families now receive food stamps, supplemental security income, higher Social Security benefits, Medicare and Medicaid, Pell Grants, Low Income Energy Assistance, Head Start, and benefits from the Women, Infants and Children Program.

More important, a substantial number of technical research studies document that poverty will remain high in the coming years unless we find the political will and funds to implement a comprehensive antipoverty strategy.

When the War on Poverty was declared, it was clear that no single program or policy could solve this difficult problem. In fact, as was mentioned in your introductory statement, many of the goals of the War on Poverty had little to do with specific government programs. These broader goals included maintenance of full employment, acceleration of economic growth, reduction of discrimination, rehabilitation of urban and rural communities, and the expansion of educational and job opportunities.

The announcement of the War on Poverty served as the catalyst for many additional initiatives, some of which I've mentioned and others of which are listed in my testimony.

The point is that there were a variety of areas in which specific programs were targeted and for a variety of specific demographic groups. The optimistic vision that poverty could be eliminated within a generation through informed policy seemed to be borne out in the first years following the War on Poverty, as the economy grew rapidly and social spending grew as well. The official poverty rate declined from 19 percent in 1964 to about 11 percent in 1973. After that, social spending continued to grow as the War on Poverty planners expected, but the economy soured. In my view, this is the key factor that has offset progress against poverty since the early 1970s.

Economic growth and productivity lagged, consumer prices and unemployment increased as the 1973 oil shock and subsequent oil shocks led to a series of recessions. These unexpected macroeconomic conditions refuted two of the key expectations of the War on Poverty planners and sowed the seeds of discontent about government antipoverty policies.

The planners thought that poverty could be alleviated against a background of continuing economic growth. After all, in the great post-World War II economic boom, which lasted from the late 1940s to the early 1970s, the economy grew rapidly and family incomes and real wages increased year-after-year.

In the period since 1973, that has hardly been the case. Family income in 1989 was only slightly above average family income in the early 1970s, even if one uses a different price deflator—the CPI-UXI—and adjusts for reductions in average family size.

The planners believed that economic growth would continue and that, in an economy with low-unemployment rates and the antidiscrimination policies and education and training programs in place, the incomes of all families would rise at about the same rate. That is what had happened in the great boom following World War II.

Instead, after 1973, the incomes of the poor have grown more slowly than that of the average family. This slow-down has been particularly dramatic for male workers with a high school degree or less. The difficulties of this group are one of the primary reasons why child poverty has increased so much. They get relatively little in the way of government benefits and their real earnings over the past 15 years have declined.

Income inequality has increased and the antipoverty impacts of economic growth have diminished. It is because of these adverse economic conditions that the poverty rate changed little during the rest of the 1970s. After the next oil shock and recessions, it reached 13 percent in 1980.

Given these adverse economic conditions, the fact that poverty was virtually constant during the 1970s indicates that antipoverty policies were having to work harder and spend more money just to keep the poverty rate constant.

Nonetheless, the coincidence of rising poverty and spending led to a major shift in antipoverty policy during President Reagan's Administration. Instead of being seen as critical to the fight against poverty, as I have argued, social programs themselves were blamed for the rising poverty.

Most of the increased social spending after the 1960s, however, has been tremendously successful. However, it did not go into the education and training programs for the poor; rather, it went into the expansion of Social Security and Medicare programs for the elderly. And, as the chart on the declining poverty rate of the elderly shows, we have a great and continuing success from that rising spending (see chart below).

During the 1970s, poverty rose and has continued to be high in the 1980s, primarily among those groups that had been most affected by a lagging economy and for whom spending did not accelerate. And again, that's shown on the chart by the rising child poverty rate. Children by and large live with the nonelderly, whose government benefits, in general, and in the area of unemployment compensation, in particular, have lagged in real terms.

Between 1980 and 1983, poverty increased further as the recession deepened; public employment was phased out, and social spending growth was curtailed.

After 1983, the economy grew, but antipoverty efforts remained at the bottom of the Administration's agenda. Now that the 1983-1990 recovery has ended and the economy has been through another recession, we have relearned what was known at the outset of the War on Poverty: economic growth does not reach all of the poor.

The economy expanded for seven years after the 1982-83 recession. By 1990, the inflation-adjusted standard of living of the average American was higher than the level achieved in the early 1970s. Poverty has fallen between 1983 and 1989, but the rates for 1989 remain above those of 1979 and even those of 1973. And the rates for 1990-92 will be even higher. This economic performance represents a unique period in recent

American economic history—a generation without a significant decline in the poverty rate.

The 1980s were unusual, not only because poverty did not fall very much during the recovery, but because earnings inequality increased so much, as well. The economic gains of the 1980s, unlike those of the previous post-World War II recoveries, were highly concentrated. The least-advantaged groups gained less than the most advantaged groups.

Even two-parent families with children, who typically benefit most from economic expansion and rarely receive welfare benefits, have higher poverty rates now than in 1973. The real earnings of married men increased relatively little, on average, and a growing percentage were unable to support a family on their own paycheck.

These families avoided even higher poverty rates only because of the increased work effort and earnings of married women. If the poverty rate in 1990 were at its 1973 level, that is, if we had achieved the poverty rate that we had when average incomes were lower than they were today, four million fewer Americans would be poor.

What lesson do I draw from the Reagan era view that economic growth can serve as the primary antipoverty strategy?

I think the Reagan experiment shows that an era of economic growth, accompanied by cutbacks in the social safety net, will not produce sizeable reductions in poverty. Poverty will fall significantly in the 1990s only if we reject such a strategy and relearn the lessons of the War on Poverty.

The decade following the War on Poverty was one in which the Federal Government simultaneously pursued economic growth and anti-poverty policies. I think that this lesson has not been lost on the American public. It has been particularly evident in calls from the business sector for expanded programs to produce a better educated work force.

The poverty problem today is very complex. I am not arguing that we ought to simply expand programs which were expanded in the early War on Poverty area. I am advocating a renewed antipoverty effort for the 1990s.

We should realize the diversity of the poverty problem and avoid stereotypes. Some advocates act as if all the poor are voluntarily choosing a life of welfare dependency; others act as if all of the poor are unable to find any work.

There are obviously individual families among the poor for whom these extreme stereotypes fit. However, the majority of the poor are poor either because their wage rates are too low and they are not supplemented sufficiently by government benefits or because they cannot get enough work hours to keep their families above the poverty line.

The political problems of launching a major antipoverty initiative remain substantial because of the increased expenditure required. But the key components are familiar and have been discussed many times in Congress in recent years. They include improved education and training of low-skilled workers, subsidies to the working poor, access to health care, elimination of labor-market practices that discriminate against

minorities and women, and provision of employment opportunities for those unable to find jobs.

Congress has moved in the direction of aiding poor children in recent years, for example, by extending the Earned Income Tax Credit and the Head Start program, by extending Medicaid coverage, and by passing the Family Support Act.

Current proposals that would continue this pattern include refundable per capita credits for children and the extension of unemployment insurance benefits for exhaustees.

In sum, the War on Poverty reshaped our social safety net. Although that safety net has weakened in the 1980s, million of Americans continue to depend on it.

We need to relearn the lesson of the War on Poverty, that well-informed government policy can make a difference. And we once again need to place antipoverty policy at the top of our national agenda.

Thank you.

[The prepared statement of Dr. Danziger, together with a report, follows:]

PREPARED STATEMENT OF SHELDON DANZIGER

I am pleased to have the opportunity to address the Committee today. In my view, the War on Poverty provides an important example of what government can accomplish if Presidential and Congressional leadership and adequate funding are concentrated on a difficult domestic problem.

The War on Poverty made a difference. For more than a decade it kept this question at the top of our national agenda--"How can we make the economy and societal and political institutions more responsive to the poor?"¹ The War on Poverty should not be construed narrowly as a specific set of initiatives launched in the mid-1960s. Rather, it should be defined broadly to include all the programs and policies that were implemented as a result of this question. This devotion to an active antipoverty strategy continued unabated through the Nixon, Ford and Carter administrations.

In my view, the last antipoverty program of the War on Poverty era was the Low Income Energy Assistance Program, passed at the end of the 1970s. This program was explicitly designed to cushion the poor from the negative effects of energy deregulation and demonstrates that a concern for the poor still accompanied national policy debates. Unfortunately, such concern was absent in the 1980s, as the Reagan Administration actively pursued a strategy of reduced spending on antipoverty programs.

Because of the programs and policies erected in the decade following declaration of War on Poverty, millions of poor and near-poor families now receive Food Stamps, Supplemental Security Income (SSI) and higher social security benefits, Medicare and Medicaid, Pell Grants, Low Income Energy Assistance and their children participate in Head Start and the Women, Infants and Children (WIC) Program.

Poverty in America in 1991 is too high. It is too high relative to what it was in the early 1970s and it is too high relative to what it is in other countries that approach our standard of living, such as Canada and several European countries. However, poverty would be much higher today if the War on Poverty had never been declared. More importantly, poverty will remain high unless we find the political will and the funds to renew a comprehensive antipoverty strategy.

I would like to submit for the record, a paper "The Causes and Consequences of Child Poverty in The United States" which provides the documentation for the views presented in this testimony. Because my time is limited, I will merely summarize my main conclusions.

A BRIEF HISTORY OF THE LEGACY OF THE WAR ON POVERTY

Twenty-five years ago, in his first State of the Union address, President Johnson declared "unconditional" War on Poverty. Shortly thereafter, he transmitted to Congress the Economic Report of the President, which presented the conceptual foundation on which the War on Poverty was based and outlined a set of antipoverty initiatives. Included in this broad range of policies were maintenance of full employment, acceleration of economic growth, reduction of discrimination, improvements in regional economies, rehabilitation of urban and rural communities, improvements in labor market functioning, expansion of educational opportunities, enlargement of job opportunities for youth, improved health, promotion of adult education and training, and assistance for the aged and disabled. The report

¹ The source of this view is Robert Lampman, 1974, "What Does it do for the Poor? A New Test for National Policy." The Public Interest.

recognized the complexity of the poverty problem and cautioned that no single program could meet the needs of all of the poor.

The announcement of the War on Poverty served as the catalyst for additional policy initiatives that could be justified on antipoverty grounds. Some of these were within the Office of Economic Opportunity; others were associated with the Great Society; others were reflections of the increased concern with poverty. It was recognized that economic growth and low employment rates would not help all the poor. The gap in work skills between poor and nonpoor needed correction. Manpower training - both institutional and on-the-job - was required. Hence, Job Corps, Neighborhood Youth Corps, the Manpower Development and Training Act (MDTA), and other programs were either established or expanded. In addition to a lack of skills, the poor generally had less education than the nonpoor. As a result, Head Start, Upward Bound, Follow Through, Teacher Corps, and Title I of the Elementary and Secondary Education Act were launched. In the belief that deficiencies in diet contributed to low performance in school and on the job, food assistance was expanded and a school lunch program was established. Similarly, the debilitating effects of illness and disability on job performance would be reduced by providing the poor with subsidized or publicly provided medical care through Medicaid and neighborhood health centers. Finally, the Community Action and Legal Service programs sought to restructure the social institutions by which the poor gained access to jobs and goods and services.

A related set of policy changes affected existing social programs. They included increased leniency by welfare administrators, expanded right and entitlements stemming from legislation (often promoted by organized groups of recipients and legal rights activists), more liberal court interpretations of beneficiary rights and entitlements, the raising of state benefit levels, and reduced stigma attached to being on welfare.

Whatever the source, federal spending on social programs grew very rapidly through the mid-1970s. Their average annual real growth rates were 7.9 percent during the Kennedy-Johnson years and 9.7 percent during the Nixon-Ford years. By the late 1970s, real growth slowed, primarily because benefits that were not statutorily linked to consumer prices lagged as inflation surged. Real federal social welfare spending grew less than 4 percent per year during the Carter administration, and only one program to aid low-income people, the Low Income Energy Assistance program, was established.

Between 1965 and 1981, the nature of the federal budget was transformed. In 1965, about a quarter of the budget was accounted for by income security, health, education and training, employment and social service programs. By 1981, they accounted for about 50 percent.

ECONOMIC GROWTH, SOCIAL SPENDING, AND THE TREND IN POVERTY

The optimistic vision that poverty could be virtually eliminated within a generation through informed policies seemed to be borne out as the economy and social spending both grew rapidly. The official poverty rate declined from 19 percent in 1964 to 11.1 percent in 1973.

After 1973, social welfare spending continued to grow, as the War on Poverty planners expected, but the economy soured. After the 1973 oil price shock, economic growth and productivity lagged and consumer prices and unemployment rates increased. These macroeconomic conditions refuted two key expectations of the planners of the War on Poverty. They thought that poverty could be alleviated against a background of continuing economic growth because the business cycle could be controlled. They also believed that economic growth, in an economy with low unemployment rates and with antidiscrimination policies and education and training programs in place, would at a minimum be proportional, with all incomes

rising at about the same rate. At best, income growth for the poor would exceed the average rate, further reducing poverty. Instead, after 1973, the incomes, of the poor grew more slowly than the average.

Because of this poor economic performance, the poverty rate changed little during the rest of the 1970s. After the next oil price shock and recession, it reached 13.0 percent in 1980.

Given these economic conditions, the fact that poverty was virtually constant during the 1970s indicates that antipoverty policies were somewhat successful in offsetting the increased economic adversity generated in the labor market. However, the coincidence of rising poverty and rising spending led to a major shift in antipoverty policy during President Reagan's Administration. Instead of being seen as important in the fight against poverty, social programs themselves were blamed for the rising poverty.

This view neglected the major success of antipoverty policy--the rapid decline in poverty rates for elderly persons that began after the War on Poverty and continued unabated through the 1970s. Most of the increased social spending over this period was accounted for by the expansion of social security programs that aided the elderly. Poverty rose during the 1970s primarily among those groups for whom spending did not accelerate. Nonetheless, Reagan Administration policies reflected the conviction that government should avoid active intervention in the economy and allow the free market to reassume its role as the primary engine of antipoverty policy.

Active efforts were now directed toward restraining antipoverty policies. The real growth rate of social programs fell to about 1.5 percent per year, and major structural changes designed to reduce all programs save Social Security retirement and some basic benefits for those unable to work were undertaken. Large reductions were made in unemployment compensation and Public Service jobs for the unemployed.

Between 1980 and 1983, poverty increased further to 15.2 percent, as the recession deepened, public employment was phased out, and social spending was curtailed. After 1983, the economy grew, but antipoverty efforts remained at the bottom of the Administration's agenda.

Now that the recovery has ended, we have relearned what was known in the early 1960's--that economic growth does not reach all of the poor. The American economy expanded for seven years after the 1982-83 recession. By 1990, the inflation-adjusted living standard of the average American had surpassed the level achieved in the early 1970's. Poverty did fall from its peak of 15.2 percent in 1983, but the 1989 rates of 12.8 percent for all persons and 19.6 percent for children remain above those of 1979, the last business-cycle peak, and of 1973, the previous peak. This represents a unique period in American economic history--a generation without a significant decline in the poverty rate.

The 1980's were unusual not only because poverty did not fall very much, but because inequality increased so much as well. The economic gains of the 1980's, unlike those of previous post-World War II recoveries, were highly concentrated. The least-advantaged groups benefitted least. The young gained much less than the old; less-educated workers gained much less than more-educated workers; single-parent families gained less than two-parent families; blacks and Latinos gained less than whites.

If the poverty rate in 1990 were at its 1973 level, 4 million fewer Americans would be poor. Even two-parent families with children, who typically benefit most from economic expansions, have higher poverty rates today than in 1973. The real earnings of married men increased relatively little on average during the recovery, and a growing percentage were unable to support a family on their own paycheck. These families avoided higher poverty rates because of the increased work effort and earnings of married women.

At the top end of the income distribution, the "haves" benefitted much more than the rest of their fellow citizens. Their earnings and property income increased and their taxes decreased. While poverty fell less in the 1980's than in previous decades, the percentage of the population classified as "rich" increased at a more rapid rate. Indeed, the ranks of the rich are now at an all-time high.

What lesson do I draw from the Reagan-era view that economic growth can serve as the sole antipoverty strategy? I conclude that poverty will fall significantly only if we reject this strategy and relearn the lesson of the War on Poverty. The decade following the War on Poverty was one in which the federal government simultaneously pursued economic growth and antipoverty policies. Together they accomplished our last major decline in poverty.

I believe that this lesson has not been lost on the populace. The contradictions of a robust economic recovery and the continuing hardships of the poor, the medically uninsured, inner-city residents, and the homeless have shifted public opinion to favor increased government intervention. No one doubts that poverty will increase in 1991 because of the recession and because our safety net programs provide less protection now than they did in the early 1980's. But if the emerging recovery has the same antipoverty effects as the recovery of the 1980s, these contradictions will not disappear.

Concerns about foreign competition and the private sector's need for a better-educated work force have produced numerous reports from the business and philanthropic communities that advocate increased government support for human capital investment strategies. Indeed, some of the same arguments made at the outset of the War on Poverty are being repeated today.

This emerging policy consensus recognizes that the reduction of poverty in America requires both economic growth policies and a full range of antipoverty strategies. During the late 1960's and early 1970's, many antipoverty policy debates used exaggerated stereotypes of the poor. Those debates typically viewed the poor either as victims of their own inadequacies, often mired in a culture of poverty, or as victims of societal deficiencies such as inadequate schooling, lack of labor market opportunities, and discrimination. There is now a realization that the poor are a diverse population and that the opposing views of individual inadequacies and societal inequities each apply to only a small portion of the poor. The poverty problem of the elderly widow differs from that of the family whose head seeks full-time work but finds only sporadic employment; the poverty of the family head who works full time at low wages differs from that of the family head who receives public assistance and either cannot find a job or does not find it profitable to seek work.

This diversity means that no single program or policy can solve the problem. The political problems of launching a major antipoverty effort remain substantial because of the increased expenditure that would be required. But the key components of such a comprehensive antipoverty strategy are familiar. They include improved education and training of low-skilled workers, subsidies to the working poor, access to health care, elimination of labor market practices that discriminate against minorities and women, and provision of employment opportunities for those unable to find jobs. Congress has moved in this direction in recent years, for example, by expanding the Earned Income Tax Credit, by extending Medicaid coverage for poor children, and by passing the Family Support Act.

The War on Poverty reshaped our social safety net. Although that safety net was weakened in the 1980's, millions of Americans continue to depend on it. We need to relearn the lesson of the War on Poverty—that well-informed government policy can make a difference. And we once again need to place antipoverty policy at the top of our national agenda.

Sheldon Danziger
Jonathan Stern

The Causes and Consequences of
Child Poverty in the United States

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**The Causes and Consequences of Child Poverty
in the United States**

- I. Introduction
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**THE CAUSES AND CONSEQUENCES OF CHILD POVERTY
IN THE UNITED STATES**

I. INTRODUCTION

Recent demographic, economic and public policy trends indicate that high poverty rates for all Black and Hispanic children and for white children living in single-parent families are here to stay. In 1988, the official poverty rates were 43.5 percent for Black children, 37.6 percent for Hispanic children, and 46 percent for white children living in mother only families. In contrast, the poverty rate for white children living in two-parent families was 10 percent, and for elderly persons, 12 percent.¹

About 12 million children under the ages of 18, about one-fifth of all children, live in families with incomes below the poverty line (about \$12,000 for a family of four). In any year, about three-quarters of their families received some government income maintenance benefits, while a quarter, falling past all safety-net programs, received nothing. On average, their families' income fell short of the poverty line by about \$4,500.

For most white children poverty lasts only a few years. But many minority children spend their entire childhood in poverty. They live in segregated neighborhoods, isolated from mainstream institutions, in families that lack the income necessary to provide them with sufficient nutrition and health care, and attend urban schools that offer fewer opportunities to learn and to escape from poverty.

¹ The official U.S. poverty line provides a set of income cutoffs that vary by family size. In 1988, they ranged from \$7,958 for two persons to \$12,092 for a family of four, to \$24,133 for a family of nine or none. The poverty line for a family of four was about 38 percent of the \$32,191 median income of all families and 31 percent of the \$39,051 median for a family of four. The official poverty lines have been used for more than 25 years. They are adjusted annually to account for price increases, but they do not vary with real family income. Thus, for example, in 1967, the poverty line for a family of four was about 43 percent of the median for all families.

When the national poverty rate was 20 percent in the early 1960s, President Johnson declared War on Poverty. The planners of the War on Poverty assumed that active government policies implemented in a full-employment, growing economy would virtually eliminate income poverty, as officially measured, by 1980. According to Lampman (1971):

While income poverty is a relative matter, I do not think we should engage in frequent changes of the poverty lines, other than to adjust for price changes. As I see it, the elimination of income poverty is usefully thought of as a one-time operation in pursuit of a goal unique to this generation. That goal should be achieved before 1980, at which time the next generation will have set new economic and social goals, perhaps including a new distributional goal for themselves (p. 53)

And poverty did decline, from 22.7 percent of children in families in 1964 to 14.2 percent in 1973, as both social spending and the economy boomed. The decade 1970-1979 was a period of continued growth in social welfare spending, as these planners intended, but a period of unexpectedly disappointing economic performance. Productivity and economic growth slowed, family income stagnated, and prices and unemployment rose.

Given these conditions, the fact that poverty was virtually constant during the 1970s can be viewed as an indication that antipoverty policies were successful in offsetting the increased economic adversity (Danziger and Gottschalk, 1985a). The official perspective of the early 1980s, evident in the federal budgetary retrenchment in social spending, however, was quite different. Antipoverty programs themselves were blamed for the failure of poverty to fall during the 1970s as it had during the 1950s and 1960s (Murray, 1984). According to President Reagan:

With the coming of the Great Society, government began eating away at the underpinnings of the private enterprise system. The big taxers and big spenders in the Congress had started a binge that would slowly change the nature of our society and, even worse, it threatened the character of our people. . . . By the time the full weight of Great Society programs was felt, economic progress for

America's poor had come to a tragic halt. (Remarks before the National Black Republican Council, September 15, 1982)

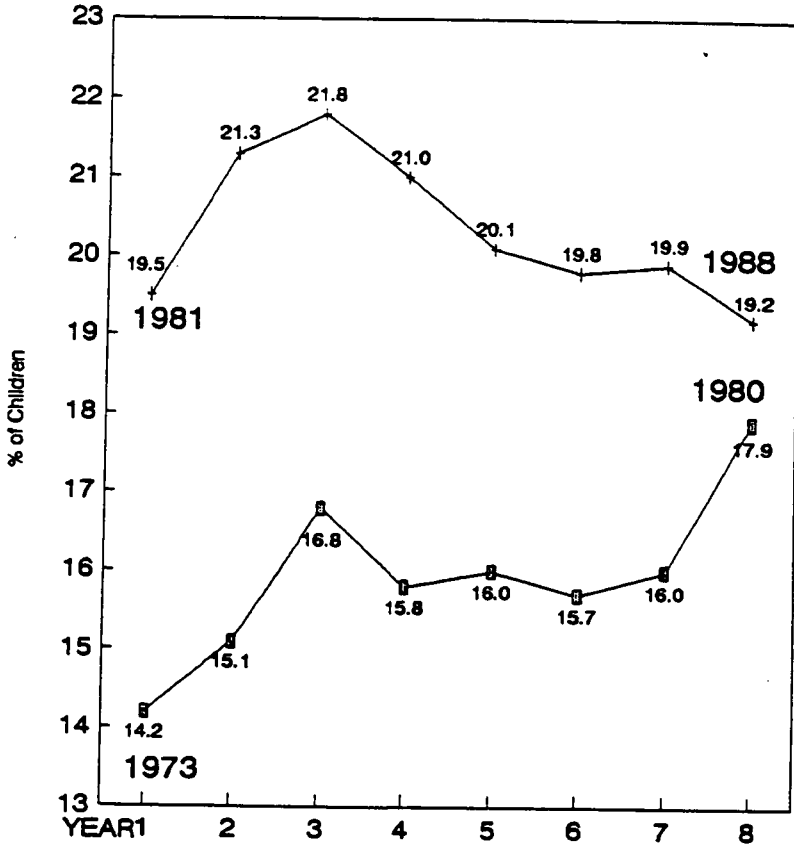
In 1964, the famous War on Poverty was declared. And a funny thing happened. Poverty, as measured by dependency, stopped shrinking and then actually began to grow worse. I guess you could say, "Poverty won the War." Poverty won, in part, because instead of helping the poor, government programs ruptured the bonds holding poor families together. (Radio address, February 15, 1986)

The "Reagan Experiment" assumed that if government avoided active interventions in a wide range of domestic policy areas, productivity and economic growth could be increased, and prices, unemployment, and poverty could be reduced. The evidence from the "Reagan Experiment" is now in. Poverty has fallen somewhat each year since 1983, a year marked by the highest unemployment rate since the Great Depression, and the highest poverty rate since the late 1960s. But the 1988 rates of 13.1 percent for all persons and 19.2 percent for children remain above those of 1979, the last business-cycle peak. This modest decline occurred during an unusually long economic recovery, but one characterized by relatively constant social spending. In addition, income inequality has increased. Between 1979 and 1980, the inflation-adjusted income of the poorest fifth of families with children fell by about 20 percent to \$7,125, while that of the richest fifth increased by about 10 percent to about \$77,000 (U.S. House of Representatives, 1990a, p. 1084).

This recent experience demonstrates that economic growth on its own cannot significantly reduce child poverty. Figure 1 shows the child poverty rate for the eight pre-Reagan years, 1973 through 1980, on the lower line and the eight years of the Reagan administration, 1981 through 1988 on the upper line. Child poverty rose from 14.2 to 17.9 percent between 1973 and 1980, averaging 15.94 percent. The rate increased dramatically to 21.8 percent in 1983, and has fallen somewhat during the ongoing recovery to 19.2 percent for 1988. The Reagan-era average, 20.3 percent, is 4.4 percentage points higher than that of the prior eight years.

Figure 1

Child Poverty Rate



+ Reagan Years, 1981-1988, 20.3% average

□ Pre-Reagan Years, 1973-1980, 15.9% average

One way to contrast the experience of these two eight-year periods is to translate the difference in the average child poverty rate into child years of poverty. There are currently about 64 million children in the U.S. The difference between the pre-Reagan period and the Reagan period in the total number of child years of poverty is then about 22 million—the 4.4 percentage point per year difference in the rate times 64 million gives the number of additional poor children in an average year. Multiplying this by 8 yields the additional years of child poverty for the eight-year period.

What does the Reagan Experiment tell us about the ability of a growing economy to reduce child poverty when little attention is devoted to antipoverty policy? Figure 1 does show that poverty fell by 2.6 percentage points -- from 21.8 to 19.2 -- between 1983 and 1988. If the current recovery were to somehow continue until 1998, and if child poverty kept falling at this same rate of 2.6 percentage points every five years, the child poverty rate in 1998 would be 14.0 percent -- about what it was in 1973! A more formal (and more realistic) projection of the poverty rate for all persons, based on time-series regressions in which the official poverty rate is modeled as a function of Congressional Budget Office forecasts of unemployment rates and economic growth suggests that poverty will fall only modestly as the current economic recovery continues, if current antipoverty policies remain unchanged (see Danziger and Gottschalk, 1985b, for a discussion of the regression model).

Child poverty in the U.S. is not only high in relation to what analysts writing in the 1970s thought it would be by now, but it is also much higher than in the many other industrialized countries (Smeeding and Tonney, 1988). If this high child poverty rate is to be lowered significantly, a comprehensive antipoverty effort is required. Such a program should build on what we have learned about the causes and consequences of poverty and about which policies have worked and which have not. There are some signs in academic and policy discussions that a "new consensus" (Novak et al., 1987) on the nature of American poverty and the means for reducing it has emerged.

Twenty years ago, the prevailing wisdom held the most of the poor were either hard working or unable to work and that "long-term dependency" and "behavioral poverty" were not important problems. For example, the Commission on Income Maintenance (1969), appointed by President Johnson, advocated a guaranteed annual income because

more often than not, the reason for poverty is not some personal failing, but the accident of being born to the wrong parents, or the lack of opportunity to become nonpoor, or some other circumstance over which individuals have no control. (p 2)

Today, many policy-oriented discussions of the "underclass" focus on "the poorest of the poor" and not "the typical poor person." For example, the American Enterprise Institute's Working Seminar on Family and American Welfare Policy (Novak, et al., 1987) writes that:

For such persons, low income is in a sense the least of their problems; a failure to take responsibility for themselves and for their actions is at the core. It would seem to be futile to treat the symptom, low income, rather than the fundamental need, a sense of self. (p. 99)

There is a middle ground, however, between the "money only" and the "internal change" positions. Now there is an appreciation of the diversity of the poverty population -- an awareness that the polar views of individual inadequacies and societal inequities each apply to only a small portion of the poverty population. The poverty problem of the elderly widow differs from that of the family whose head seeks full-time work but finds only sporadic employment; the poverty of the family head who works full-time but at low wages differs from that of the family head who receives welfare and either cannot find a job or does not find it profitable to seek work.

According to this new consensus, only the poverty of those not expected to work such as the elderly and the disabled, should be addressed with expanded welfare

benefits (see, for example, Ellwood, 1987). This represents a dramatic shift from the consensus of the 1970s that cash welfare benefits should be universally available (e.g., President Nixon's Family Assistance Plan and President Carter's Program for Better Jobs and Income). It is now widely accepted that no single program or policy can meet the needs of the diverse poverty population. And, there is consensus on many specific reforms (discussed in Section VI below). Yet, there has been little legislation to remedy these problems because a major legacy of the Reagan era -- the large federal budget deficit -- imposes considerable fiscal restraint even when specific programs receive wide support.

Although there is not yet an active antipoverty debate, there are some grounds for optimism. Both the Tax Reform Act of 1986 and the Family Support Act of 1988 (a welfare and child support reform bill) garnered broad bipartisan support and targeted substantial additional resources to poor families with children. Americans seem to have rejected the Reagan-era view that the federal government was the primary cause of the poverty problem and could therefore not solve it. There now seems to be a consensus supporting government action in a number of areas that were either targets of the budget cuts of the early 1980s or were neglected.

While the critique of government's antipoverty role prevented the initiation of new social programs during the Reagan Administration, there is now no sentiment for further cuts in Food Stamps, child nutrition programs, Medicaid, or education and training programs. In fact, concerns about the negative consequences of child poverty for America's competitiveness and for the children themselves have affected public opinion. Many people now favor an expansion of policies targeted on poor children, especially those focused on child health, nutrition and education.

Because poor children are less likely to receive adequate nutrition and health care, less likely to complete high school, and more likely to have children out-of-wedlock, child poverty has negative consequences for the next generation as well as for

today's children. The 12.1 million children who were poor in 1988 comprised about 40 percent of the official poverty population. Thus, although they are only one of the groups at high risk of poverty, they are the largest. The remainder of this paper emphasizes how this situation developed and suggests some policies that might reduce their numbers.

The paper is organized as follows. The next section reviews trends in family incomes and poverty, emphasizing the antipoverty effects of economic growth and government policies. The third section focuses on poverty and income transfer reciprocity among children, emphasizing the diversity of the poverty population and who is aided by income transfers programs and who is not. The fourth section analyzes the effects of changes in family structure and family size on child poverty. Then we review the evidence on persistent poverty and welfare receipt and discuss the emergence of an urban underclass. Section V analyzes some important consequences of poverty -- adolescent pregnancy and out-of-wedlock childbearing, infant mortality and low birthweight, and some other consequences of poverty for child health and development. We conclude with an antipoverty agenda for the 1990s.

II. ECONOMIC FACTORS

A. Trends in Family Incomes and Poverty

Recent trends in family incomes and poverty stand in sharp contrast with those of the 1950s and 1960s. Median family income (column 1, Table 1) adjusted for inflation grew by about 40 percent between 1949 and 1959 and by about 40 percent between 1959 and 1969. Poverty as officially measured (column 2) dropped by about 10 percentage points during each decade. In fact, between 1949 and 1969, real year-to-year changes in the median (not shown) were positive 16 times, unchanged twice, and negative only once. In contrast, the period since 1969, especially since 1974, is one of stagnation. Real median family income in 1988 was only about 6 percent above the 1969

Table 1

Family Incomes, and Poverty and Unemployment Rates,
Selected Years, 1949-1988

Year	Median Family Income (1988\$) (1)	Official Poverty Rate, All Persons (2)	Unemployment Rate (3)	Cash Transfers Per Household (1988\$) (4)
1949	15,415	34.3% ^a	5.9	915
1954	18,337	27.3 ^a	5.5	1164
1959	21,981	22.4	5.5	1843
1964	25,049	19.0	5.2	2265
1969	30,407	12.1	3.5	2710
1974	30,960	11.2	5.6	3572
1979	31,917	11.7	5.8	3986
1983	29,307	15.2	9.5	4367
1985	30,493	14.0	7.2	4060
1988	32,191	13.1	5.5	N.A.

Source: Current Population Reports, Series P-60, for columns 1 and 2. Economic Report of the President for Column 3; Danziger and Gottschalk (1985) for column 4.

^a Estimate based on unpublished tabulations from March Current Population Surveys by Gordon Fisher, U.S. Department of Health and Human Services.

N.A. = Not Available.

level. Poverty, however, was higher than in 1969. Since 1969, there have been ten positive year-to-year changes in the median, two years of no change, and six years of negative changes. And, unemployment throughout the 1980s has been high by historical standards. After rising to almost 10 percent in the early 1980s, the unemployment rate stabilized at about 5.5 percent after 1988.

These macroeconomic conditions refuted two key expectations of the planners of the War on Poverty. They thought that poverty could be alleviated against a background of continuing economic growth because the business cycle could be controlled. This was a reasonable assumption at the time, as median family income growth was positive for each year from 1958 to 1969. They also believed that economic growth, in an economy with low unemployment rates and with antidiscrimination policies and education and training programs in place, would at least be proportional, with all incomes rising at about the same rate. At best, income growth for the poor would exceed the average rate, further reducing poverty. Instead, since the early 1970s, income inequality has increased. Incomes have grown less than average for the poorest families and more than average for the richest (see U.S. Congressional Budget Office, 1988).

B. Trends in Male Earnings

The most surprising trend in recent years, and a major cause of the rise in child poverty has been the increasing percentage of prime-age men who do not earn enough to keep a family of four persons out of poverty (about \$12,000 in 1988).² Table 2 shows

2 While most of those with low earnings are among the "working poor," some do not work at all, and others work only sporadically during the year. In other words, some low earners work full time, full year, but at a low wage rate, while others earn a "good wage rate," but work too few hours to earn more than the poverty line because of voluntary or involuntary unemployment. In addition, a low earner may not be poor, as officially measured, if her or his family size is less than four and/or there are other earners in the family and/or the family has sufficient amounts of income from other sources.

Table 2

Men, Ages 25-54, with Low Earnings by Educational Attainment,
1949-1986

	Percentage of Men with Low Earnings by Completed Years of Schooling					All Men
	0-8	9-11	12	13-15	16+	
White Non-Hispanic						
1949	53.2%	37.8%	30.0%	31.0%	24.5%	40.1%
1959	34.4	17.7	13.2	13.1	10.6	19.6
1969	24.5	12.7	8.3	9.7	7.9	11.8
1979	36.5	24.0	15.3	15.3	10.9	16.8
1986	52.8	38.3	22.6	17.9	10.6	20.6
Black Non-Hispanic						
1949	85.0%	70.4%	63.4%	66.4%	52.8%	79.7%
1959	65.0	45.9	36.7	29.5	18.2	53.5
1969	46.0	32.3	20.0	18.0	16.4	32.0
1979	53.6	44.9	34.0	28.2	17.1	36.6
1986	73.7	55.5	42.7	30.6	22.7	42.2
Hispanic						
1949	76.0%	53.2%	46.4%	*	*	67.8%
1959	57.2	24.6	22.7	23.4	*	43.9
1969	37.7	18.4	16.4	18.4	12.2	26.3
1979	42.7	31.7	26.7	18.4	16.7	31.1
1986	60.9	47.4	35.9	28.3	18.7	41.8

Source: See Table 1.

Note: A man is classified as having low earnings if his earned income from wages, salaries and self-employment is below the poverty line for a family of four--\$2,417, \$2,955, \$3,714, \$7,355, and \$11,203 in the five years.

*Cell size below 75 men.

the percentage of men, ages 25-54, in each of five education categories whose earnings were below the poverty line for a family of four in the selected years between 1949 and 1986. In every year and for each of the three groups, those with more education are much less likely to have low earnings than those with less education. For example, in 1986, while more than half of white non-Hispanic men with eight or fewer years of schooling earned less than \$11,203, only 10.6 percent of white college graduates earned less than this amount. At every education level, black non-Hispanic men have the highest rate of low earnings, followed by Hispanics and then white non-hispanics.

The data in Table 2 for the post-1969 period do not show the kind of economic progress that Americans in the immediate post-World War II decades came to expect. For example, Between 1949 and 1969 the incidence of low earnings declined dramatically. For all white men, it declined from 40.1 to 11.8 percent; for blacks, from 79.7 to 32.0 percent; for Hispanics, from 67.8 to 26.3 percent. Large declines occurred for men in each of the five educational categories. Most of this large decline was due to the rapid growth in the level of earnings. Between 1949 and 1969, mean earnings (in 1986 constant dollars) for all men between the ages of 25 and 54 more than doubled, from \$10,252 to \$24,125 (data not shown). As a result, the official U.S. poverty line for a family of four, which is fixed in real terms, fell as a percentage of this mean from 107 to 46 percent. However, the incidence of low earnings also fell because inequality decreased over these two decades – those at the bottom experienced more rapid earnings increases than those at the top (see Danziger and Gottschalk, 1988).

In 1986, mean earnings for all men ages 25 through 54 was \$24,288, virtually the same as it had been seventeen years earlier. The incidence of low earnings, however, holding education constant, increased dramatically for all the groups. In 1986, 20.6 percent of whites, 42.2 percent of blacks, and 41.8 percent of Hispanics earned less than the poverty line for a family of four, representing increases of 8.8, 10.2, and 15.5 percentage points over their respective levels in 1969, despite the higher education

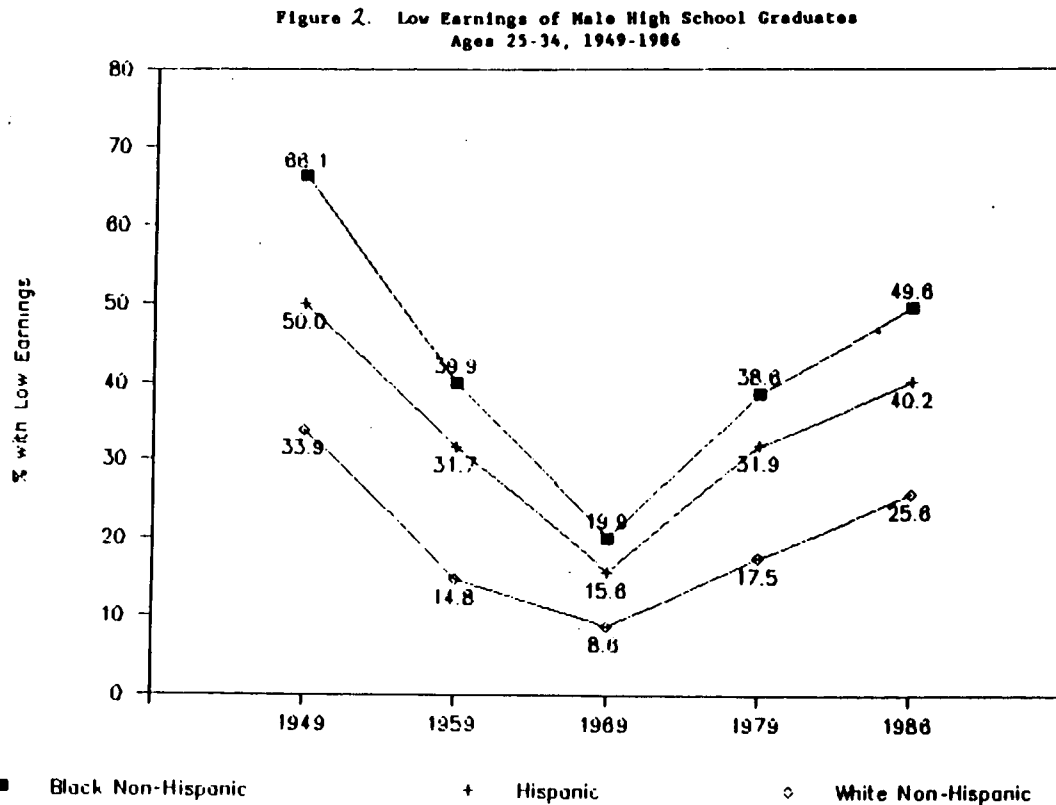
levels of 1986. Thus, this period was disappointing both because of the stagnation in the mean of earnings and because inequality increased. Those at the bottom earned less than in 1969, while those at the top earned more.

The increases in low earnings were particularly dramatic for less-educated men. For example, in 1986, men with a high school degree were substantially less likely to have earnings in excess of the poverty line for a family of four than similar men in 1959! The rate of low earnings for high school graduates increased between 1969 and 1986 by 14.3, 22.7, and 19.5 percentage points for the three race-ethnic groups. High school graduates in 1986 had a rate of low earnings similar to that of men with 8 or fewer years of school in 1969.

This deterioration in earnings was even greater for younger men. Their experience emphasizes the relationship between education and earnings for recent labor market entrants and demonstrates the economic hardship facing those who go no further than high school. Figure 2 shows the incidence of low earnings in each of the five years for men ages 25 through 34 who graduated from high school but completed no additional years of schooling. The percentage of young white high school graduates who were low earners increased from 8.6 to 25.6 percent between 1969 and 1986, with the 1986 level substantially exceeding the 14.8 percent level of 1959. For minorities, the percentage point increases after 1969 were even greater.

The data in Table 2 clearly show that high school graduation, relative to not completing high school, is an economic necessity – the percentage point differences between low earnings rates for high school graduates and those less educated have never been greater. The recent experience also demonstrates, however, that policies to increase the high school graduation rate, while necessary, are not sufficient to significantly reduce poverty. In fact, the rates of low earnings of college graduates in 1986 were somewhat higher than those for high school graduates in 1969.

Figure 2



By comparing the earnings of men to a fixed poverty standard -- the poverty line for a family of four -- the analysis thus far has presented a picture that is gloomier than analyses of poverty based on the official definition. The official rates, as shown in Table 1, are lower in each-year than the rates of low earnings shown in Table 2 because they are based on total family income and thus include income from other sources (e.g., property income, government transfer benefits) and from other family members (especially working wives) and because they reflect the actual family size, which has declined over time and is now typically smaller than four persons.

In sum, the past two decades have been characterized by decreases in the ability of prime-age males to earn an amount sufficient to raise a family of four above the poverty line. However, increasing earnings of wives and declining family size (as discussed below) have tended to offset much of the dramatic declines in the ability of men to earn above this poverty line. As a result, official poverty rates have risen only a little. The least-educated have the highest poverty rates in any year and have experienced the greatest deterioration in their economic status over time.

C. Trends in Wives Contribution to Family Incomes

For the past several decades, wives in general, and the mothers of children, in particular, have increasingly participated in the labor force. For example, in 1968, only 42 percent of married women with children less than 6 years of age were in the labor force, while in 1988, 68 percent were. The corresponding participation rates for all married women with children were 50 and 73 percent in these years, respectively. In addition, weeks worked per year among those wives who do work increased from an average of 39 weeks in 1968 to 44 weeks in 1988. And, while male earnings have stagnated, women's have not. Mean weekly earnings (in constant 1988 dollars) increased among working wives from \$247 to \$327 over these two decades. By 1988,

wives earnings accounted for about a fifth of family income, roughly double their contribution for 1968.

Wives not only raise the mean, but they also reduce poverty. And, over time, this antipoverty impact has increased. For example, Danziger and Gottschalk (1986) show that in 1967 the poverty rate for two-parent families with children, which was 9.9 percent, would have been 13.3 percent in the absence of wives' earnings. In 1984, when the rate was 10.6 percent, it would have been 16.2 percent without working wives. In other words, because of the increased contribution of working wives, poverty went up by only 0.7 percentage points, instead of by 2.9 points.

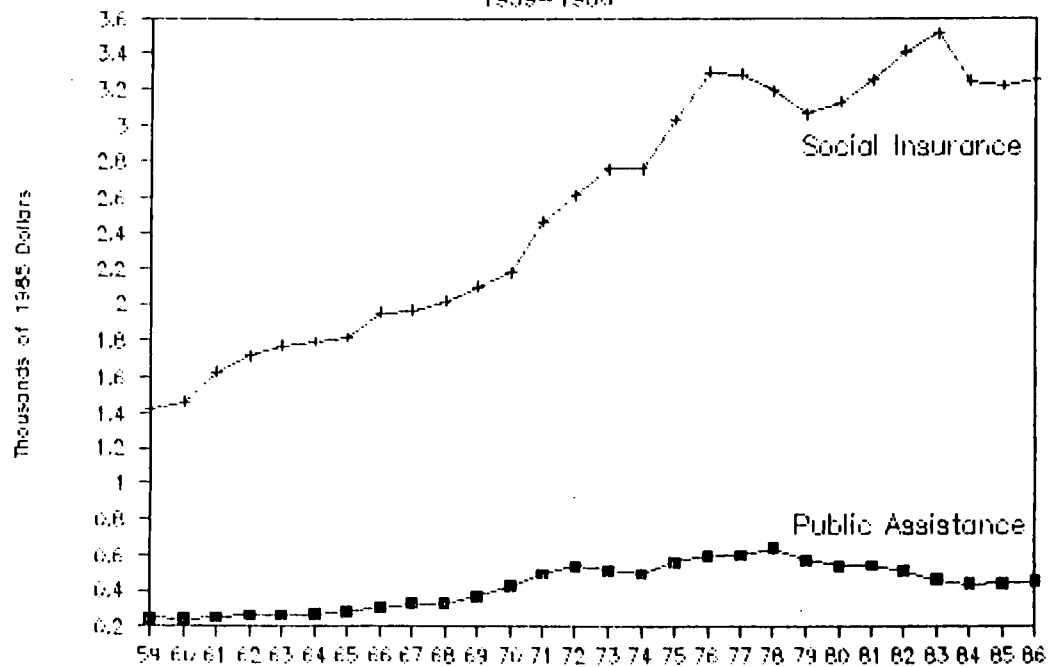
The increased annual earnings of women relative to men is attributable in part to their increased work effort. But women's wage rates have also increased relative to men's. One source of this change is the increased percentage of women working in higher status occupations. Another, related to the rise in the incidence of low earnings among males, has to do with changes in wage rates resulting from the decline in manufacturing relative to service employment. This shift exerted greater downward pressure on male than female wages.

D. Trends in Government Income Transfers

The 1980s have been difficult not only for wage-earners, but also for nonelderly income transfer recipients. As with the trend in family income, the recent trend in government support differs from that in the decades following World War II.

Cash transfers per household doubled between 1949 and 1959 and then almost doubled again by 1974 (see column 4 of Table 1 and Figure 3). But, after 1974, almost all of the growth in transfers was in social insurance, which benefits primarily the elderly, (top graph in Figure 3) and not in public assistance (welfare) programs, which disproportionately benefit children (bottom of Figure 3). In fact, most of the increased federal social spending over the past twenty-five years is accounted for by the expansion

FIGURE 3
Cash Transfers per Household
1959-1986



and indexation of social security benefits and the introduction and expansion of Medicare, Medicaid, and the Supplemental Security Income program, all of which provide benefits disproportionately to the elderly. Ellwood and Summers (1986) show that spending on welfare, housing, food stamp, and Medicaid for those who are neither aged nor disabled made up only 11.9 percent of total social welfare expenditures in 1980, a figure dwarfed by the 66.0 share of spending on social security, Medicare, and other programs for the elderly. As a result, over the period from 1969 to 1985, the elderly experienced large declines in poverty and increases in median family income that differ greatly from the trends shown in Table 1 for all persons and all families.

While spending on the elderly increased throughout the period, social spending targeted on children has declined in recent years. Between fiscal years 1978 and 1987, federal program expenditures targeted on children declined by 4 percent in real terms, while those targeted on the elderly increased by 52 percent (U.S. House of Representatives, 1990, pp. 1065-1066). Welfare receipt among poor children increased rapidly after declaration of the War on Poverty. Less than 15 percent of poor children in 1960 received welfare benefits. This increased to about 20 percent in 1965, about 50 percent in 1969 and peaked at about 80 percent in 1973. Welfare receipt then fell to about 50 percent in 1982, before rising to 58 percent in 1988 (U.S. House of Representatives, 1985, p. 212; and, 1990, p. 577).

Because of economic and government program changes, a smaller percentage of poor children are now removed from poverty by government benefits. Economic changes increased the number of poor children, and program changes left fewer eligible to receive benefits. The first round of program changes resulted from legislative inaction -- state governments allowed benefits (particularly those for Aid to Families with Dependent Children) to be eroded by the high inflation rates of the 1970s. The second round resulted from program rule changes and budget cuts implemented in the early years of the Reagan administration that made it more difficult for the unemployed to

receive unemployment insurance and more difficult for welfare recipients to receive benefits if they worked.

In the U.S., eligibility for unemployment insurance is based on one's work history, and benefit receipt is time-limited. As a result, some of the unemployed, especially new labor market entrants, will not be eligible for benefits because of an insufficient work history. Others, especially the long-term unemployed, will have exhausted their eligibility. Figure 4 shows the percentage of unemployed workers covered by unemployment insurance (UI) from 1955 through 1987. Typically about 45 percent of the unemployed received benefits.

The political economy of UI changed dramatically during the Reagan era. The contrast with the previous decade is particularly striking. In the severe recession of the mid-1970s, Congress liberalized program rules. As a result, about 75 percent of the unemployed received benefits in 1975, the highest point on the graph over the 30 year period. Even though the recession of the early 1980s was more severe than that of the mid-1970s, the Reagan Administration introduced legislation that restricted the UI program. As a result, benefit receipt fell to an historical low – only about 30 percent of the unemployed now receive benefits.

We now turn to a more detailed examination of the poverty rates and welfare reciprocity of families with children. Table 3 shows, for male-headed and female-headed families with children, the trends in poverty and the antipoverty impacts of major cash income transfer programs. The antipoverty impacts of cash social insurance (column 4) and public assistance (column 5) transfers are measured by the percentage of all pretransfer poor persons (column 1) they remove from poverty. The calculations are done sequentially, so that all social insurance benefits are first added to pretransfer incomes, yielding the prewelfare poverty rate in column 2. Then welfare transfers are added, yielding the official poverty rate in column 3. Figure 5 contrasts trends in the

Unemployed Workers Covered by Unemployment Insurance

1955-1987

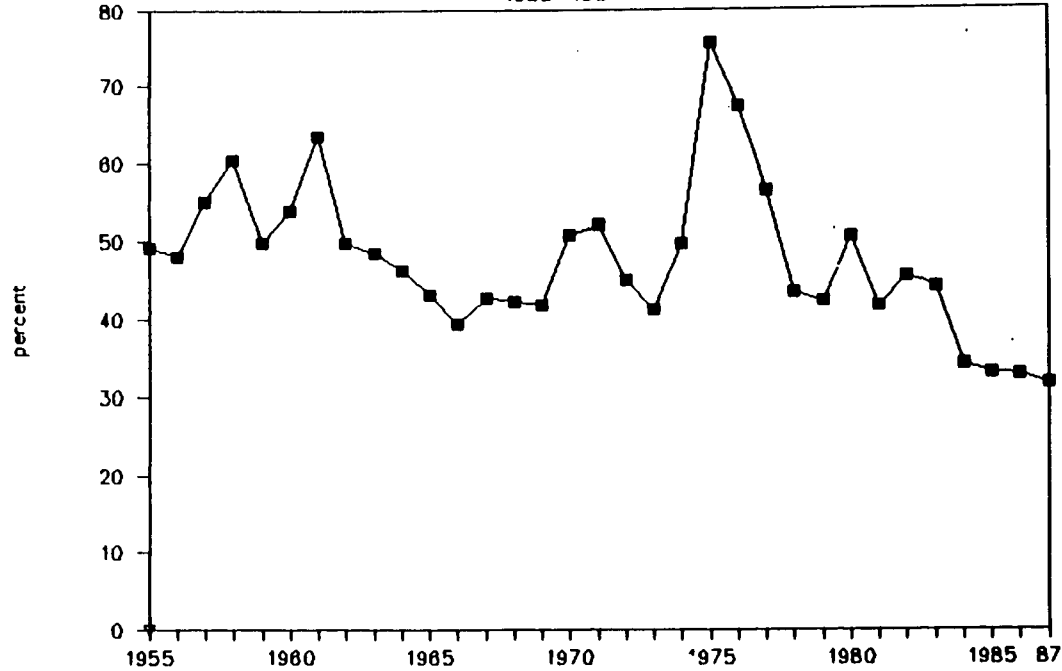


Figure 4

Table 3

Poverty Rates and the Antipoverty Impact of Cash Transfers, for Persons Living in Families with Children, Selected Years, 1967-1988

	Pretransfer Poverty (1)	Prewelfare Poverty (2)	Official Poverty (3)	% of Pretransfer Poor Persons Removed from Poverty by:	
				Cash Social Insurance (4) ^a	Cash Public Assistance (5) ^b
Nonelderly Male Head					
1967	11.5%	10.3%	10.0	10.4	2.6
1969	9.1	8.0	7.5	13.6	5.5
1974	9.8	8.0	7.4	18.4	6.1
1977	10.2	7.9	7.2	22.6	6.9
1979	9.6	7.8	7.2	18.8	6.3
1983	14.7	12.2	11.7	17.0	3.4
1988	11.0	9.2	8.6	16.4	5.5
Nonelderly Female Head					
1967	58.8	52.4	49.1	10.9	5.6
1969	61.0	54.4	48.5	10.8	9.7
1974	59.6	53.1	46.5	10.9	11.1
1977	57.2	51.4	45.3	10.1	10.7
1979	53.5	48.6	43.3	9.2	10.0
1985	57.8	53.2	51.0	8.0	3.8
1988	54.0	50.1	48.1	7.2	3.7

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

Notes: Cash social insurance transfers include social security, railroad retirement, unemployment compensation, workers' compensation, government employee pensions, and veterans' pensions and compensation. Cash public assistance transfers include Aid to Families with Dependent Children, Supplemental Security Income, and general assistance.

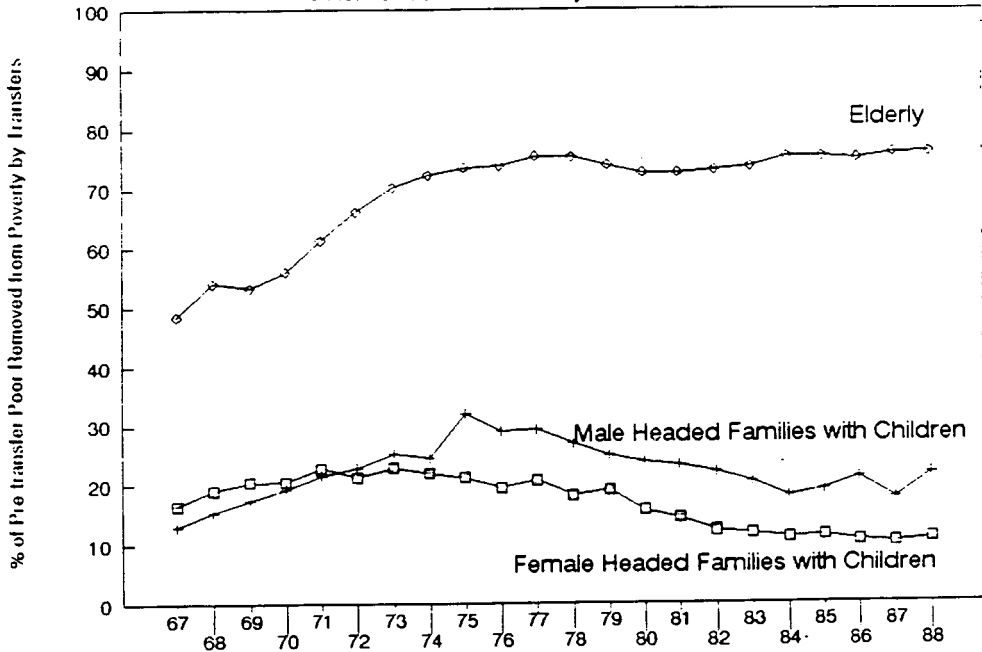
^a Defined as $((\text{column } 2 - \text{column } 1) / \text{column } 1) \times 100$.

^b Defined as $((\text{column } 3 - \text{column } 2) / \text{column } 1) \times 100$. The total antipoverty effect of cash transfers, shown in figure 5, is the sum of columns 4 and 5.

Figure 5

Antipoverty Effects of Cash Transfers:

% Removed from Poverty, 1967-1988*

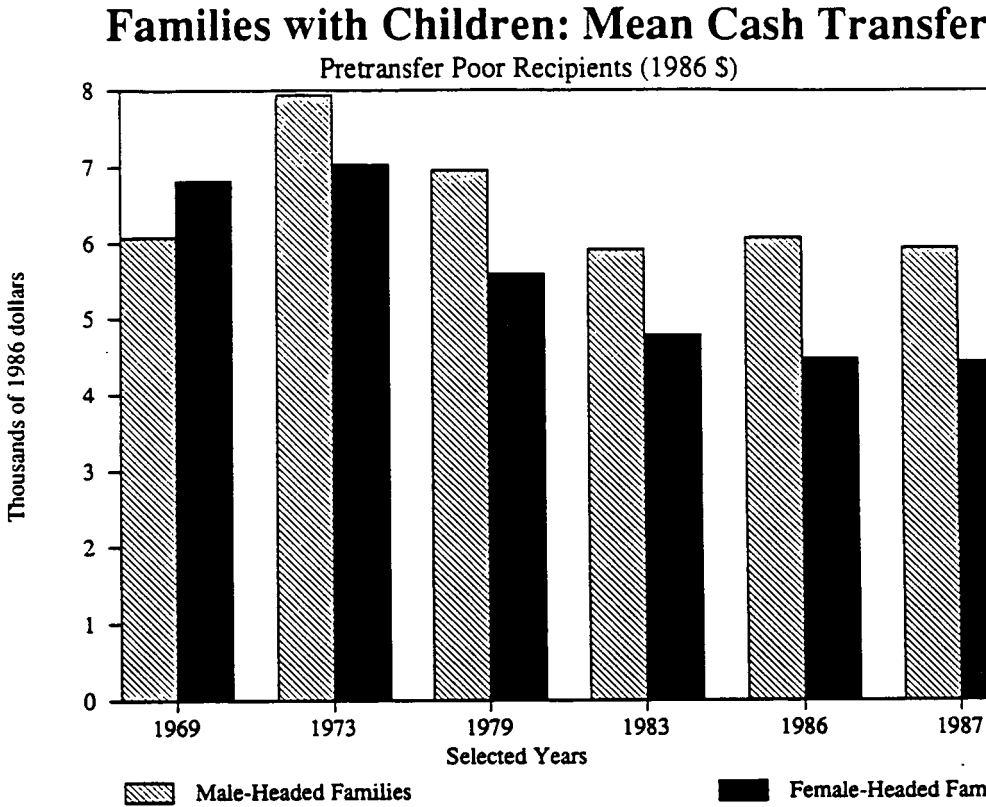


antipoverty effects of transfers for these types of families with children to their effects for the elderly, in each year from 1967 through 1988.

Poverty rates are almost five times higher for persons in female-headed than in male-headed families. But the poverty trends are similar -- declines from the late 1960s to the late 1970s, large increases to 1983, and smaller decreases thereafter. As a result, the 1988 rate was very similar to the 1969 rate for each group. Cash social insurance transfers removed a greater percentage of pretransfer poor persons from poverty in all years than did cash public assistance transfers because a greater portion of the pretransfer poor received them and because the average social insurance benefit was higher. The antipoverty effects of both types of transfers increased between the late 1960s and late 1970s, but have declined over the last decade. Column 5 of Table 3 shows that between 1974 and 1988 there was a particularly large decline in the antipoverty effect of cash public assistance (welfare) for female-headed families with children. If the antipoverty effect of cash welfare assistance in 1988 had been at its 1974 level, then their official rate in 1988 would have been 44.1 percent instead of 48.1 percent. If current welfare reform proposals could raise the antipoverty effect of welfare to 20 percent (which is likely to be an upper-bound estimate), the official poverty rate for this group would still be almost 40 percent.

Figure 6 shows the mean cash transfers (in constant dollars) received each year by pretransfer poor families with children. In each year, after 1969, male-headed families received higher amounts than female-headed families. This result follows for several reasons. First, the typical social insurance benefit is based on past earnings. Thus, if the unemployed receive a benefit that is 50 percent of the prior wage, then a man's benefit is likely to be higher than that of a woman receiving UI, as male wages on average are higher than female wages. Second, women are more likely to receive welfare benefits, which are not conditioned on previous labor force experience, than social insurance benefits. And, welfare benefits are typically lower than social insurance

Figure 6



benefits. For example, maximum monthly unemployment insurance benefits in 1990 for a married worker with two children earning \$9.00 per hour, somewhat less than the average wage, ranged from \$536 in the lowest-benefit state to \$992 per month in the highest (U.S. House of Representatives, 1990a, p. 475). Cash welfare (Aid to Families with Dependent Children) benefits for a family of four in that year were \$432 in the median state, and ranged from only \$149 to \$940 per month (U.S. House of Representatives, 1990a, p. 556).

Figure 6 also shows a dramatic decline over the 1973-1987 period in the average cash benefit received from all programs. For families headed by males, the decline was from about \$8,000 to about \$6,000; for those headed by females, from about \$7,000 to about \$4,500.

The story which emerges from this review of economic and policy trends is that the period of declining poverty up to the early 1970s was due to strong economic growth, declining unemployment rates, and increased government spending. After 1973, rising unemployment, declining male earnings, and stagnating family incomes raised poverty by more than social spending, now growing at a much slower rate, could reduce it. Households that received little in the way of government transfers and were most affected by market conditions, particularly those with children, fared much worse than average (Smolensky, Danziger, and Gottschalk, 1988).

E. Trends in Personal Income Taxes

We have shown that family income growth for the poor has slowed in recent years because of poor macroeconomic performance, increased income inequality and reduced government benefits. All the data presented thus far were based on pretax incomes. But the posttax position of the poor has been even worse, because taxes on the poor increased steadily from the mid-1970s through 1986. The three devices in the personal income tax that protect the poor from taxation – the personal exemption, the

zero bracket amount, and the earned income tax credit – were all eroded by inflation over this period and were not affected by the 1981 income tax cuts. In 1975, a family of four with earnings equal to the poverty line paid 1.3 percent of its earnings in federal personal income and payroll (employee share) taxes; by 1985, this had increased to 10.5 percent, an amount sufficient to offset the value of any food stamps the family might have received.

Changes made by the Tax Reform Act of 1986 have eliminated federal income taxes for most poor families with children. The major goal of the 1986 Tax Reform Act was to lower tax rates and broaden the tax base by reducing or eliminating many tax preferences. The law now has only two tax brackets – 15 percent and 28 percent (although because the personal exemption is phased out at higher income levels, some taxpayers face an effective rate of 33 percent).

The major changes benefiting the poor were an increase in the personal exemption from \$1080 to \$2000 by 1989; an increase in the standard deduction for joint filers from \$3,670 to \$5,000, and for single heads of households from \$2,480 to \$4,400; and an increase in the maximum earned income tax credit for working poor families with children from \$550 to \$953 by 1990. All of these devices were also indexed for inflation. As a result, by 1989, a family of four with earnings at the poverty line paid 2.3 percent of its income in taxes after paying the employee share of the payroll tax. Thus, the Act offset most of the increased tax burden of the past decade, but did nothing to further compensate the poor for the declines in earnings and government benefits of the same period.

Despite these recent pro-poor changes in the personal income tax, the federal tax system as a whole is less progressive in 1990 than it was in the mid-1970s for two main reasons (see Pechman, 1990, and U.S. House of Representatives, 1990b, for a detailed discussion). First, social security (payroll) tax collections have risen substantially relative to income tax receipts. While the income tax is mildly progressive, the social security tax

is mostly proportional with respect to earnings, but regressive with respect to family income. Second, the income taxes of the very rich have been cut substantially more than those of any other tax payers. In 1981, the richest taxpayers faced a marginal tax rate of 50 percent on earnings and 70 percent on property income; in 1990, their marginal rate was 28 percent on all income sources. The effective tax rate paid by the richest five percent of families has fallen by about one-fifth and that of the richest one percent by more than a third over the past twenty years (Pechman, 1990).

IV. FAMILY STRUCTURE, FAMILY SIZE AND CHILD POVERTY

The economic well-being of children has also been adversely affected in recent years by a major change in family structure. The increasing percentage of children who live in mother-only families increases child poverty because these families have much higher poverty rates than two-parent families. Table 4 shows the trend in the child poverty rate between 1949 and 1985 for all children and for children classified by family type.³ There are very large differences in poverty rates when children are classified by the race as well as by the sex of the heads of their families. In 1985, less than 8 percent of white non-Hispanic children living in husband-wife families were poor, a rate substantially lower than that of all persons or all elderly persons. The highest poverty rates were those for children living in female-headed families. In fact, the rate for white non-Hispanic children living in female-headed families, 38.2 percent, was more than twice that for black non-Hispanic children living in husband-wife families, 16.0 percent.

While such a disaggregation is helpful in describing the facts, it is not sufficient to identify the causal factors that determine these trends. One is left with facts that are consistent with at least several divergent interpretations. Consider the well-documented

³ Note that children living in father-only families and those whose parents are not classified as white non-Hispanic, black non-Hispanic, or Hispanic are included only in the top row.

Table 4
The Trend in Poverty among Children by Family Type

	1949	1959	1969	1979	1985
All children	47.6%	26.1%	15.6%	17.1%	19.7%
In white, non-Hispanic families	41.2	18.8	10.4	11.7	12.5
Husband-wife families	39.3	16.9	7.7	7.8	7.9
Female-headed families	73.1	57.7	44.0	41.3	38.2
In black, non-Hispanic families	87.0	63.3	41.1	36.1	41.3
Husband-wife families	85.7	57.9	29.0	19.7	16.0
Female-headed families	93.4	84.4	67.9	61.2	64.3
In Hispanic families	73.0	53.3	33.3	28.3	37.3
Husband-wife families	71.6	51.3	28.8	22.5	25.2
Female-headed families	92.4	74.3	64.3	62.0	68.7

Source: Computations by author from the computer tapes of the 1950, 1960, 1970, and 1980 Censuses of Population and from the 1986 March Current Population Survey.

Note: For 1949-1979, children 0-14 years of age; for 1985, children 0-18.

fact that the stability in the poverty rate for all black children in recent years obscures declines in poverty for children living in each family type. Table 4 shows that in both 1969 and 1985, the poverty rate for black children was about 41 percent. But the poverty rate for black children living in husband-wife families declined from 29 to 16 percent and the rate for those in female-headed families declined from about 68 to 64 percent. Thus, the stability in the rate for all black children is due to the increased percentage of children living in female-headed families. Adverse demographic change appears to have offset positive economic change.

But with only these facts, one is at a loss as to the appropriate policy response. The increased percentage of children living in mother-only families, for example, might have been due to adverse economic conditions that reduced the ability of black males to support their children. In this case, the disaggregated trends are misleading -- because of external economic dislocations, jobless males are more likely to divorce, or do not marry in the first place. To correct for this selective response to economic conditions, one should adjust upward the later-year poverty rates for children living in husband-wife families to account for the missing two-parent families. Then stability in the child poverty rate would be the correct interpretation and the policy response should focus on economic factors and the reduction of male joblessness (Wilson, 1987). If sufficient jobs were not available in the private sector or provided by the public sector, then redistributive policies to increase family incomes would be required.

On the other hand, some analysts subscribe to an alternative view that attributes the rise in children living in mother-only families to moral and behavioral deficiencies, and male irresponsibility. Jobs are available, according to proponents of this view, but "the jobless are shielded from a need to urgently seek work by government benefits, or by the earnings of other family members" (Mead, 1988, pp. 51-52). The decline in child poverty among black children in two-parent families attests to the decline in discrimination in the labor market and shows that if parents would stay married and stay

in the labor force, then the poverty problem would be much smaller. Under this scenario, the recent rise in child poverty is attributed not to economic problems but to attitudinal and family problems. The remedy requires moral suasion, a reduction in the availability of welfare, and the enforcement of work and child support obligations (Novak et al., 1987).

Of course, while no one believes that either of these polar views provides a complete explanation for the observed trends in child poverty and living arrangements, a less extreme variation of each could account for some part of the observed trend in child poverty. Unfortunately, no one has yet modeled the determinants of child poverty and living arrangements in such a way as to decompose the trends into a set of demographic, economic, and policy factors. This is because it is clear that there are complex interrelationships among labor market conditions, government program regulations and individual decisions regarding work behavior, welfare reciprocity, marriage, and childbearing.

Given this caveat, we summarize the results of a reduced form model that attempts to sort out the effects of economic and demographic factors on child poverty (Gottschalk and Danziger, 1990). Table 5 shows the distribution of children by family structure and size in 1968 and 1986. Over this period, the percentage of black children living with two parents declined from 67.8 to 42.8 percent; the percentage of white children, from 93.1 to 81.4 percent. There was also a shift toward fewer children per family, for both races and for both types of families. For example, the percentage of all black children living in families with four or more children decreased from 57.6 to 22.0 percent; the percentage for all white children, from 35.1 to 11.9 percent.

Table 6 shows the official child poverty rate for children using the classification of Table 5. The rates for children living in two-parent families are much lower than those for children living in female-headed families in each year. In fact, a husband-wife family with four or more children is less likely to be poor than a female-headed family with only one

Table 5

Distribution of Children by Family Type and Number of Children per Family

Family Structure/ Number of Children Per Family	Black Women		White Women	
	1968 (1)	1986 (2)	1968 (3)	1986 (4)
<u>Husband-Wife Family</u>	<u>67.8%</u>	<u>42.8%</u>	<u>93.1%</u>	<u>81.4%</u>
One	6.4	8.6	12.3	17.3
Two	11.6	15.4	24.9	34.6
Three	11.9	10.3	23.3	19.5
Four or more	37.9	8.5	32.6	10.0
<u>Female Headed Family</u>	<u>32.3</u>	<u>57.2</u>	<u>7.1</u>	<u>18.3</u>
One	2.7	12.0	1.3	5.5
Two	4.7	19.0	1.8	7.3
Three	5.2	12.7	1.5	3.6
Four or more	19.7	13.5	2.5	1.9
All Children	100.0	100.0	100.0	100.0
Weighted Number, Millions	8.3	7.7	57.6	47.0

Note: Totals may not sum to 100.0 because of rounding. Each child is counted once in Tables 5 and 6. The data are weighted to reflect the population of children living in families in which a woman under the age of 55 was a head or a spouse.

Table 6

Official Poverty Rate for Children, by Family Type and
Number of Children per Family

Family Structure/ Number of Children Per Family	Black Women		White Women	
	1968 (1)	1986 (2)	1968 (3)	1986 (4)
<u>Husband-Wife Family</u>				
One	8.4%	5.5%	3.1%	4.2%
Two	12.9	8.8	3.6	5.8
Three	18.9	16.9	5.5	11.0
Four or more	38.0	25.2	13.2	23.9
<u>Female Headed Family</u>				
One	43.3	38.4	21.6	27.5
Two	54.2	58.5	29.1	35.1
Three	66.1	72.0	47.1	51.9
Four or more	82.6	82.9	61.9	73.4
All Children	42.1	41.8	9.9	14.7

child. Thus, the shift in family structure away from married-couple families was poverty-increasing.

Poverty rates for families of four or more are much higher than those for smaller families. Thus, the reduction in the number of children per family was poverty-decreasing. There was also a dramatic improvement in the educational attainment of mothers, which, in part, explains some of the decline in the number of children per woman. In 1968, 59 percent of black mothers and 32 percent of white mothers had not graduated from high school. By 1986, only 23 percent of black mothers and 16 percent of white mothers were in this low education group.

Gottschalk and Danziger employed a five-equation regression model and found that the relatively small changes in poverty for all children shown in the bottom row of Table 6 resulted from the large, but offsetting, impacts of these various demographic and economic changes. By far the major poverty-increasing factor was the trend toward increased female household headship. However, poverty-reducing declines in the number of children per woman and increases in the education of women almost exactly offset the female headship effect.

Economic stagnation and increasing inequality were also important factors accounting for the disappointing trends in child poverty. Real per capita mean incomes were lower for both black and white children in 1986 than they were in 1968. These income declines are particularly surprising given the large income-increasing impact of changes in women's educational attainment.

It is certainly true that if the increase in female headship or income inequality had not occurred, there would have been substantial reductions in child poverty. However, it is also true that without the decline in family size and increased educational attainment of women, child poverty rates today would be substantially higher.

IV. PERSISTENT POVERTY, WELFARE DEPENDENCY AND THE UNDERCLASS

The Census Bureau data presented thus far provide a "snapshot" of those who are poor in any given year. However, some persons who were poor last year will experience only brief episodes of poverty. To the extent that their poverty is "transitory," and "self-correcting" it may be of limited policy concern (e.g., a person who was poor last year because she/he was a full-time student, but who graduated, got a job, and was not poor this year).

The data from the Michigan Panel Study of Income Dynamics (PSID) now allow researchers to follow the same individuals over almost two decades and thus to identify those who were "persistently poor" and those who were "persistent welfare recipients." Persistence is a subjective concept, and there is no consensus as to how it should best be defined. For example, Adams and Duncan (1987) find that 35 percent of urban residents who were poor in 1979 were poor in at least 8 of the 10 years they examined. However, if they defined persistence for these same people on the basis of average annual income over the same 10-year period, 63 percent were found to be persistently poor.

Table 7 contrasts annual measures of poverty and welfare receipt with estimates of persistent poverty and persistent welfare receipt for all persons, all children, and black children. The estimates of persistence are derived from many recent studies -- all use the PSID data, but they differ in the time period covered (e.g., some use 10 years of data; others, 15 years), and in the population examined. Details as to how these estimates were derived are provided in the footnotes to the table. When two high-quality studies provided different estimates (as in rows 5 and 6), we have listed their range rather than a point estimate.

For each of the rates shown in rows 7 through 13, the poverty situation of black children is much more severe than that of white children or all persons. And, this deficiency increases under persistent as opposed to annual measures. For example,

Table 7
Poverty and Welfare Receipt:
1985 Levels and Estimates of Persistence

	All Persons (1)	All Children (2)	Black Children (3)
<u>Persons (millions)</u>			
1. Population totals ^a	236.75	62.02	9.41
2. Official poor ^a	33.06	12.48	4.06
3. Prewelfare poor ^b	35.17	13.02	4.23
4. AFDC recipients ^c	10.90	7.23	3.25
5. Persistently poor	11.57 ^d -20.83 ^d	2.98 ^e -4.71 ^f	2.72 ^e -3.20 ^f
6. Persistent AFDC recipients	5.92 ^g	2.98 ^h -4.05 ⁱ	1.96 ^h -2.54 ⁱ
<u>Rates (percentages)</u>			
7. Official poverty rate (rows 2/1)	14.0	20.1	43.2
8. Persistent poverty as a percentage of official poverty (rows 5/2)	35.0 ^d -63.0 ^d	23.9 ^e -37.7 ^f	67.0 ^e -78.8 ^f
9. Persistent poverty as a percentage of population (rows 5/1)	4.9 ^d -8.8 ^d	4.8 ^e -7.6 ^f	28.9 ^e -34.0 ^f
10. Percentage of prewelfare poor receiving welfare (rows 4/3)	31.0	55.5	76.8
11. Percentage of persistently poor receiving welfare in a given year ^j	57.0	69.6	n.a.
12. Percentage of official poor who are persistent welfare recipients (rows 6/2)	17.9 ^g	23.9 ^h -32.5 ⁱ	48.3 ^h -62.6 ⁱ
13. Percentage of population that is persistently welfare dependent (rows 6/1)	2.5 ^g	4.8 ^h -6.5 ⁱ	20.8 ^h -27.0 ⁱ

-Notes, attached-

Table 7, Continued

Notes to Table 5:

^aTotal U.S. population and official poverty count are from U.S. Bureau of the Census (1987).

^bEstimates of persons who would have been poor in the absence of cash welfare benefits are based on computations by author from March 1986 Current Population Survey Computer tape.

^cAverage monthly number of AFDC recipients in fiscal years 1985 and 1986 are from U.S. House of Representatives. Committee on Ways and Means (1987), p. 429.

^dAdams and Duncan (1987) report that 35 percent of urban residents who were poor in 1979 were poor in 8 of the 10 years between 1974 and 1983; 63 percent were poor "on average," meaning that their 10 year average income was below the 10 year average poverty line.

^eDuncan and Rodgers (1987) find that 4.8 percent of all children and 28.9 percent of black children who were less than 4 years old in 1968 were poor for at least 10 of the 15 years between 1968 and 1982.

^fEllwood (1987) finds that 7.6 percent of all children and 34 percent of black children born between 1967 and 1972 were pretransfer poor for at least 7 of the 10 years between 1972 and 1982.

^gDuncan et al. (1984), p. 75, report that 8.1 percent of persons received cash welfare or food stamps in 1978, and that 4.4 percent of persons had received welfare for 8 or more years between 1969 and 1978. This ratio $4.4/8.1 = .54$ was multiplied by the number of AFDC recipients from row 4, column 1.

^hHill (1983) finds, among children between the ages of 1 and 6 in 1970, that 4.8 percent of all children and 20.8 percent of black children were dependent on cash welfare or food stamps (i.e., welfare income was at least one-half of the total annual income of their parents) for at least 6 of the 10 years between 1970 and 1979.

ⁱEllwood (1986) reports that 56 percent of current AFDC recipients have expected welfare careers of 10 or more years. Because his reported spell-lengths for blacks exceed those of whites, I estimate the corresponding percentage for blacks to be 78 percent.

^jAdams and Duncan (1987) find that these percentages of the persistently poor received AFDC or general assistance in a single year (1979).

Source: Dunz, 1984 (1984).

black children were about twice as likely as all children to be poor in 1985 under the official definition (43.2 vs. 20.1 percent in row 7). But poverty among black children is much more likely to be persistent (row 8); about one-third of all poor children, but more than two-thirds of poor black children were persistently poor. As a result of high poverty rates and high rates of persistence, they were about five times as likely to be persistently poor (row 9) as all persons or all children.

Large differentials are also apparent in terms of welfare receipt. Among those who were poor on the basis of their prewelfare income, about three-quarters of black children, one-half of white children, and one-third of all persons received welfare in 1985 (row 10). An even greater percentage of the persistently poor received welfare during a given year (row 11)—almost 60 percent of all persons and almost 70 percent of all children.

Because both their poverty and their welfare receipt persist for long periods, a policy that is targeted on about one-sixth of all of the poor—long term welfare recipients—has the potential to aid about one-quarter to one-third of all poor children and about one-half to about two-thirds of poor black children (row 12). It is shocking that two decades after declaration of the War on Poverty, in the midst of a robust economic recovery, that between one-fifth and one-quarter of all black children were persistently dependent on welfare (row 13) and that almost one-third (row 9) were persistently poor.

The term "underclass" has been increasingly used in the 1980s to describe some subset of those who are persistently poor and dependent on welfare for long periods, and whose situation seems mostly immune to aggregate economic conditions and existing social programs. William J. Wilson (1987, p. 8) defines the underclass as:

that heterogeneous grouping of families and individuals who are outside the mainstream of the American occupational system. Included . . . are individuals who lack training and skills and either experience long-term spells of poverty and/or welfare dependency.

According to Wilson, the social isolation and geographic concentration of the underclass combine to make their problems more severe and escape from poverty more remote.

There is no consensus on the size of the underclass, but most researchers cite figures of two to three million persons, about 10 percent of the official poverty population. A definition that incorporates the concept of neighborhood effects, for example, that the underclass are those who both engage in work and family behaviors that deviate from mainstream norms and live in areas with high concentrations of poverty and "nonmainstream" behaviors will obviously yield a smaller count of the underclass than will a definition based on either behavioral dimensions or the geographic concentration of poverty.

The exact size of the underclass is not an important issue for the major thrust of this paper. Poverty in the U.S. in 1990, and child poverty in particular, are high relative to the situation in many other industrialized countries and relative to what researchers and policy analysts had predicted for this date.

Most poor children are poor for periods lasting less than several years. As a result, their poverty may not seriously affect their development, and this poverty could be easily remedied by a comprehensive antipoverty initiative. But prospects for the future well-being of children who are persistently poor, and especially children of the underclass are much worse. The kinds of antipoverty policies now on the public agenda (see Section VI. below) are not likely to adequately address the very severe and multiple disadvantages that these children face.

V. THE CONSEQUENCES OF POVERTY

Having reviewed some of the major economic, demographic, and public policy trends that affect the well-being of children, we now turn to an examination of some of the consequences of poverty. Children increasingly are being raised in single parent families, especially those that are maintained by women who are unwed or adolescent.

These children experience much higher single-year poverty rates, longer spells of poverty, and more severe economic hardship than other poor children. Regardless of family structure, spending one's early years in poverty often leads to negative cognitive, social, and health status outcomes for a child, and increases the likelihood that s/he will become a poor adult. We examine some of these outcomes and how public policies and programs can better address them.

Young women who start their families as adolescents and/or premaritally are discussed first because this is a group at high risk for passing on poverty to subsequent generations. Pregnant poor and teen women often are underserved in terms of access to prenatal care and other social services, and thus contribute to high rates of low birth weight infants and infant mortality. Even when a poor infant survives the first year, s/he is more likely to be exposed to a variety of risk factors – stress, inadequate social support, maternal depression – that are associated with host of negative developmental outcomes, including cognitive deficits, health difficulties, and poor academic achievement (Parker, et al., 1988). These are the central consequences of childhood poverty reviewed here.

A. Adolescent and Out-of-Wedlock Childbearing

The U.S. has higher rates of adolescent and out-of-wedlock childbearing than many other industrialized countries. Part of this differential is due to the higher poverty rates in the U.S. and explains why such problems are more prevalent for blacks and other minority groups that are the most disadvantaged. And, part of the differential is due to inadequacies in the family planning system – in particular, that it is more difficult for teenagers and the poor to receive contraceptives here than in many other countries.

Adolescent and out-of-wedlock childbearing are not only consequences of poverty for the mother, they are themselves causes of poverty for the current generation

of children. We discuss the former relationship now; in a later section, their effects on children.

A number of recent studies document that teen pregnancy and out-of-wedlock childbearing are higher for children who were raised in low income and single-parent families. Hogan and Kitigawa (1985) in a study of fertility among Black adolescents found that those from poor families were more likely to be sexually active and that the rate of first pregnancy for lower class teens was 95 percent higher than the rate for upper class adolescents. This association is only partly attributable to neighborhood factors, parenting styles, and career aspirations of the adolescent women.

Hogan and Kitigawa also found that adolescents from single parent homes were 36 percent more likely to be sexually active and to have premarital births than those from two-parent households. Parents (mothers) in these homes were less likely to assert control over their children so these youths initiate sexual activity earlier. Another strong predictor of adolescent pregnancy was the presence of a sister who has had that experience, enhancing acceptance of early parenthood. Hogan and Kitigawa also believe that poverty, that is, "economic uncertainty", tends to delay marriage, thereby raising the risk of a premarital pregnancy.

McLanahan (1988) estimates that living with a single parent at age 16 raises a daughter's risk of being a single parent by 72 percent for whites and 100 percent for Blacks. About twenty-five percent of this effect is attributable to family income. Plotnick (1987) and Card (1981) also found that when economic and social factors were held constant, there were significant negative long-term consequences for the children of teenage parents.

Approximately ten percent of all women ages 15 to 19 get pregnant each year in the U.S. (Jaffe & Dryfoos, 1978; Pittman & Adams, 1988). Because many of these pregnancies are terminated through abortions and miscarriages, there are almost half a million births to women younger than 20 years, accounting for 12.7 percent of all births in

1985 (see Table 8, row 1). This number represents both historical progress and a cross-national failure. The proportion of births to teenagers has been declining since the mid 1970s, but the U.S. ranks first among developed nations for adolescent birth rates. The U.S. rate per 1,000 teenagers in 1981 was 52.7 per 1,000 teens, while it was 28.6 in Great Britain, and 14.3 in Sweden. The adolescent birth rate for Black Americans was far and away the greatest of any population in the developed world (Westoff, et. al., 1983).

The percentage of all births to teens has declined since 1973 because adolescents constitute a smaller proportion of the overall population, and because their birth rates have also declined. Increased education of women, improvements in contraceptive technology, and increased access to abortion have all contributed to the decline in fertility.

The recent period has been characterized by a slowdown in the rate of growth of income and increasing disparities between the more and less skilled populations. Some authors (e.g., Wilson, 1987) argue that these economic changes have made many men "unmarriageable." As a result, marriage rates have fallen and marital fertility has decreased more rapidly than nonmarital fertility, and an increasing percentage of children are born out-of-wedlock. Row 3 of Table 3 that shows births to unmarried women rose from 4.0 to 22.0 percent of all births between 1950 and 1985. In 1985, 14.5 percent of all births to whites and 60 percent to Blacks were to unmarried women. Because of the decline in marriage, the percentage of births to unmarried teenagers rose rapidly (row 2, Table 8), despite a declining teen birth rate over the past three decades.

This increase in the percentage of children living with young and unwed mothers creates risks for the health and development of children and threatens to reduce the productivity of the next generation. Poor women, unmarried women and teenagers are least likely to receive adequate nutrition or live in healthy environments.

Table 8

Births to Adolescent and Unmarried Women as a Percentage of All Births

Percentage of						
All Births to:	1950	1960	1970	1975	1980	1985
1) Women < 20 years of age	12.3	13.9	17.6	18.9	15.6	12.7
2) Unmarried Women < 20 years of age	1.7	2.2	5.4	7.4	7.5	7.4
3) Unmarried Women	4.0	5.3	10.7	14.2	18.4	22.0

Source: Zill and Rogers (1988).

B. Infant Mortality, and Low Birth Weight

Any examination of the consequences of poverty on the well-being of children starts with the youngest, those in the first year of life, and the most basic measure of well-being, survival. Infant mortality in the U.S. has been declining for decades. At issue is the fact that the rate has not fallen as rapidly as those of other developed countries, and how much of this poor relative performance is due directly to problems of poverty (e.g., poor living conditions) and indirectly to the fact that the poor do not have access to the full range of services of the health care system.

In 1940 the infant mortality rate (IMR) was 47.0 deaths per 1,000 live births. It fell to 9.7 in 1989, a 79.4 percent decrease (Table 9 and Figure 7). The periods of greatest decline were the 1940's and 1970's, two decades of rapid income growth and declining poverty rates. In the 1980s, there has been a slowing of the rate of decline in the infant mortality rate. The 10.1 IMR in 1987 put the U.S. at the end of 20 developed nations, far behind Japan (5.2), Finland (5.8) and Sweden (5.8). In the 1950-1955, period the U.S. ranked sixth among 20 industrialized nations, but by 1980-1985 it had taken up the last place spot it currently holds. The U.S. has fallen behind such nations as Hong Kong, France, Japan, and whose IMR in the 1950-1955 period was 1.5 to 2.5 times that of the U.S. rate (Rosenbaum, 1989). Rates for Black Americans have also declined, but they have usually been about twice that of whites (Table 9 and Figure 7).

There is also a large variation among the states, some of which is due to variation in economic well-being and access to health care in these states. The highest infant mortality rates by state for Blacks were Illinois and Michigan (22.3 and 22.8 respectively), both of which have large urban centers of highly concentrated poverty, and above average poverty rates for Blacks (In the mid-1980s, the Black poverty rate in the U.S.

Table 9
Infant Mortality Rates, by Race, 1940-1989
(deaths per 1,000 live births)

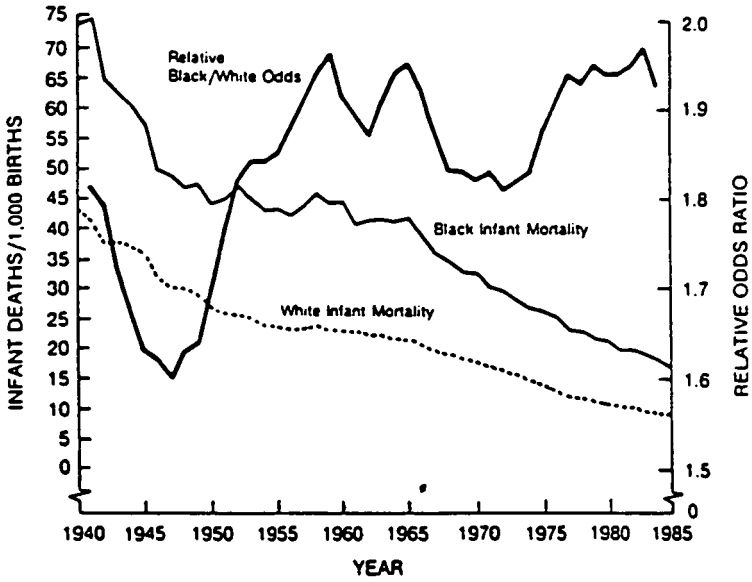
YEAR	BLACK	WHITE	TOTAL
1940	72.9	43.2	47.0
1950	43.9	26.8	29.2
1960	44.3	22.9	26.0
1965	41.7	21.5	24.7
1970	32.6	17.8	20.0
1971	30.3	17.1	19.1
1972	29.6	16.4	18.5
1973	28.1	15.8	17.7
1974	26.8	14.8	16.7
1975	26.2	14.2	16.1
1976	25.5	13.3	15.2
1977	23.6	12.3	14.1
1978	23.1	12.0	13.8
1979	21.8	11.4	13.0
1980	21.4	11.0	12.5
1981	20.0	10.5	11.9
1982	19.6	10.1	11.2
1983	19.2	9.7	10.9
1986	18.0	8.9	10.4
1987	17.9	8.6	10.1
1988	n.a.	n.a.	9.9
1989	n.a.	n.a.	9.7

Source: Children's Defense Fund, 1988.

n.a. not yet available

Figure 7

Infant Mortality Rates, by Race, 1940-1985



Source: Data from the National Center for Health Statistics

was about 30 percent, but it was 39 percent in Illinois and 37 percent in Michigan). The lowest IMRs for Blacks were in Kentucky and Washington (12.7 and 13.5), two states where Black poverty was about the U.S. average. Massachusetts, Connecticut, and New Jersey with IMRs just below 8 were the best for whites. These states had among the lowest white poverty rates -- under 5 percent -- and about half the white poverty rate of a typical state. Idaho and Wyoming had the highest white infant mortality rates (11.3 and 10.8). The poverty rate for whites in Idaho, 13 percent, was one of the highest in the U.S. The simple correlation between a state's poverty rate and its infant mortality rate is 0.44.

Thus, the IMR for whites in some states compares quite favorably with that of the countries with the lowest rates. Similarly, the highest state infant mortality rates for Blacks are as high as those in the Third World. Such large variations by race and across states, holding race constant, reflect wide disparities in income, access to medical care, and other aspects of the social environment.

Change in the infant mortality rate over time, however, is not solely dependent on economic conditions. Access to health care has been particularly important. Social Security legislation in 1935 and then later programs designed to improve maternal and child health helped bring about a substantial portion of the post World War II declines in IMRs (Starfield, 1988). Most of these declines were in the post-neonatal period, indicating an improved delivery of care to these children, and improved nutrition and housing conditions. And there have been periods when the economy grew rapidly, for example between 1950 and 1965, yet the white infant mortality rate declined only modestly (from 26.8 to 21.5), and the Black infant mortality rate fell even less (from 43.9 to 41.7).

There was a sharp downturn in the IMR after 1965 when Medicaid was instituted. Medicaid greatly expanded access of the poor to medical care, especially prenatal services. Another downturn in the IMR, after 1973, can be attributed to the increased

availability of legal abortion services, including confidential access to adolescents.

Women most likely to abort -- those with medical difficulties or those having an unwanted or out-of-wedlock child -- are those whose infants would be at higher risk (Klerman and Parker, 1990).

The mid-1980s were characterized by relative stagnation in the infant mortality rate, despite the economic recovery that began in 1982. Although incomes are higher now than they were in the early 1980s, poverty remains above the level of the 1970s and inadequacies in access to medical services remain. For example, in 1983 only 75 percent of white women and 50 percent of Black women had the minimum nine prenatal visits recommended by the American College of Obstetricians and Gynecologists (Collins, 1989).

Low birth weight is a major contributor to infant death. Seventy-five percent of all neonatal mortality is associated with low birth weight while most post-neonatal deaths are to babies of normal birth weight. While the neonatal death rates are most sensitive to technological changes, the deaths later in the first year are more responsive to access to medical services and the infant's social environment. In fact, some portion of the rapid decline in infant mortality that began in the late sixties may be due to a concurrent decline in the incidence of low birth weight infants and a decline in their mortality. This was a period of great technological advancement in the treatment of low birth weight infants, which both increased survival rates and reduced severe disability among survivors (Collins, 1989).

There is a positive correlation between low birth weight and poverty, and other indicators of socioeconomic hardship, such as low education and out-of-wedlock childbearing (Klerman & Parker, 1990). O'Regan and Wisman (1986) examined all births in Oakland, California, during the years 1979 through 1981. They found that 12.2 percent of all births to women living in poor census tracts (small geographic areas

containing between 2500 and 8000 people) were low-birth-weight, while the rate was only 7.7 percent elsewhere in Oakland.

C. Consequences of Poverty for the Health and Development of Children

Parker, et al. (1988) label as "double jeopardy" the process by which poor children suffer a higher incidence of adverse behavioral and developmental outcomes. First, poor children are more likely to be exposed to risk factors that are positively correlated with adverse outcomes, and second, the effects of these risks on them tend to be greater than they are for nonpoor children. They conclude that "the most pertinent of these (risk factors) include increased stress, diminished social support and maternal depression (p. 3)." These risk factors are a consequence of poverty for the parents and a cause of developmental problems for the child.

Stress One feature of a life of poverty is more frequent occurrence of stressful events and chronic family stress. Major stressors include housing problems, financial difficulties, and death of a relative or friend. According to Parker, et al. (1988), stress is particularly high among poor women with young children.

In addition to exposing the individual to more acute and chronic stressors, poverty tends to erode the individual's ability to handle new problems. As a result, these problems tend to have a greater debilitating effect. The poor, therefore, are more likely than the economically advantaged to suffer mental health problems after experiencing negative life events (McLoyd, 1989).

Children from highly stressed environments are at an increased risk of developmental and behavioral problems, including poor performance on developmental tests at eight months, lower IQ scores, impaired language development at four years, and poorer emotional adjustment and increased school problems (Bee, et. al., 1986). Increased stress interferes with the mother's ability to respond appropriately to her infant.

This can lead to impaired bonding relationships which increases the risk of subsequent emotional and behavioral problems (Grossman, 1979).

Inadequate Social Support - Like stress, lack of social support can be both a consequence of poverty for the parent and a cause of developmental problems for the child. Poor homes are typically associated with inadequate social support networks and social isolation (Cochrane & Brassard, 1979). Some families move often, and may have no community attachments. A lack of economic resources restricts a family's activities, and increases its isolation from the larger society.

Social support has both indirect and direct effects on children. Stressed parents with access to emotional support and friendship, material assistance, and help with child care tend to parent better and provide a better environment for the child. They get positive role models and external monitoring of their childrearing practices from helpers, thereby improving parental functioning. A good social network for the parent gives the infant or young child contact with a world outside their playmates and caretaker. A direct benefit to the child is that a well supported and connected household provides the child with cognitive and social stimulation and more emotional support from the caretaker(s).

Maternal Depression and Mental/Emotional Illness - A strong association exists between maternal depression and socioeconomic status. Maternal depression has been linked to adverse outcomes for children, such as lower birthweights, more accidents, failure to thrive, more surgical procedures, sleep problems, childhood depression, attention deficit disorder, socially isolating behaviors at school age, and withdrawn and defiant behaviors at adolescence (Parker, et al., 1988).

McLoyd (1989) has shown that poor adults have more mental health problems than do economically advantaged adults. The source of this elevated mental illness among the poor is "an overrepresentation in lower class life of a broad range of frustration-producing life events and chronic conditions outside personal control." In addition to the on-going stressors of poverty life, such as poor housing and dangerous

neighborhoods, the poor face a string of negative life events (e.g., eviction, criminal victimization, physical illness). Together these factors make every day existence a difficult task, leaving the poor consistently at risk of life crises. Such chronic stress is a major contributor to depression among poor adults, which in turn, threatens both the acquisition and application of parenting skills.

The younger the mother at the time of her first child and the greater the number of children in the household (two features of a household starting with an adolescent head), the greater the risk of maternal depression. Poor social support and the stress of childcare and homemaking are obvious contributors to maternal depression.

A lack of resources reduces the quality of a child's environment and increases the probability that her/his parent(s) will experience stress, inadequate social support and/or depression. As a result, the child's health, cognitive development, and academic achievement may be adversely affected. We discuss each of these outcomes in turn.

Health Concerns The effect of poverty on health is significant and has been linked to numerous specific health problems. Poverty raises the probability of poor health in children in two ways. First is the elevation of risk for poor health by increasing the likelihood that an illness will occur or by an increase in the severity of the illness. These increases may be due to an increase in the duration or intensity of exposure to risk factors or to a reduction of protective measures that prevent exposure from doing harm. The second mechanism affecting the health of poor children is their reduced access to services that either reduce the occurrence of illness or abate its severity (Wise and Meyers, 1988).

Indeed, poor children do experience more illness than non-poor children.

According to Wise and Myers (1988, p. 1175):

Children of poor families experience more time lost from school and more days of restricted activity due to illness than do those of the nonpoor. The inadequacy of their diet has produced significantly elevated rates of iron deficiency anemia and failure to thrive among

poor children. Inadequate housing conditions also can affect morbidity, as lead poisoning is heavily concentrated in poor children. Poverty's influence on childhood morbidity also can be conveyed by the reduced utilization of effective clinical interventions.

Poor children also have higher rates of mortality from all causes, and are at higher risk than nonpoor children for congenital anomalies, accidents, and violence. The National Center for Children in Poverty (1990) reports that poor children were more than twice as likely as the nonpoor to die in auto accidents, and five times as likely to die in a fire. These problems result, in part, from living in dangerous housing and neighborhoods and from having less-than-adequate supervision. Poor children are also more likely than nonpoor children to be limited in major life activities due to illness or disabilities (Rosenbaum, 1989).

There are also three relatively new social phenomena adversely affecting poor children. First, is the AIDS epidemic. Their numbers are not now large -- AIDS is the ninth leading cause of death among children ages 1-4 (Klerman and Parker, 1990). However, the potential for many more afflicted children is great. As they are born to infected women, many too sick to care for their children, the child welfare system is faced with the difficult task of providing specialized care within an already strained foster care system.

Second, is the increased numbers of homeless children. These children are the poorest of the poor and have nutritional problems, and very limited access to medical and other social services, in addition to the risks of living in shelters or on the street.

The third problem, of larger magnitude, relates to the proliferation in the use of "crack" cocaine and other drugs. It is estimated that 375,000 children are born annually who have been prenatally exposed to addicting drugs. Prenatal drug exposure often results in brain damage, withdrawal symptoms at birth, prematurity, and learning disabilities which are often not evident until the child is between 2 and 5 years old.

Clearly the needs of these children will affect the service efforts of the education, mental health, juvenile justice, and child welfare systems.

Cognitive Development Problems in early development can be attributed to poor perinatal experiences (problems of prematurity) and even prenatal difficulties (Parker, et al., 1988). The effect of poverty on the development of children can also be directed through the condition and actions of parents. Economic hardship can result in parental emotional detachment from children and in general a less supportive and less nurturant parent-child relationship. The resulting socioemotional problems in children include depression, poor peer relations, low self-confidence, conduct disorders, and psychological disorders (McLoyd, 1989).

Some deficits in cognitive functioning have been described among school aged children born to adolescent mothers. These mothers tend to pay less attention to developmental needs as well as to caregiving tasks. These parents tend to end up with adolescents who are less able to express positive affect and tend to have little vocalization with parents. This "age of mother effect" may actually be a poverty effect. When some measure of the mother's socioeconomic status is included, age of mother tends to have no relationship to developmental outcomes for children (Newberger, et al., 1986). Maternal age is less important to children's IQ than maternal education (Belmont, et al., 1981).

Being raised in a single parent family does have a very small negative effect on IQ scores, holding socioeconomic status constant. Similar results were found on other cognitive achievement tests (Garfinkel & McLanahan, 1986).

School Achievement Reduced school achievement is a major consequence of child poverty. Poor children are more likely than non-poor children to have low grades, poor attendance, and negative attitudes toward school and to have higher drop out rates. According to Wolfe (1990):

Children in poor families are three times more likely to drop out of high school than are children in more prosperous families. Each year a child lives in poverty reduces his or her probability of graduation by nearly 1 percent.

The effect of child poverty on school outcomes also works through its relationship to family structure. Children in single parent families complete about one year less schooling than those from two parent families (Garfinkel and McLanahan, 1986). With socioeconomic status controlled, Astone and McLanahan (1989) found that children in single parent families were less likely to have their school work monitored and were supervised less than children in two parent families. They concluded that these differences in parental practices had an independent effect on children's school performance.

Astone and McLanahan (1989) also document that both family income and family structure affect the probability that a child will graduate from high school or receive an equivalent degree. In fact, the difference in the high school degree probability between students from the lowest and the third family income quartile is about one-half the magnitude of the difference in the degree probability between students from single-parent and two-parent families. This suggests that policies to raise family income can improve the educational prospects of the next generation. There would be even larger effects if policies could be implemented that would reduce teen pregnancies and unwanted births, and thus reduce the percentage of children growing up in single-parent families.

In addition to concerns about the consequences of differences in family income and family structure, there are concerns about the effects on children's attainment of growing up in certain geographic areas, even if their parents are not poor and even if they live in two parent families. Jencks and Mayer (1989), in illustrating the effects of growing up in a poverty neighborhood, present three different explanations of how the economic character of a child's neighborhood can effect school achievement (e.g., high school graduation). First is the institutional effect which says that as the economic

fortunes of a neighborhood increase, the quality of its public institutions, including public schools, also rise. The second explanation is the contagion effect. Working and middle class neighborhoods with high labor force participation rates and many two parent families abound with positive role models for their children. These are ostensibly people for whom education has paid off, giving the children appropriate aspirations. In contrast, in poor neighborhoods where there is low participation in the legitimate labor market and a high incidence of female headship of families and welfare dependency, the children come to believe that education does not improve one's prospects.

The third Jencks and Mayer model is the social control effect, where it is argued that stable, economically vital, and well-organized communities exert social control over the local schools by demanding a high quality education for their children. In contrast to poor communities, the better off neighborhood schools are characterized by a high level of parental participation.

Children of women who started childbearing in their adolescence or premaritally tend to have reduced school achievement outcomes because a teen or unwed mother is more likely to drop out of high school before graduation. Sewell and Shaw (1988) found that parents who have more education value education more and communicate that value to their children. They read to their children more, have more books in the house, and involve their children in more activities (Bradley & Caldwell, 1986, Wachs & Gruen, 1982).

Summary The high poverty rate and trends in family structure pose a great risk to the well-being of children today and the productivity of the next generation. The effects of being born to a single mother, or of living in a household headed by an unmarried woman are associated with lower income, higher poverty rates and longer spells of poverty. Many poor children live in families with parents who have relatively low education levels, high stress and less social supports. Children in these families then

tend to have poorer health, less cognitive and educational attainment, more teen pregnancies, and fewer prospects for their own mobility and economic advancement.

VII. FIGHTING POVERTY IN THE 1990s

A. The Goals of an Antipoverty Agenda

For most white children, poverty lasts only a few years. But many minority children spend their entire childhood in poverty. They live in segregated neighborhoods, isolated from mainstream institutions, in families that lack the income necessary to provide them with sufficient nutrition and health care, and they attend urban public schools that offer few opportunities to learn and escape from poverty. To significantly reduce poverty, we must launch a comprehensive antipoverty effort that addresses many aspects of the poverty problem that we have reviewed.

We offer an antipoverty strategy that directly attacks poverty by raising current income. It includes both income supplementation policies for working poor families with children and welfare reforms for the nonworking poor. It also includes a set of direct service policies that attempt to offset some of the negative consequences of poverty for children, by increasing their access to health, nutrition and educational services.

Sawhill (1988) has argued that any antipoverty agenda for the 1990s should be built on the assumptions that parents must take greater responsibility for their children -- through increased work by mothers heading single-parent families and through increased child support by the absent fathers -- and that the public sector must offer more employment and education opportunities so that the poor, from whom we have come to demand greater responsibility, will have the means to transform their efforts into higher income.

Why should we worry about the distribution of income in general and poverty in particular? Shouldn't we be interested in raising productivity and in achieving the most from society's scarce resources? Shouldn't the pursuit of efficiency be our primary goal?

Our answer is "yes, but." If we were starting from an initial situation in which the endowments that individuals brought to the market had been attained in a market free of imperfections such as discrimination, then the answer would be much more emphatic for the "yes," and much more wavering for the "but." This is because given an initial distribution of income, the market, when all assumptions of perfect competition are met, will produce the most efficient allocation of scarce resources. The goods to be produced and the resulting prices will determine an efficient post-market distribution of income. However, if we judge the initial distribution of endowments unfair, then we may want to change the distribution of income that results from the market, even if it has resulted from a perfectly competitive market process.

This highly simplified textbook example is relevant because the War on Poverty was premised on the belief that both the initial endowments being brought to the market by the poor and disadvantaged and how those endowments were compensated were adversely affected by market imperfections. If one accepts these underlying premises of the War on Poverty as still relevant 25 years later, then there remains a basis for public policies that seek both to raise the current incomes of poor families and the endowments that their children will bring to the market in the coming decades.

A call for expanded government spending to aid the poor does not tell us how much more aid could promote equity without impairing efficiency. Indeed two articles, Joel Slemrod's (1983) "Do We Know How Progressive the Income Tax System Should Be?" and Anthony Atkinson's (1983) "How Progressive Should Income Tax Be?" each review the literature on the optimal income tax and reach no definitive conclusions. The answer depends, first, on how we value various degrees of inequality, that is, on our social welfare function; second, on how responsive tax-payers are to marginal tax rates; and third, on the distribution of endowments that generate the pretax (market) distribution of income. In general, Slemrod and Atkinson offer little more than the

boundaries of the trade-offs -- guidelines that argue against excessively high marginal tax rates without specifying the level at which efficiency losses become large.

Alan Blinder (1982) is much less technical, but much more eloquent. He concludes that:

. . . what this country needs now in the realm of income distribution policy is exactly what it needs, and has often been unable to get, in so many other problem areas: An economic policy with a hard head and a soft heart. A hard head to remind us of the wondrous efficiency of the marketplace, and how foolish it is to squander this efficiency without good reason. And a soft heart to remind us that championing the cause of society's underdogs has long been, and remains one of the noblest functions of government (p. 30).

The evidence reviewed suggests that a reduction in child poverty will raise the health, educational attainment, and hence productivity in the next generation as well. In this regard, the income supplementation, welfare reform and direct service policies we advocate can all be viewed as productivity policies. Consider, for example, 45 year-old family head with a high school diploma who works full time full year in an industry with competitive wages that are too low to raise his or her family above the poverty line. Supplementing this family's income or providing access to medical and early childhood education for the children may increase their educational attainment even if we can offer no policy to raise the earnings of the family head. According to Richard Murnane (1988):

. . . it is important to keep in mind that the roots of the low achievement of many American children lie in the circumstances of poverty in which they live. Consequently, educational policy changes not accompanied by policies that significantly reduce the poverty that dominates many children's lives will have only modest influences on their academic achievements (p. 229).

In other words, direct service strategies seek to directly raise the health and attainment, and, hence, productivity of the young, while income supplementation and welfare reform policies, by alleviating current hardship in their families, make it easier for

them to remain in school and to gain more from the education and training programs that serve them. There is some evidence that the Negative Income Tax experiments of the 1970s, which provided experimental families with some income supplements that exceeded those available from existing welfare programs, had just such effects. Eric Hanushek (1987) reviewed the Negative Income Tax literature and concluded that the schooling:

... effects appear quite large and significant. For example, Mallar (1976) estimates that the probability of completing high school for families on a "middle" negative income tax plan to be 25 to 30 percent higher... Venti and Wise (1984) find an 11 percent increase for youth in the Seattle-Denver experiments (pp. 112-113).

B. Income Supplementation Policies

The kinds of income supplementation policies we advocate involve expansion of two provisions in the federal personal income tax, the Earned Income Tax Credit (EITC) and the Dependent Care Credit (DCC), reductions in taxation of the poor by state governments, and further reforms of the child support system and increases in the minimum wage. These policies build on the Tax Reform Act of 1986, which eliminated the personal income tax liability for most poor families with children, and the Family Support Act of 1988, which made important changes in the child support system.

The Earned Income Tax Credit is a refundable tax credit targeted on low income families with children. In 1990, the credit is 14 percent for each dollar of earned income up to \$6807, where it reaches its maximum value of \$953. The credit remains at \$953 until earnings reach \$10,734, after which it is reduced by 10 percent of additional earnings, phasing out at \$20,264. According to congressional estimates, (U.S. House of Representatives, 1990a), the provisions of the Tax Reform Act increased the number of families receiving the credit each year from about 6.3 to 10.3 million between 1986 and

1990 and increased the amount of the credit from \$2.0 to \$5.9 billion per year over the same period.

Several proposals have been introduced in Congress to expand the EITC by making the credit an increasing function of family size. Under current law, the EITC provides a constant amount per family, whereas the poverty line increases with the number of children. In 1990, the House of Representatives considered an expansion of the EITC that would have made it, like the poverty line, an increasing function of family size. The EITC would rise from its current rate of 14 percent, to 17 percent for eligible families with one child, 21 percent for those with two children, and 25 percent for those with three or more children. In addition, a further credit equal to 6 percent of earnings would be provided to families with a child under six. Such an expansion would provide an additional \$3 billion per year to the poor.

President Bush (U.S. Council of Economic Advisors, 1990) has proposed a refundable credit for families with children under the age of four, which he labels "child care assistance," but which is essentially a supplemental earned income tax credit. For families with several children under the age of four, this plan is similar to an EITC that provides greater subsidies to larger families.⁴ The Bush plan is provided only to families with children under the age of four because of budgetary constraints. But to increase its antipoverty impact, it could be made available to all families with children, not just those with children younger than four.

In addition, the Dependent Care Credit should be expanded and made refundable. It allows working single parents and couples, when both spouses work, to partially offset work-related child care costs. The credit begins at 30 percent of expenses for families with incomes below \$10,000 and falls to 20 percent for those with

⁴ The Bush proposal would allow a family that used child care expenses that were reimbursable under the new child care assistance credit to receive both the current EITC and the new credit, or the EITC and the Dependent Care Credit.

incomes above \$50,000. Because the credit is nonrefundable and because the Tax Reform Act of 1986 eliminated the income tax liability of many of the poor, only a very small percentage of the approximately \$4 billion per year in tax relief that it provides is received by poor and low-income families. On the other hand, higher income taxpayers receive credits of up to \$960.

One could combine the Bush proposal, revised to benefit all families with children, with a proposal such as the Expanded Child Care Opportunities Act of 1989 (ECCO) sponsored by Senators Bob Packwood (Oregon) and Daniel Patrick Moynihan (New York). ECCO expands the DCC by raising the maximum subsidy rate, the percentage of child care expenses that can be credited, and by making the credit refundable. The maximum DCC would increase to \$960 for one child and \$1920 for two or more children. ECCO is estimated to cost more than \$2 billion per year.

These expansions of the EITC and DCC would provide additional aid for working poor and low-income families. Their additional budgetary costs could be recouped by phasing out the DCC for higher-income taxpayers and by raising the marginal tax rate in the personal income tax for the highest income taxpayers from 28 to 33 percent.

While federal taxation of the poor has been reduced in the last few years, most states continue to tax the poor. For example, according to Gold (1987), only in 10 of the 40 states with a broad-based personal income tax would a family of four at the poverty line be exempt from taxation. Chernick and Reschovsky (1989) show that the poor pay a substantial amount of other state and local taxes in New York and Massachusetts, two of the ten states in which the poor have no state income tax liability. State tax relief for the poor remains an important priority.

Because single-mother families have such high poverty rates, and because poor female-headed families have incomes that fall further below the poverty line than poor male-headed families, additional income supplementation strategies are necessary. The Wisconsin Child Support Assurance System (Garfinkel, 1988), or the system proposed

by Lerman (1988) would target all children in single-parent families and would reduce both their poverty and welfare dependency through increased parental support. Uniform child support awards would be financed by a percentage-of-income tax on the absent parent. If this amount is less than a fixed minimum level because the absent parent's income is too low, the support payment would be supplemented up to the minimum by government funds. Because of the increased payments from absent fathers and because the system has greater work incentives for custodial mothers than does welfare, Garfinkel estimates that such a system could be implemented with little additional government funds.

The policies highlighted here target the working poor with children and would reduce poverty for those whose incomes were already close to the poverty line. More attention also needs to be focused on raising wages for those whose earned income remains low. The ratio of the minimum wage to the average wage in the U.S. is much lower than that in other industrialized countries that have legislated minima or in the customary entry level wage in those countries that do not have formalized minimum wages. The U.S. minimum wage is not indexed to inflation; rather it is dependent on periodic legislative adjustments. In the period from 1950 to 1980, Congress typically increased the minimum wage at least every five years. The minimum wage, however, was not changed at all during the Reagan Administrations. It remained at its 1981 level of \$3.35 until it was increased to \$3.80 in 1990 and \$4.25 in 1991. As a result, in 1990, a worker earning the minimum wage for full-time full-year work (2000 hours) will earn about 38 percent of the average earnings of a typical worker covered by the social security system (U.S. House of Representatives, 1990, p. 1101). To restore the minimum wage to its historic level—above 50 percent of this earnings level — would require a further increase to about \$5.00 per hour in 1991. Hendrickson and Sawhill (1989) concluded that the best way to aid the working poor was through a combination of increasing the minimum as well as increasing tax credits.

C. Welfare Reform Policies

More attention must also be given to policies to bring the nonworking poor into the labor market. The mid-1980s have been characterized by state experimentation with incremental work/welfare programs that have this goal. Model programs include Employment and Training (ET) Choices in Massachusetts, Greater Avenues for Independence (GAIN) in California, Realizing Economic Achievement (REACH) in New Jersey, and the Family Independence Program (FIP) in the state of Washington. All provide increased training, employment and social services to long-term nonworking welfare recipients. In September, 1988 Congress passed the Family Support Act, which builds on the experiences of these and other states. This bill embodies the new consensus in that it redirects welfare policy for the nonworking poor. It neither sets a national minimum welfare benefit nor raises benefits. Rather, it requires that all states offer a wide array of education, training and work programs. It also requires all states to provide welfare benefits for unemployed two-parent families for at least six months per year, and adds a requirement that at least one of the parents engage in community service in return for benefits.⁵

The Act and the state programs now in operation target long-term welfare recipients of working age who have no disabilities, but who do not work under the current system. The implicit goal of these programs is to turn a welfare check into a paycheck – even if, at first, the total amount of the check is unchanged. Once recipients are at work, it is hoped that they can leave welfare through a combination of increased child support and access to transitional child care, health care, and employment and

5 Prior law did not require states to provide cash assistance to poor two-parent families with children. As a result, in about one-half of the states, such poor children often received no income supplements

training services, as well as the types of income supplementation policies discussed here.

One problem with some work-welfare programs, when viewed from an antipoverty perspective, is that they merely replace welfare benefits with an equivalent amount of earnings to hold down total program costs. Typically, they set the monthly hours to be worked by dividing the welfare benefit by the minimum wage. If they were expanded so that recipients could work full time instead and if they increased the number of recipients who participate, they would enhance opportunities for recipients to escape poverty as well as welfare dependency. Such changes could increase budgetary costs by about \$10 billion per year.

D. Direct Service Policies

Our analysis of some of the consequences of poverty for children suggests an expansion of direct service policies as well as. Experimentation and evaluation of numerous direct services over the past two decades have shown that they can aid poor children and offset some of the disadvantages of growing up in poverty. Our selection of program areas follows a developmental course. We begin with pregnancy prevention programs, then move on to prenatal care, child health and nutrition, early screening for developmental disabilities and early childhood education. We believe that antipoverty efforts in all of these areas can be effectively expanded. Due to space limitations, we do not address other policies that would attack the causes of poverty by the improving housing stock, upgrading urban public schools, vigorously enforcing antidiscrimination laws in housing and employment, and restricting drug and gang activities.

Pregnancy Prevention. Given the importance of teen and out-of-wedlock childbearing as a cause and consequence of child poverty, a number of promising interventions have been tested. School-based clinics that provide comprehensive health care, including family planning, services, counseling, and health education have reached

a large portion of a school's student body in several demonstration projects. Some programs provide contraceptive services, while others refer students to off-site birth control clinics (Dryfoos, 1985).

The first such program in the U.S. was the St. Paul (Minnesota) Maternal and Infant Care Project (MIC), which opened a school clinic in 1973. The clinic offered prenatal and postpartum care, VD testing and treatment, gynecological examinations, contraceptive counseling, general physical examinations, immunizations, and a weight control program. The school drop out rate for pregnant teens dropped from 45 to 10 percent, over a three-year period and the overall fertility rate for the school dropped from 79 to 35 per 1,000. Patients who received their obstetric care in the school clinic had lower incidences of obstetric problems as well as better outcomes for their infants (Edwards, et. al., 1980).

The Baltimore, Maryland school system set up an experimental pregnancy prevention program for junior and senior high school students. During the program's existence, the pregnancy rates in program schools declined thirty percent, while it increased 58 percent in control schools. The program provided medical and counseling services, and attempted to raise the level of student's knowledge about the consequences of unprotected sexual activity.

Aside from the reduction in fertility rates, the program showed other positive effects. Students demonstrated increased knowledge of contraceptive and sexual issues. There were slight changes in the age of onset of sexual activity (enough to refute the concern that easy availability of contraceptive services will encourage sexual activity), students went to the clinics sooner after initiating sexual activity than prior to the clinic's presence, and a higher percentage of students went to the clinic prior to the onset of a sexual relationship (Zabin, et. al., 1986).

Unfortunately, there are severe obstacles to the widespread provision of comprehensive adolescent medical services in school settings. There are problems of

inadequate financial support, insufficient health and social welfare infrastructure, and negative public and political attitudes (Weatherly, et. al., 1987). Clearly a greater level of support for such interventions is in order.

Prenatal Care. Many pregnant women, especially the young and poor, receive inadequate prenatal care, either in terms of quality or in the number of visits. Barriers to receiving adequate prenatal care include financial constraints, particularly lack of private health insurance or Medicaid coverage. There is also a shortage in some areas of medical care providers willing to serve the disadvantaged or high risk populations, and a lack of neighborhood services traditionally used by the poor (Institute of Medicine, 1985).

Early and frequent prenatal care visits can greatly enhance the chances that a newborn will be healthy. Children born to women who do not receive adequate prenatal care are at greater risk of being born low birthweight, which raises the risk of such conditions as cerebral palsy, retardation, autism, and vision and learning disabilities (Hughes, et al., 1989). The Children's Defense Fund (Hughes et al.) estimates that each dollar spent on providing prenatal care to a pregnant woman saves up to nine dollars over the child's lifetime, three dollars in the first year alone. So while it would be costly to extend Medicaid benefits to all children and pregnant women who are living on incomes below twice the poverty line (an increase of \$1.5 billion), the savings in future Medicaid funds would be substantial.

Child Health. Medicaid is a joint federal-state public health insurance program which funds medical care services for eligible poor families and their children. Medicaid, enacted in 1965, reimburses health care professionals for services provided to eligible patients. Eligibility is jointly determined by state and federal regulation.

Medicaid has clearly had a positive effect on child health. In the pre-Medicaid 1960s, poor children had a lower frequency of hospitalization than non-poor children, but their average length of stay was longer, suggesting that they were sicker. After Medicaid was instituted, the hospitalization rates for poor children became similar to that of non-

poor children (Starfield, 1985). Doctor visits are another indicator of the effect of Medicaid. Before 1965, a much higher proportion of poor children, compared to non-poor, had not seen a doctor at all in the prior two years. After Medicaid, poor and non-poor rates of doctor visits became similar.

Various factors have, however, mitigated the effect Medicaid has had on children's health. First, Medicaid eligibility and the services provided vary widely from state to state. From 1965 to the early 1980s, states had the option of covering children in poor two-parent families, but about half chose not to do so. In 1984, such coverage was federally mandated for all poor children under 5 years. Starting in 1967, states also had the option of extending benefits to first time pregnant women ineligible for Aid to Families with Dependent Children (AFDC). Eighteen states had still not done so by 1986, when this coverage was mandated. States are also allowed to cover the "medically needy" who have incomes just above the AFDC eligibility level; fifteen states do not. In 1988, an expansion of Medicaid mandated all states to provide coverage for pregnant women and infants under age one with incomes below the poverty line, regardless of AFDC eligibility rules in the state.

Finally, AFDC eligibility levels, which are a primary determinant of the Medicaid rolls, have fallen dramatically in the past fifteen years, so a smaller percentage of all poor families now are covered. Smythe (1988) reports that 200,000 fewer children in 1986 than 1978 were served by Medicaid even though the number of poor children increased by about 3 million over this period. As a result, 25 to 40 percent of poor families are without any health insurance, as opposed to 12 to 14 percent in the late 1970s. Among all children living in families below the poverty line, more than 50 percent are covered by Medicaid, but 30 percent are uninsured (Wolfe, 1989). Continued extensions in Medicaid coverage and improvements in the services offered are clearly in order. It would cost about \$3.6 billion per year in additional funds to cover all poor children under Medicaid (estimates based on data taken from U.S. House of Representatives, 1990a).

Diagnostic Screening. In 1967, the Early and Periodic Screening, Testing, and Diagnostic program (EPSDT) was enacted. It requires states to screen and diagnose individuals under the age of 21 who are eligible for Medicaid, in order to determine their physical or mental defects and to provide ameliorative services. Screening refers to the identification of individuals who may need further evaluation to determine if they are at risk. Diagnosis is provided for those individuals who are suspected of having a problem or disability, and treatment is administered to individuals whose diagnostic tests confirm the presence of a condition.

The problems of coverage of EPSDT is much the same as Medicaid. In 1976, only 15 percent of the eligible children were served. And, there was great variation between states ranging from 1 percent to 80 percent of the eligible children (Meisels, 1984).

Child Nutrition. An important program for improving child health and nutrition is the Women, Infants, and Children (WIC) program. WIC provides food supplements to the poor in the form of food packets or vouchers, and nutrition education and counseling in conjunction with health care to pregnant, breast-feeding mothers, and children up to age 5, who have low incomes and are determined to be at a special nutritional risk. The WIC program was conceived to be both preventive and therapeutic, with the objective of reducing the number of low birth weight neonates and unhealthy infants and young children.

Research on WIC's effectiveness has found that WIC recipients experienced an increase in birth weights of 30 to 50 grams, and are somewhat less likely to give birth to infants less 2,500 grams. Also, infants born to teenage mothers who receive WIC are less likely to be low birth weight than those born to non-participating mothers (Chelimsky, 1984). Despite its effectiveness in increasing birth weights and in decreasing fetal deaths, and its cost effectiveness (The Children's Defense Fund reports that every dollar spent on WIC's preventive component decreases short-term hospital

costs by three dollars), WIC has never reached even half of the eligible women and children. In 1986, WIC served only 40 percent of the eligible population (those with incomes up to 185 percent of the poverty line), while in 11 states less than one-third of eligible women and children received WIC (Children's Defense Fund, 1989).

The gaps in WIC coverage are attributed first to an absence, in some areas, of health resources needed to fulfill legislative requirements. Second, WIC has been historically underfunded. It would cost about \$2 billion per year in additional funds to serve all eligibles, an addition of about 4 million women, infants and children (estimated from data in U.S. House of Representatives, 1990a).

Preschool Education. Two major federal programs were designed to reduce poverty's negative effects on school outcomes by improving the school-readiness and cognitive functioning of poor children, Chapter 1 of the Education Consolidation and Improvement Act of 1981 (ECIA) and Head Start. Chapter 1 provides compensatory education funds for disadvantaged children who live in areas with high poverty rates; it is the largest federal elementary and secondary education program. Chapter 1 preschool programs seek to reduce the potential for later school failure by providing educational services at pre-school levels.

The evaluation research undertaken in the National Assessment of Chapter 1 (1983-1987) analyzed short-term and long term effects. In the one year study, students who received Chapter 1 services showed substantial increases in standardized test scores relative to the control group. Yet, the gains of Chapter 1 students did not do much to narrow the gap between themselves and more advantaged students. The longer term program effects were that Chapter 1 students who discontinued these services tended to lose the gains they had made while recipients.

Head Start is a federally funded early intervention program which provides comprehensive services to poor three to five year old children and their families. Head Start is designed to reduce the risk of later school failure by providing education, health,

nutrition, and social services to young children. Education services are generally center based; students attend pre-school classes at a Head Start facility on either a full or half day schedule, five days per week. In some cases Head Start services can be provided in the home. Health services include dental, nutrition, and mental health screenings and services, either provided at the Head Start centers or coordinated by them. Children must receive a complete health screening within 90 days of enrollment and follow up for all identified problems is required. Dental screenings are also required for all enrolled children. Center based programs are required to serve meals and snacks to the Head Start children attending preschool.

Social services are provided or coordinated by Head Start centers and are designed to make parents more aware of community services and resources to as to improve the family's quality of life. Parent involvement objectives require Head Start programs to support the parent's efforts for appropriate child development and educational achievement through active participation in the program.

In 1981 the Head Start Evaluation, Synthesis, and Utilization Project found that the program has an immediate positive effect on children's cognitive development, yet these gains tend to disappear after two years out of the program. Still, former Head Start students appear to be less likely than non-participants to drop out of school, or be assigned to special education classes (McKey, et. al., 1985). This suggests that perhaps the program is doing its job, but that the public school systems are unable to provide programming that would sustain the gains of these students.

The longitudinal study of the Perry Preschool program in Ypsilanti, Michigan by the High Scope Educational Research Foundation provides a much more positive picture. This project has followed Head Start students and evaluated their progress up to age 19. Participants were half as likely to have been retained in grade by the time they were fifth graders as students who had not participated (Palmer & Anderson, 1979). Also, participants were less likely to have been placed in Special Education settings, had

higher overall reading and math achievement levels, higher high school graduation rates, higher rates of employment in adolescence, lower pregnancy and birth rates, and fewer arrests (Berrueta-Clement, et al., 1986). Part of the reason this program shows such positive results may lie in the fact that while it is a comprehensive early childhood program, it is not technically a Head Start program. It is funded at a level more than twice that of federally funded Head Start programs, about \$4963 per student per year in 1981. That is \$6,287 in 1989 dollars, as compared to the estimated average cost per child per year in Head Start of \$2,664. The Perry School program was also more selective about who was enrolled.

As with other direct service programs, Head Start does not reach enough of its eligible population. In 1986 2.5 million children were eligible, yet only 451,000 (18 percent) were served (Bridgman, 1985). Expansion in the number of children served and in services provided should be a high priority. In addition, Head Start programs should offer full day programs. This would not only benefit the children, but facilitate the work efforts of their mothers. To expand Head Start services so that all eligible children were served could cost as much as an additional \$5 billion per year (estimated from data presented in U.S. House of Representatives, 1990a).

E. Summary

The experience of the twenty-five years since the declaration of the War on Poverty has shown that no single program or policy can aid all of the poor. Yet a new realism requires us to confront the facts that all of the various program expansions that we advocate have budgetary costs. In addition, we do not even have model programs to address some of the most serious aspects of the poverty problem, let alone solutions that could be implemented on a nationwide basis. While we do not know how to eliminate all of the causes of poverty, we know how to alleviate most of its consequences.

Our proposals would be expensive. They could easily cost \$30 billion per year. Yet to avoid spending now is merely to raise the future costs associated with poverty. These proposals could be financed in part through higher taxes on the non-poor. Tax policy has recently shifted in this direction, for example, by expanding the federal income tax base and by eliminating some of the special provisions that disproportionately aided the nonneedy. These included the repeal of the double personal exemption for the elderly and the taxation of one-half of social security benefits (employer share) for taxpayers with higher incomes, and the eventual elimination of the income tax deduction for interest payments on consumer purchases. A further move would be to tax employer-provided health insurance and the implicit subsidy in Medicare and to raise the proportion of social security benefits that are subject to taxation.⁶

While Congress has shown little inclination to alter these tax expenditures, they could be modified. For example, according to congressional estimates, the deductibility of employer contributions for medical insurance premiums will reduce revenues by about \$33 billion per year in 1990. (U.S. House of Representatives, 1990a p. 807). A modest reduction in this tax expenditure could raise about \$10 billion per year. In addition, marginal tax rates have fallen so much in the 1980s that there would be little efficiency loss in raising them somewhat, particularly on the wealthy, who gained the most during the uneven economic recovery of the 1980s.

The poor have benefited relatively little from this economic recovery because of changes in the structure of the economy that have adversely affected their incomes and because of inattention to their plight. We seem to have moved beyond the Reagan era's "benign" or "not-so-benign" neglect. Adoption of the policies proposed here might

⁶ High income taxpayers currently pay income tax on 50 percent of their social security benefits. Taxing them in the same fashion that private pensions are now taxed would subject about 85 percent of benefits to taxation.

reduce the child poverty rate by half by the year 2000. Maintenance of the status quo will subject another generation of children to a life of hardship and unrealized potential.

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REPRESENTATIVE SOLARZ. Thank you very much. I appreciate it. Dr. Levitan, please proceed.

**STATEMENT OF SAR A. LEVITAN, PH.D.,
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DR. LEVITAN. Thank you, Mr. Chairman.

I was ready to say amen to your eloquent statement and stop right there. But since you did not convince Congressman Arney, let me try. Maybe Dr. Danziger's statement helped, but maybe Congressman Arney is still not convinced.

REPRESENTATIVE SOLARZ. If you'll forgive me for a moment. If confession is truly good for the soul, perhaps there will be further confessions as the hearing develops.

REPRESENTATIVE ARMEY. Perhaps.

DR. LEVITAN. Well, that's what I hope, that Congressman Arney will return to his younger Galbraithian days, rather than to his present views.

My statement is in two parts. The first part is a brief description of how the welfare system has evolved during the past half century and what it has contributed to the stability of our society and to the economic security of most Americans.

My second part deals with three specific programs that indicate that the Great Society programs did work.

Federal social welfare policies prevented not only extreme deprivation, as Dr. Danziger just pointed out, but also cushioned the impact of economic misfortune for the more advantaged members of society.

The resulting safety net has been remarkably successful in shielding Americans from the full brunt of the vagaries and hardships implicit in a free-market economy.

I'll skip the rest of the prepared statement about the general impact of the welfare system. But I just want to comment on one point that Congressman Arney has made. He associated the failure of the welfare system with the problems that have developed in our society. Implied, or maybe stated directly, is that the growth of single-parent families, out of wedlock births, use of drugs, and so on is a product of welfare programs.

I have studied welfare programs for many, many years. Congressman Arney just very kindly indicated to me that he was aware of that. So, maybe you'll also believe that I am not aware of any law that the Great Society passed, or that the adherents of the welfare system have advocated permissiveness or the use of drugs. These are the problems that have contributed to the rise of poverty in the United States.

I don't think that the Great Society has contributed to the problems that we are now facing in the 1980s. There were other causes, general problems in the economy and society. And also the Reagan Administration's willingness, or not willingness, but actual advocacy to give up the noble—I say noble—efforts of the Great Society.

Let me turn now to the three specific programs. Maybe, by talking about specifics, we will be able to convince the detractors of the Great Society.

I speak with some confidence about the three programs that I'm going to discuss. One is Head Start; the second one is Chapter 1; and the third one is Job Corps.

All of these programs have been carefully scrutinized and evaluated, and, therefore, I speak, as I said, with confidence about the record of these three programs.

These programs all deal with preparing children and youths from poor homes to help overcome obstacles that they are likely to face in acquiring a mastery of the 3 Rs—an old-fashioned term—and the skill needed to qualify for jobs.

At least two of the programs; namely, Head Start and Job Corps, indicate the potential benefits when society invests—and this is a very important point—adequate funds in poor children and youths.

Contrary to conventional wisdom, assistance for the poor does not necessarily result in poor programs, if sufficient resources are invested.

In this connection, I think that other training programs would also have worked much better if Congress would have appropriated more money for them and if the Presidents would have signed such legislation.

Head Start—the largest public child-care and development program—is the primary federal program designed to remedy educational deficiencies associated with poverty at the preschool level. Providing educational, medical, and social services to poor preschool children and their families, local Head Start agencies seek to raise the basic cognitive skills of disadvantaged youngsters to the norms for their age.

As a result of increased appropriations in 1991, Head Start will be serving next year some 600,000 poor children at a cost of \$2.2 billion. I give credit to President Bush for advocating some increases for Head Start, and I give more credit to the Congress for raising the ante to \$2.2 billion. The program is expected to reach one-third of the four- to five-year-olds from low-income households eligible to participate.

According to the most thorough analysis, Head Start children were more likely to graduate from high school, enroll in college, and obtain a self-supporting job. They were also less apt to be arrested or to seek welfare benefits. I think that should appeal to all of us here.

Based on these findings, the investigators estimated that the taxpayers save nearly five dollars in reduced crime, welfare, public education costs, and increased tax revenues for every dollar invested in preschool compensatory programs. If anybody does not believe me, I think they can turn to the CED, the Committee on Economic Development, consisting of some 200 executives, who have said exactly the same thing.

The effectiveness of the Head Start approach has been partly responsible for the stability in its funding during a decade of sweeping budget cuts and a significant increase in 1991.

The Chapter 1 appropriation provides for children already in school for compensatory education to local school districts under the Elementary and Secondary Education Act. This appropriation for fiscal 1992 is expected to provide \$7.1 billion for remedial instruction and related services, mostly at the primary level to school districts enrolling large number of poor children.

Again, I would say that \$7.1 billion is a considerable sum. But when you consider the millions of kids who need that help, it does not appear to be at all excessive. I think, if anything, more money is needed for that program.

Turning to the third program, the Job Corps is the most intensive and costly federally funded training program. The Job Corps—a residential program providing remedial education, training, and work experience—has been operated directly by the Federal Government since 1965. Those who believe that the Federal Government cannot do anything well might turn to the Job Corps and learn a lesson—the program suggests that even the most disadvantaged youth can be helped through comprehensive federal initiatives.

The combination of basic education, occupational training, and an emphasis on more general living skills necessitates a substantial commitment by the Federal Government, averaging \$17,000 per annual training slot. Congress is scheduled to appropriate about \$900 million for training an estimated 100,000 enrollees during fiscal 1992.

The Job Corps has produced distinct behavioral shifts among participants who remained in the program for at least three months. Reduced out-of-wedlock births, increased mobility, more frequent matriculation in college and other postsecondary education, and entering the armed services have similarly been linked to Job Corps participation.

Most important, for taxpayers supporting the program, corps members have proved far less likely to engage in criminal activities than their nonparticipating counterparts.

And what should we do now? I suggest that political leaders, namely, Congress and the President, can play a crucial role in either promoting or undermining the needed consensus for continued social progress.

Given the inevitability of pragmatic choices and political compromises in the development of new social welfare policies, the test of leadership lies in the ability to preserve a vision—which Congressman Armey had in his younger days—of the common good and to inspire public commitment to societal goals.

Regrettably, failed leadership has asserted that the Nation—as the Chairman has pointed out—cannot afford to implement the laudable Great Society goals. The ensuing retrenchment is a sobering reminder that the role we choose for government profoundly affects the opportunities of future generations and the social fabric of the Nation.

Mr. Chairman, I think you gave us 10 minutes each. I yield back two minutes.

[The prepared statement of Dr. Levitan follows:]

PREPARED STATEMENT OF SAR A. LEVITAN

THE CONTRIBUTIONS OF THE WELFARE SYSTEM

The overriding purpose of my testimony today is to reaffirm a fact that bears repetition. The New Deal, The Great Society, and related social legislation have provided greater economic security and expanded opportunities for all Americans. Through social insurance programs, tax expenditures, human capital investments and antidiscrimination efforts, government aid and protection reach far into the ranks of middle- and upper-income Americans. Federal social welfare policies not only seek to prevent extreme deprivation, but also attempt to cushion the impact of economic misfortune and alleviate uncertainty for the more advantaged members of society. The resulting "safety net" has been remarkably successful in shielding Americans from the full brunt of the vagaries and hardships implicit in a free market economy.

I would like to stop here. But aware that this message may not have reached all members of this panel and even members of Joint Economic Committee, I feel obliged to elaborate.

A Broadly Based Welfare System

Contrary to today's view of the welfare system as synonymous with aid to the poor, public attention did not focus on the plight of the impoverished until more than two decades after the initial creation in 1935 of the social security system. The working poor were also helped by wider coverage of the minimum wage, unemployment insurance laws, and skill training efforts. The persistence of poverty despite rising affluence prompted expansion during the 1960s of cash support under the Aid to Families with Dependent Children (AFDC) program for the nonaged

poor. This included liberalization of eligibility requirements and enhanced benefits that rose more rapidly than average earnings. The federal government also accepted full responsibility for expanded aid to impoverished aged, blind, and disabled persons through the establishment of the Supplemental Security Income (SSI) program in 1972.

Low-income Americans also receive in-kind assistance when necessary to compensate for market inadequacies and to ensure that public funds would directly meet basic human needs. The federal government provided substantial additional help for the needy with the creation of the food stamp program in 1972 and its expansion during the recession in 1974. Low-income housing programs were initiated when it became evident that income support alone would not alleviate an inadequate housing stock. Health care coverage under medicare and medicaid represented further acknowledgment that cash stipends alone could not guarantee access to essential services. In most cases it was easier to persuade Congress to provide in-kind help rather than cash assistance. For example, food stamps gained political support both as a response to the cry of "hunger in America" as well as to boost the United States farm economy.

As a matter of policy as well as politics, the American welfare system has never identified income maintenance as an appropriate long-term response to economic misfortune and deprivation. The initiatives of the Great Society were founded upon the premise that only a two-pronged assault on poverty could lead to greater economic security for the poor: income support to meet immediate basic needs coupled with attempts to expand economic opportunities and to change institutions in order to promote long-term self-sufficiency. Guided by this philosophy, the Great Society sought to stimulate educational and training investments, in order to promote permanent employment for the disadvantaged. During the 1960s and 1970s, federal support for educational programs (ranging from primary and secondary schools to vocational and postsecondary education) and job training initiatives increased substantially. All segments of American society shared in the

fruits of these investments, although they have not been sufficient to supplant the primacy of income support.

A Balanced Appraisal

What of the alleged failures of the modern welfare system? Federal interventions in the complex realm of social policy have brought their share of frustrations and excesses. Yet a more important issue is the extent to which social welfare policies and programs have been revised to reflect the lessons of the past, and the standards by which progress is measured. A balanced and reasonable assessment suggests that we have learned from our mistakes, some inevitable and others the result of overly ambitious efforts or bold innovations. Past gains have been generally encouraging in light of the ambitious and competing initial goals.

The designers of the emerging welfare system, from the New Deal to the founding of The Great Society, tended to underestimate the deep-seated problems associated with poverty. President Roosevelt and the authors of the 1935 Social Security Act assumed that the need for welfare assistance would wither away after the various social security programs were fully implemented. Similarly, the architects of President Johnson's War on Poverty believed that education and training investments, civil rights protections, and the empowerment of community organizations representing the have-nots could quickly eradicate impoverishment. The problems have proved considerably more intractable. It became increasingly clear that there were no easy or quick solutions to discrimination, economic deprivation, and other social ills. The exaggerated initial rhetoric produced an over-reaction of disillusionment which sorely taxed the nation's will to sustain the welfare system's steady but incremental gains.

Comprehensive, long-term solutions have sometimes involved preferential treatment for disadvantaged groups. It has proven politically difficult to defend these actions, as Congress is

experiencing today. The search for remedies to complex social problems is inherently difficult, particularly when the process involves helping the have-nots to compete effectively with those who have made it. In a democratic society, those who have gained privileged status generally have the clout to abort such changes. Even when government interventions achieved their intended results, unwanted side effects and new problems often emerged.

Lessons Learned

Experience suggests that antipoverty efforts must proceed on several fronts simultaneously. For example, job training is unlikely to be fully effective without sufficient employment opportunities and economic development programs, particularly amid high unemployment conditions or in declining economic regions. Income transfers address immediate needs but do not enhance earning capacity and self-sufficiency unless complemented by efforts to enhance the skills of recipients and to alter the institutions that trap them in poverty. Neglect of such interdependence can lead to erroneous conclusions that particular strategies are unwarranted, especially when the necessary concomitant interventions are not undertaken. At the same time, the benefits of comprehensive approaches are cumulative and can far exceed the potential of isolated efforts.

The rhetoric of the Great Society and subsequent initiatives often placed heavy emphasis on the expansion of economic opportunity for the less fortunate. This promise has never been fulfilled through a sustained and adequate commitment of societal resources. Many of the dilemmas posed by the modern welfare system -- perverse incentives discouraging work by welfare recipients, neglect of the needs of the working poor, and the burgeoning costs of entitlement programs -- arise from an inadequate emphasis on the extension of economic opportunity. Beyond fundamental guarantees of equal access and civil rights, the welfare system's attempts to broaden opportunity have relied upon

relatively small and sporadic investments in job training, public employment, compensatory education, and meaningful work incentives. These initiatives, despite yielding promising results, have been seriously underutilized. To help the millions of the unskilled and deficiently educated, work and welfare must go together as an appropriate public policy.

Can America Afford Its Welfare System?

The affordability of the welfare system is, except in the extreme, essentially a normative judgment reflecting society's willingness to forego some measure of personal consumption and alternative public spending in exchange for greater collective security. In some cases, the exchange of current income for future economic or national security is relatively direct -- social insurance programs requiring prior contributions or investments in defense supported by higher taxes -- while in other instances the decision to sacrifice personal income represents a hedge against unforeseen misfortunes or hardships, an awareness that "there but for the grace of God, go I" -- disaster relief, food stamps, and medicaid. For the most targeted means-tested initiatives, public expenditures are humanitarian attempts to relieve deprivation; they are enlightened acknowledgments of the broader societal benefits associated with reductions in poverty. All these societal choices are predicated on an awareness of societal affluence and the belief that the nation can afford to defer a portion of today's consumption for tomorrow's economic or national security.

The most pressing question for the future of the welfare system may rest upon the nation's ability to regain confidence in government responsibility for the welfare of the citizenry and belief in the legitimacy of collective action to meet societal needs -- a conviction that we are our brother's keeper. If America's political leadership continues to denigrate the federal government as a vehicle for advancing the common good, further progress in strengthening and improving the

welfare system (as well as in other legitimate and proper realms of governmental responsibility, ranging from protection of the environment to safety in the workplace) will remain stymied. Through a clearer understanding of past experience, the nation can rekindle its faith in the ability of the welfare system to provide not only income for the poor but also greater opportunity and equity for all Americans. In this era of retrenchment, no challenge is more important than refreshing our memory of past accomplishments and refocusing our vision for the years ahead.

Welfare Initiatives Can Succeed

I would like to illustrate the record of The Great Society by focusing on three separate but related initiatives. The selected programs all deal with preparing children and youths from poor homes to help overcome obstacles they are likely to face in acquiring a mastery of the 3 Rs and the skills needed to qualify for jobs. Admittedly the selected programs maybe among the more successful Great Society initiatives, but at least two of the programs indicate the potential benefits when adequate funds are invested in poor children and youth. Contrary to conventional wisdom, assistance for the poor does not necessarily result in poor programs if sufficient resources are invested.

Head Start

By the time children enter kindergarten, differences in family backgrounds have already been translated into a head start for some and a handicap for others. Repeated studies have found that children who come from low-income families or have parents with low levels of educational achievement are more likely to begin school with fewer cognitive skills than their more fortunate counterparts. Thus, the promotion of equal educational opportunity must reach down to the preschool ages, lest those from the most adverse home environments fall hopelessly behind before the race for individual achievement formally

begins.

Head Start, the largest public child care and development program, is the primary federal program designed to remedy educational deficiencies associated with poverty at the preschool level. Providing educational, medical, and social services to poor preschool children and their families, local Head Start agencies seek to raise the basic cognitive skills of disadvantaged youngsters to the norms for their age. In most cases, 80 percent of program costs are assumed by the federal government. As a result of increased appropriations in 1991, Head Start will be serving next year some 600,000 poor children at a cost of \$2.2 billion. The program is expected to reach one-third of the four- and five-year-olds from low-income households eligible to participate.

Since the program's creation in 1965, a voluminous body of data and research has provided substantial evidence that Head Start positively influences nearly every aspect of early childhood development. Similar to federal interventions in child nutrition and preventive health care, early remedial efforts have been shown to be cost effective because they inhibit the development of more serious educational and behavioral problems. Longitudinal studies of Head Start indicate that by reducing the likelihood of later difficulties, the program actually leads to a net reduction of public expenditures. Head Start's benefits outweigh its costs by reducing outlays for the special education services often associated with disadvantaged children.

Tangible results stemming from Head Start are as diverse as the multiple objectives of the program. Head Start children are less likely to enter special education classes and repeat grades than those in control groups. The U.S. Health and Human Services Department similarly concluded that cumulative improvements in cognitive skills emanate from Head Start participation, with more disadvantaged children enjoying the most positive effect. According to the most thorough analysis, Head Start children were more likely than controls to graduate from high school, enroll in college, and obtain a self-supporting job. They were also less apt to be arrested or to seek welfare benefits. Based on

these findings, the investigators estimated that the taxpayers save nearly \$5 in reduced crime, welfare, public education costs, and increased tax revenues for every \$1 invested in preschool compensatory education programs. The effectiveness of the Head Start approach has been partly responsible for the stability in its funding during a decade of sweeping budget cuts and a significant increase in 1991.

Chapter 1

For children already in school, the most significant federal support for compensatory education is provided to local school districts under Chapter I (formerly Title I) of the Elementary and Secondary Education Act. Federal funds for Chapter I programs are distributed to local educational agencies according to a formula based on the number of children from low-income families residing in each school district. Limited federal aid is also provided to states for programs serving handicapped, migrant, neglected, and delinquent children. The Chapter I appropriation for fiscal 1992 is expected to provide \$7.1 billion for remedial instruction and related services at the primary level to school districts enrolling large numbers of poor children.

The magnitude of federal expenditures for compensatory educational aid ensured that the program was among the most scrutinized and carefully evaluated social welfare initiatives. Because local administrators have considerable discretion in the use of the funds, effective monitoring of expenditures has proved difficult, and the extent to which aid was targeted to low-income children was frequently challenged in the early years of the program. The law provides that Chapter I is to be used for children with educational problems. Tension between the goals of targeted assistance and broad provision of service has continued. However, the funds are concentrated in areas with a high incidence of poverty. While it is important to prevent counterproductive class segregation in local educational programs, the increasing possibility that many children benefiting from Chapter I expenditures will not be from poor households must be viewed with concern.

The compensatory education program has probably narrowed disparities in achievement between poor and nonpoor children. Evaluations conducted for the U.S. Department of Education found significant gains in achievement and educational attainment among low-income children over time. The program has been credited with eliminating over 40 percent of the difference in reading achievement between nine-year-old black and white children since its inception in 1965. The federal aid appears to have had a cumulative effect on the cognitive development and educational advancement of children from low-income households.

Skill Training

For disadvantaged youth with the poorest employment prospects, skill training emerges as the most promising strategy for boosting future earnings and self-sufficiency. Federal training initiatives for low-income teenagers can facilitate their entry into the labor market, enhance the likelihood of steady employment in subsequent years, and generate marginal increases in future earnings. Yet the conservative ideal of equal opportunity provided through free markets is irrelevant by the time most disadvantaged youth are ready to join the labor force, as their chances for career development and advancement have already been smothered under the collective weight of prior deprivations. At best, federal employment and training programs will mean the difference between poverty and modest incomes, between dependency and a firm attachment to work.

The Job Corps is the most intensive and costly federally funded training program. It has demonstrated that government intervention can boost the employability of disadvantaged youth if careful attention is paid to program management and implementation. Evaluations of the Job Corps, a residential program of remedial education, training, and work experience operated directly by the federal government since 1965, suggest that even the most disadvantaged youth can be helped through comprehensive federal initiatives. Focusing primarily on school leavers

aged sixteen through twenty-one in poor households, the Job Corps is designed to remove youth from disruptive environments by placing them in residential centers with highly structured remedial programs. The combination of basic education, occupational training, and an emphasis on more general living skills necessitates a substantial commitment of federal resources averaging about \$17,000 per training slot. Congress is scheduled to appropriate about \$900 million for training an estimated 100,000 enrollees during fiscal 1992.

Because Job Corps serves the most disadvantaged rather than the most employable of low-income youth, the rate of attrition in the program is high. A 1977 profile of Job Corps participants (and there is no reason to believe that the data have changed since then) conveys the magnitude of the challenge: five of six were school dropouts averaging below sixth grade reading and math levels; only one-half came from two-parent families; the typical family size of enrollees was nearly twice the national average; and the per capita family income of corpsmembers was less than one-third that of the mean for the total population. Four of ten participants had previous arrests (of those, three-fourths had prior convictions), and more than one-third of all participants had never held a job with at least twenty-four hours per week for longer than a month. Not surprisingly, only a portion of this trouble-plagued client population is willing and able to complete the Job Corps program: for every ten entrants only three have managed to complete vocational training.

Corpsmembers who complete training enjoy considerable gains in postprogram employment. These gains resulted almost exclusively from higher postprogram employment rates rather than higher wage rates, and overall earnings for completers were enhanced by substantial increases in military enlistment among participants as compared to control groups. The Job Corps program generally heightened the attachment of disadvantaged youth to the labor force while also raising their ability to meet entry requirements of private employers and the armed services.

Unlike many nonresidential supported work programs, Job Corps also

has produced distinct behavioral shifts among participants. Self-esteem increased and family relations improved for those who remained in the program for at least ninety days. Reduced child bearing and out-of-wedlock births, increased mobility, and more frequent matriculation in college and postsecondary education have similarly been linked to Job Corps participation. Most importantly for tax payers supporting the program, corpsmembers have proved far less likely to engage in criminal activities than their nonparticipating counterparts. In the first year following completion of the program the arrest rate for participants was 86 percent lower than that of control groups. These salutary effects of enrollment in Job Corps contributed to societal benefits at least equal to the value of earnings gains derived from classroom training.

The remedial instruction that is an integral component of the comprehensive Job Corps approach provides further testament to the importance of self-paced educational programs for disadvantaged youth discussed previously. Notwithstanding their demonstrated difficulty in traditional classroom settings, corpsmembers respond more positively to individualized instruction with standardized competency-based testing. Entering with less than a sixth-grade average reading level, participants gain an average of 1.5 years of competency in 90 hours of instruction and 2.2 years in 150 hours. This success in strengthening the basic educational achievements of poor youngsters who leave school without a diploma offers encouraging evidence that self-paced programs with clearly measured standards of progress can motivate the most disadvantaged students and facilitate their educational achievement.

Political Leadership Counts

Political leaders can play a crucial role in either promoting or undermining the needed consensus for continued social progress. Given the inevitability of pragmatic choices and political compromises in the development of new social welfare policies, the test of leadership lies in the ability to preserve a vision of the common good and to inspire

public commitment to societal goals. Regrettably, failed leadership has asserted that the nation cannot afford to implement the laudable Great Society goals. The ensuing retrenchment is a sobering reminder that the role we choose for government profoundly affects the opportunities of future generations and the social fabric of the nation.

REPRESENTATIVE SOLARZ. Thank you very much, Dr. Levitan. I'm sure that as we proceed in the hearing this morning we'll pursue some of the matters that you raised.

Dr. Williams, please proceed.

**STATEMENT OF WALTER WILLIAMS, PH.D.,
JOHN M. OLIN DISTINGUISHED PROFESSOR OF ECONOMICS,
GEORGE MASON UNIVERSITY**

DR. WILLIAMS. First of all, I'd like to spend one minute commenting on the measurement of poverty and the questions it raises.

The Census Bureau, I believe, counts as poor any family of four having less than \$12,675 in 1989. The Census Bureau completely ignores assets held by the poor, but more important, they ignore noncash payments received.

According to the Congressional Research Service of the Library of Congress, which traces federal, state and local means-tested programs, they said in 1988 that total welfare spending averages roughly \$5,790 for every four persons or slightly over \$23,000 for a family of four.

So, to the extent that the Bureau of Census excludes assets and non-cash payment to the poor, I think poverty is seriously overstated, and I think that Congress needs to do something about that, to the extent that Congress requires American taxpayers to include noncash payments in the computation of our federal income taxes, but permits, or perhaps even commands, the Bureau of Census to exclude noncash payments for determining poverty.

By all standards of comparison, either historically in the United States or compared to the rest of the world, we have eliminated most aspects of material poverty, as traditionally defined. I'll just run a few statistics by you from the American Housing Survey for the United States in 1987.

Sixty-two percent of poor people have one or more automobiles; 13 percent have two or more; 49 percent have air conditioning; 99 percent have refrigerators; 81 percent have telephones; 56 percent have washing machines. If we compare these statistics to 1940, we'll find that only 58 percent of all Americans owned a car; 44 percent owned refrigerates; 39 percent owned telephones. So, if you're going to be poor, it's a good idea to be poor in America.

What we have today, particularly for a large segment of the black community that the Census Bureau defines as poor, is permanent dependency and poverty of the spirit, which is proving much more debilitating than material poverty of the past among blacks.

In my opinion, the Congress of the United States has done to the black community what slavery, Reconstruction, and blatant racism could never have done. The welfare state has created a level of dependency and pathology entirely new among black people.

For example, when I was young, growing up in the slums of North Philadelphia—I'm talking about back in the 1940s and 1950s—it was

unheard of to find an able-bodied man reaching the age of 25 and never having a job. That is very frequent today.

And one of the reasons was that government handout programs just were not an attractive alternative to work. Plus, nobody had convinced black people at that time that we were entitled to live at somebody's else's expense, another thing that I believe the welfare state has done.

In the 1930s, illegitimacy among black hovered around 14 percent. Today, it tops 60 percent and, in some cities, 80 percent. Easy welfare, coupled with relaxation of social sanctions, has become both an inducement for young women to have illegitimate offspring and an inducement for fathers of these offspring to abandon their responsibilities.

People frequently refer to the breakdown of the black family. A better term would be that it doesn't form in the first place. This too is new.

In 1950, 78 percent of black kids lived in two-parent families, compared to roughly around 44 percent today. In fact today, more than two-thirds of all black poverty, at least in 1980, was in families headed by a female.

One of the great tragedies is that people use racial discrimination to explain today's problem in black communities. People who use that explanation have to explain why the pathology was not much worse in the 1920s, 1930s, and 1940s, when there was much more discrimination, fewer opportunities for blacks, and less hope.

What the welfare state is largely accountable for is the poverty of the spirit. And it has made many black Americans immune to the standard cure for poverty. That is, traditionally an expanding, robust economy has been the standard route out of poverty for mankind in most places.

And, during the 1980s, we had the longest period of sustained period of economic growth in our history. And during that period, it was almost impossible to walk two blocks in a commercial area without seeing signs says "Help Wanted."

But we have made today's poor immune from the standard cure.

Now, while the welfare state has been a carrot for dependency, federal-, state- and local-sponsored collusions in restraint of trade has been the stick. Some of the flagrant examples of this, at least at the local level, are in the form of occupational licensure and other entry barriers.

Sixty-two percent of poor families have automobiles. Now, an enterprising father or mother of a poor family could get in the taxicab business. But in your own City of New York, Congressman Solarz, they have to get a \$140,000 license in order to operate one taxi. Today, it's around \$125,000. And we ask ourselves, what is the effect of that kind of collusion? It cuts off the bottom rungs of the economic ladder.

But I am very pleased to say that, despite these encumbrances, there are 14,000 gypsy cabs operating in New York City. Now, these people are earning an honest—albeit an illegal—living, providing services for those people in the community that are shunned by the medallion tax.

REPRESENTATIVE SOLARZ. This is fascinating testimony, but we have a vote in progress. So, if you're about to conclude, we'll wait a few min-

utes. But I don't want to cut you off. Would you prefer us to vote and come back?

DR. WILLIAMS. Yes, sir.

REPRESENTATIVE SOLARZ. Good. Because I really do want to hear what you have to say.

So, the Committee will stand in recess while we go to vote for about ten minutes or so.

[Brief recess.]

REPRESENTATIVE SOLARZ. The Committee will resume its deliberations.

Dr. Williams, please proceed.

DR. WILLIAMS. What the state and local governments fail to do, in terms of restricting employment and business opportunities, the U.S. Congress does, in my opinion.

One example is the Davis-Bacon Act of 1931. And, as you know, the Davis-Bacon Act calls for prevailing wages on all federally financed and assisted construction. Now, these supernormal wages have the effect of discriminating against low-skilled, nonunionized construction workers. It has the effect of discriminating against the usage of apprentices and black construction contractors. And, in fact, the Davis-Bacon's racial outcome was anticipated by your former colleagues in the United States Congress. As a matter of fact, Congressman Allgood said, in his support of the Davis-Bacon Act back in 1931:

That contractor has cheap colored labor that he transports, and he puts them in cabins, and it's labor of that sort that's in competition with white labor throughout the country.

And that's why we need the Davis-Bacon Act.

Now, of course, you don't find the same kind of rhetoric in support of the Davis-Bacon Act, but that does not change its effect.

As we all know, the U.S. Government is the largest slumlord in the United States. And when the Congress allocates funds to rehabilitate some of these run-down buildings, the Davis-Bacon Act plays a very, very important part in reducing opportunities. As Ms. Kimi Gray of Kenilworth housing project in Washington, D.C., will tell you, the Davis-Bacon Act is a major impediment toward improving housing conditions for the black residents there.

Let me skip forward.

Congressionally sponsored collusions not only reduce employment opportunities, but they make being poor more difficult. One example is your agricultural marketing orders for citrus, tree fruits, and other farm products.

Under your instructions, growers get together and collude on production quotas. And anything over that production quota, which is made anyway just to raise prices, can be legally sold only to by-product factories, or used as cattle feed for ten dollars a ton sometimes.

How about Congress telling their poor constituents that you have a policy that creates perfectly good fruit for ten dollars a ton, but it goes to cows instead of people.

Similar restrictions can be found in price supports, tariffs that apply, and dairy supports. And it's so disgusting and frustrating to me to see Congressmen show up on national T.V. and bemoan so-called hunger in America while, in the quiet of their offices, they are wheeling and dealing with farm and dairy interests, driving up the price of food.

What's even more ironic, we have several government agencies recommending that Americans eat more fruit as a means to better health and to try to fight cancer. Then, there are other federal agencies making fruit less available.

Ask any Congressman whether he's for cartels and collusions in restraint of trade, and he'll tell you no. But that's not true. What Congressmen really mean is that they're against restraint of trade, collusions in restraint of trade, unless the practitioners get congressional permission.

Let me begin to close by discussing education, which was mentioned on this panel, and it's very important. But if I were the Grand Dragon of the Ku Klux Klan, out to sabotage black academic excellence, I could not find a better way than the current public school system, which issues fraudulent diplomas. Kids get 12th grade diplomas, and they can't read except at the sixth-grade level. To the extent that the U.S. Department of Education regulates and finances a part of public education, that makes Congress a party to this fraud.

As discussed by many people, we talk about the underlying government programs as the attempt to alter the distribution of income. People lament the fact that in 1990 the lowest quintile gets 6 or 7 percent of the national income, while the highest quintile gets 40 percent.

What goes unnoticed is that, since the Census Bureau has been collecting data, the income distribution is about the same as what it was in the early 1940s. The only significant thing that has changed is that, in the name of income distribution or income fairness, massive amounts of income have been redistributed out of the hands of American people in general and into the hands of Congress.

And finally, the most important determinants of an individual's income are beyond the influence of Congress. I believe that we will all agree that parents can increase the future productivity of their children by doing things like ensuring that the kids behave in school, do their homework, and get enough rest in order to be alert the next day. If necessary, parents should forego luxury items in order to provide better housing or food or medical care for the children. Parents should counsel their children on proper moral conduct, such as abstention from sex, obedience of the law and other authorities, and respect for private property and, by the way, have a job and assets and marriage before having children.

Now, these and other factors are very important determinants of personal success, but they are beyond the capacity of Congress to influence. Congress has only limited power to meaningfully help poor people. It has awesome power to hurt and limit their chances.

Whenever we set out to help somebody, there's an important question that we have to ask. Decency and compassion requires that we ask and

answer this question. And that is, what is the effect of our help on this person's own incentives to help themselves?

I seriously doubt whether anyone of us would help someone that we loved or cared in the way that we help the poor. I think it's about time to change.

Thank you very much.

[The prepared statement of Dr. Williams follows:]

PREPARED STATEMENT OF WALTER E. WILLIAMS

Any sensible discussion of poverty should recognize alternative definitions of poverty. Poverty can be defined relatively or absolutely. If we use a relative definition, such as the lowest quintile of the nation's income distribution, poverty will always be with us so long as our income distribution remains non-rectangular. On the other hand if we employ an absolute, fixed definition of poverty, then it is possible to eliminate poverty.

In addition to this conceptual issue, there is the problem of the measurement of poverty. The Census Bureau counts as poor any family of four having an income of less than \$12,675 in 1989. The Census Bureau completely ignores assets held by the poor, but more importantly, they omit non-cash payments received. The Congressional Research Service (CRS) of the Library of Congress tracks federal, state and local means-tested programs. In fiscal 1988, CRS estimated that AFDC, food stamps, housing subsidies and Medicare and other expenditures targeted to the poor totaled \$184 billion. That means total welfare spending averages \$5,790 for every poor person or slightly over \$23,000 for a family of four. To the extent that the Bureau of Census excludes both assets and non-cash payments to the poor, poverty is seriously overstated. Strangely, Congress demands that American taxpayers include non-cash payments in the computation of our federal tax obligation but permits, perhaps commands, the Census Bureau to exclude non-cash payments for determining poverty.

By most standards of comparison, either historically in the U.S. or compared to the rest of the world, we have eliminated most aspects of material poverty as traditionally defined. According to the Bureau of the Census, American Housing Survey for the United States in 1987, 62 percent of poor households have one or more automobiles, and 13 percent have two or more, 49 percent have airconditioning, 99 percent have refrigerators, 81 percent have telephones, and 56 percent have washing machines. If we compare these statistics to 1940, we see remarkable progress. For example, in 1940, for all Americans, only 58 percent owned a car, 44 percent owned refrigerators and only 36 percent owned telephones. The comparison of today's poor stands out in even starker relief if we compare their income and asset holdings to that of people elsewhere in the world, including even middle class people in Europe. In other words, if you are going to be poor, it is best to do it in America.

What we have today, particularly for a large segment of the black community that the Census Bureau defines as poor, is permanent dependency and poverty of the spirit, which has proven to be far more debilitating than material poverty. In my opinion, the policies of the Congress of United States have done to much of the black community what slavery, Reconstruction and blatant racism could have never done.

The welfare state has created a level of dependency and pathology entirely new among black Americans. When I was young, growing up in the slums of North Philadelphia during the 40's and 50's, it was unheard of to find an able-bodied man reaching the age of twenty-five never having a job. Government handout programs were just were not an attractive alternative to work; plus, nobody had convinced us that we were entitled to live at someone else's expense. In the 1930's, black illegitimacy hovered around 14 percent; today, it tops 60 percent, and in some metropolitan areas, it is over 80 percent. Easy welfare, coupled with the relaxation of social sanctions, has become both an inducement for young women to have illegitimate offspring and an inducement for the fathers of these offspring to abandon their responsibilities. People frequently refer to the breakdown of the black family when a more appropriate observation is that black families are not forming in the first place. This too is new. In 1950, 78 percent of black kids lived in two-parent families compared to around 44 percent today. In fact, more than two-thirds

of all black poverty, as of 1980, was in families headed by a female; the statistic for whites is one-third.

One of the tragedies of today's discussion of problems confronted by many black Americans is the wide spread use of racial discrimination as the explanation. No one will sensibly argue that racial discrimination has been totally eliminated, but if racial discrimination is the explanation for what we see today then one is confronted with the question: Why was there not greater pathology in the black community at those times when blacks confronted much more discrimination and were much poorer?

The poverty of the spirit, created by the welfare state, has made many black Americans immune to the standard cure for poverty. That is, a rapidly expanding and robust economy has served as the standard route out of poverty for mankind in most places throughout history. During the 1980's we had the longest sustained period of rapid economic growth in our history. During that period, it was virtually impossible to walk two blocks in commercial areas without seeing "help wanted" signs for all sorts of low skilled employment. As we see now, an expanding and robust economy meant very little to many of today's poor. What's more, measured poverty is slightly higher than it was when we declared war on it during the sixties.

The welfare state has been the carrot for dependency while federal, local and state-sponsored collusion in restraint of trade has been the stick. The more flagrant examples of official collusion occur at the state or local levels in the form of occupational licensure and other entry barriers. According to the American Housing Survey for the United States in 1987, over 62 percent of all poor households have one or more cars. An enterprising poor person could enter the taxi business as an owner-operator. However, in most jurisdictions, a person must obtain a license. In New York city, the license (medallion) cost alone is \$125,000 and has been as high as \$140,000. In fact, at one time, the price of a seat on the New York Stock Exchange was cheaper than a taxicab license. Taxi license prices range from \$20,000 to \$30,000 in cities like Philadelphia and Chicago to \$70,000 and \$80,000 in Miami and Boston. The only purpose served by these license prices is to keep outsiders out so that the incumbents can charge high prices and earn monopoly incomes. Despite these encumbrances, I am pleased to report that there are an estimated 7,000 to 12,000 gypsy taxis operating in New York City. These people are earning an honest, albeit illegal, living providing services to those people and areas shunned by the city's 11,787 licensed practitioners.

Licensing restrictions apply to other work and business opportunities that are well within the reach of poor and uneducated people such as: cosmetology, lawn services and barbering. What's ironic is that the typical stated justification for licensing is that of protecting the public. Some licensing provisions may produce the opposite effect and may lead to loss of life. The licensing of electricians drives up the prices of their services. In response, some people choose to not to have repairs and modifications made or make them themselves. According to a study for the National Science Foundation [Carroll & Gaston] strict licensing requirements may account for a significant number of fires of an electrical origin.

What state and local governments fail to do, in terms of restricting employment and business opportunities, the U.S. Congress does. One example is the Davis-Bacon Act of 1931. Among the provisions of the Davis-Bacon Act is the requirement that "prevailing wages" be paid all workers on federally financed or assisted construction. The U.S. Labor Department interprets prevailing wage to be the union wage or higher. These supernormal wages have the effect of discriminating against the employment of low skilled, non-unionized construction workers; it discriminates against wide usage of apprentices and it discriminates against black construction contractors. The Act's racial outcome was anticipated and desired by several of your former colleagues such as Congressman Allgood (D.Ala) who said in his support for the Davis-Bacon Act, "That contractor has cheap colored labor that he

transports, and he puts them in cabins, and it is labor of that sort that is in competition with white labor throughout the country." [U.S. Congress, House, Congressional Record, 71st Congress, 3rd session, 1931, p. 6513.] Allgood's sentiments were echoed by both northern and southern congressmen, including the Act's namesake Senator Bacon from New York.

The U.S. Government is the nation's largest slum landlord. When Congress allocates slum rehabilitation funds, the Davis-Bacon Act plays an important role in reducing opportunities. Mrs. Kimi Gray of Washington's Kennilworth housing project, in her efforts to implement resident management, reports that the Davis-Bacon Act is not only her most serious impediment to efficiently fixing up the government's run down housing, but it impedes employment of residents in doing some of the rehabilitation work. Finally, the Davis-Bacon Act, along with other federal, state and local regulations, significantly drives up the cost of housing. In light of all these factors, one can only conclude that it is sheer hypocrisy when Congressmen show up on national television to decry the lack of "affordable housing", while in their offices, doing the bidding of powerful interest groups, they work to make for even smaller quantities of affordable housing.

Minimum wage laws are another component of Congressional acts which reduce employment opportunities, particularly for low skilled teenagers. There is a virtually total consensus among academic economists that minimum wages discriminate against the employment of low skilled workers [if one wishes to seek a consensus in most any field, he need only to survey the introductory and intermediate textbooks in that field. Over 90 percent of introductory and intermediate economic theory textbooks conclude that minimum wages discriminate against low skilled workers and foster racial discrimination]. Years ago, teenage unemployment was a mere fraction of what it is today. In fact, in 1948 black teenage unemployment was 9.4 percent while that of white teenagers was 10.2. Teens used to have jobs as theater ushers. Today, theater ushers are all but gone - and it is not because Americans of today like to stumble down the aisles in the dark looking for their seats. Kids used to have employment opportunities at gasoline stations pumping gas and wiping windshields. Today's self-service gasoline stations did not evolve because Americans of today like to smell and spill gasoline while they fill their tanks.

In addition to destroying jobs, minimum wage laws foster racial discrimination. That is why racists in South Africa have always demanded that minimum wages [rate for the job] be paid to blacks, doing "white" work. Their stated justification was that of protecting white ("civilized") workers from competition with black ("uncivilized") workers. Of course, your stated intentions for your support for minimum wages are more noble; however, the effect here is the same as that in South Africa - unemployment for the least preferred worker.

Some Congressmen make the childish argument that they support the minimum wage as a means to fight poverty. Imagine that this hearing consisted of witnesses from the State Department and they told you that the way to eliminate poverty in Bangladesh is to propose that its parliament enact a higher minimum wage law. If the world worked that way, we would save Americans a lot of foreign aid money.

Congress should acknowledge its limitations. While Congress has the unquestioned power to mandate higher minimum wages, it does not have the power to mandate increases in worker productivity.

Congressionally sponsored collusions not only reduce employment opportunities, they make being poor more difficult to cope. One example is your agriculture marketing orders for citrus, tree fruits and other farm products. Under your instructions, growers get together and collude on production quotas. All fruits produced beyond that quota can be legally sold only to by-product factories or used as cattle feed for, at one time, \$10 per ton. This collusive arrangement permits growers to charge consumers much higher prices. How about telling your poor constituents

that you have a policy that creates perfectly good fruit for \$10 a ton, but they go to cows instead of people. Similar collusive marketing orders, crop restrictions, price supports and tariffs apply to most other U.S. food and dairy products. Again, we will see many congressmen bemoaning so called "hunger in America" on national television, while in the quiet of their offices they are wheeling and dealing with farm and dairy interests driving up food prices. This is mean, evil behavior that hurts all American consumers, particularly poor consumers. You have several government agencies recommending that Americans eat more fruit as a means to better health and other federal agencies making fruit less available. Ask any congressman whether he is for cartels and collusion in restraint of trade, and he will tell you, no. That is a lie. What congressmen mean is they are against restraint of trade unless the practitioners get congressional permission.

Education for America's youth in general is nothing to write home about, but for black Americans it is a national disgrace. If I were the Grand Dragon of the Ku Klux Klan, setting out to sabotage black academic excellence, I could not think of a better way to achieve my goal than the current public education system in most cities.

Many black kids, who manage to graduate from high school in the first place, obtain grossly fraudulent diplomas. The diplomas attest that they have achieved the 12th grade while in fact they often cannot do math and read and write at the 8th or 9th grade level. We cannot lay the complete blame for this fiasco at the feet of the public education establishment. Indeed, many public schools do business in an environment hostile to the education process, for which they cannot be held accountable for, but they bear the full blame for willful issuance of fraudulent diplomas. And to the extent that the U.S. Department of Education regulates and finances part of public education, the U.S. Congress is party to the fraud.

Much of the stated motivation, underlying many government programs, is that of attempting to alter the distribution of income - to make it fairer. People lament the fact that in 1990 the lowest quintile (20 percent) receive only 6 or 7 percent of national income while the highest quintile receives nearly 40 percent. What goes unnoticed is that since the U.S. Census Bureau has been collecting data to compile the distribution of income, the income distribution has exhibited remarkable stability. Despite numerous, massive government programs to alter the distribution of income, it is essentially the same today as it was in the 1940's. The only significant change has been that, in the name of income redistribution, massive amounts of income has been redistributed out of the hands of American people in general and into the hands of Congress.

Just the term, distribution of income is fraught with misconception. When I hear politicians and some poverty "experts" use the term, they use it in such a way that one would think that income is distributed and out there somewhere is a dollar dealer saying "One for you, three for you and none for you." Having this vision of the sources of income, the reason why some have more than others is because the dollar dealer is either a racist, sexist, multi-nationalist, or just plain mean. Therefore, justice requires a re-dealing of the dollars whereby one person's ill-gotten gain is taken and given to its rightful owner. In a free society, income is not distributed but earned by one's ability to serve his fellow man. The greater is one's ability to serve his fellow man, the higher is his income and hence his claim on what his fellow man produces.

The most important determinants of an individual's income are beyond the influence of Congress. I believe that we would all agree parents can increase the future productivity of their children by doing things like: insuring that their kids behave in school, do their homework and get enough rest in order to be attentive in school the next day. If necessary, parents should forego luxury items in order to insure a better housing, food and medical care for their children. Parents should counsel their children on proper moral conduct such as abstinence from sex,

obedience of the law and other authorities and respect for private or public property. And, teach them that it is a good idea to get married and have a job and assets before having children. These and other factors are important determinants of personal success, but they are beyond the capacity of the U.S. Congress to influence favorably.

Congress has only limited power to meaningfully help poor people, but awesome power to hurt and limit their opportunities for upward mobility. But to meaningfully help poor people, Congressmen would have to betray allegiances they have made with powerful interest groups. And since poor people have only limited political power, it is not likely that Congress will break their allegiance to special interest groups.

Finally, whenever we set out to help someone, decency and true compassion commands that we ask ourselves, and answer: What is the effect of our help on this person's incentives to help himself? I seriously doubt whether anyone of us would help someone we loved the way we "help" our poor.

REPRESENTATIVE SOLARZ. Thank you for some interesting and provocative testimony. I'm sure it will enliven the discussion after we hear from the remaining witness.

Let me now call on Dr. Smeeding.

**STATEMENT OF TIMOTHY SMEEDING, PH.D.,
PROFESSOR OF ECONOMICS AND PUBLIC ADMINISTRATION,
METROPOLITAN STUDIES PROGRAM, THE MAXWELL SCHOOL,
SYRACUSE UNIVERSITY**

DR. SMEEDING. Thank you, Congressman Solarz, Congressman Armev, and distinguished colleagues.

What I want to talk about today is the way that the United States fights poverty, as compared to the way other nations fight poverty. And I want to present some evidence on how well we do versus how well others do, and try to draw some lessons from it. That's my major goal today.

I might say that the other nations we're going to look at are Canada and Australia—very similar, large, predominantly English-speaking and geographically diverse nations—and five European countries—Sweden, Germany, The Netherlands, France, and the United Kingdom. I want to talk about why their programs work differently and better than ours do, and then look at some of the programmatic lessons that these policies hold for the United States, including some that any good Friedmaniac would love.

Thanks to a database that I helped create with a lot of other colleagues in 19 other countries, whose National Science Foundations chipped in to support it, we can make comparisons on how well people of various types are doing across countries.

What I did was to take this big database we have and get as close as I could to the way that we define poverty in this country, but to make a couple of changes so that we included things like food stamps and the Earned Income Credit, which aren't included in the regular numbers.

As you well know, those programs are probably the ones that are growing the fastest—the food stamps because of the demand of unemployed people and EITC because of legislation. So, for pete's sakes, we ought to find out what they are doing to help fight poverty.

What I did is I set the poverty line at 40 percent of median family income. Now, that's the same place our poverty line is set. Then, I took the same standards that we apply in our country and applied them in each of these other countries and said, how did things come out?

It turns out that, in fact, when you look at the official poverty rates as compared to the ones that I have for the same years, the poverty rates that you get from LIS are a little bit lower, probably reflecting the effect of the food stamp program and EITC.

But when you look at the results, it's pretty embarrassing. We don't do very well. I'm not just talking about Europe or Sweden; I'm talking

about Canada. Their beer's a little better; their heating bills are a little higher; otherwise, it's as similar as you can get.

Australia's not that much different, nor the French, the Germans, or other countries, who we like to compare ourselves to. And in every case, we do worse than they do, for every group.

Now, I won't hit you with all the numbers, and you know there's a lot of numbers. I just want to give you the trends and the bottom lines, and then talk about the programs that they have and how they work, and then try and draw from those some ideas of the programs that we might try in this country.

It turns out, if you look over the 1980s, over two periods which we have for most of these countries, poverty got worse before taxes and transfers in these countries, but after taxes and transfers—after the effect of government programs—other countries didn't have nearly as large an increase as we did, particularly for children, but also for the elderly and other adults. You can get the effects of programs out of this.

It turns out that, by and large, when you look at these numbers and other studies I've done, before taxes and transfers, we have just about as many poor people, about the same poverty rate; in fact, a little lower poverty rate than do other countries. So, it's not that our poor people don't work as much as poor people in other countries.

There's a new study that Greg Duncan has done which shows that, compared to Canada, Germany, and Britain, our welfare population is less dependent on welfare than in those countries. In other words, they get on and off more quickly. So, it's not a dependency problem.

The big thing is that we don't do as well because we don't make as big an effort as other countries do. So, let me talk a little bit about what some of these efforts are that other countries make that we don't have, and then try and draw some lessons for us. Because every country is different. Every one of these countries has their own source of solutions to this problem.

The reason again that others do better is because they put more effort into it. They spend a little bit more and target it better. They also do a better job of promoting economic independence, for the most part, than we do. So, let's try and talk about that.

First of all, you look at the elderly. The average income of our elderly—this isn't shown here—is as high or higher than the average income of the elderly in any of these other countries. But the difference is that the other countries have a floor on the incomes of the elderly that's above the poverty line. Ours is 35 percent. Our Supplemental Security Income program is just too low; it doesn't provide enough help.

If you look at Canada, for instance, they have a very interesting set of programs there, where they have an income-tested program, but it's not means-tested. You can retain your wealth, but then when you die or when you pass it on for an inheritance, it's taxed at that point.

So, the idea is that you get to hold onto your wealth; you get to hold onto your house and hold onto your savings. You might need them to go

into a nursing home; you might need them for some other purpose. But when you don't need them anymore, then they have a tax, a small tax. That's sort of an insurance premium that you pay to hold onto your assets. I think that's an interesting idea that we ought to think about in this country.

More important for children and parents—you can take them together, because most adult poverty is linked to child poverty—the lowest poverty rates that we have are among single people and married couples without children. And the highest poverty rates that we have are for children, as you can see here from this list.

Now, the first thing that every major industrialized country has—other than us and the Japanese—is some form of a child allowance, some form of a refundable child tax credit. Sometimes, it's a family allowance that they pay directly.

In Canada, it's part of the negative tax. It's independent of work effort; it's independent of single-parent or two-parent; it's independent of where you live in the country; it's a universal benefit. What I'm saying is that every kid gets \$600, \$700, \$800 bucks and that's there.

Over and above child allowances though, they have an interrelated set of programs to help the rest of the people get off of poverty. For two-parent families, other nations have more generous unemployment compensations than we do. But they just don't end by benefits running out; they end by taking job losers and putting them into a program to retrain and reemploy them.

At some point you just don't sit back and collect a check for 26 weeks, or 38 weeks, or 52 weeks, or however many weeks you want. At some point they say, wait a minute, time to go back to work. What's your problem? Let's get you reskilled; let's get you back on the job.

For single parents, who are a problem in every country, there's two additional policies. The first thing is a system of guaranteed child support. That just says that if the absent father can't pay or won't pay, the Government will ensure that some minimal level of payment goes to the mother and the kids. Then they go out and try to get it, just like we do, only we have the second part but not the first part.

And the second policy is one of providing extensive low-cost child care for single parents who want to work. It's very interesting. The two countries that do the most in this line—Sweden and France—have the lowest pretax and transfer poverty rates because their single mothers work; they work more than ours do.

On the other hand, in Britain, they work less than ours do. Why? Because what they've taken is a system like AFDC and made a very high benefit and a big take-back rate, so their single parents don't work.

So, I'm not advocating that we raise the AFDC benefits to the poverty line. That's not what it's all about. If you look at Britain, you see that doesn't work.

But to give single parents some job training, part-time jobs, guaranteed child support, a hand up instead of a handout, really works in these other countries. And in the long run it's cheaper too.

The lessons, I think, to be learned from just this brief review are that other nations have multifaceted and proactive policies that help reduce poverty among all groups. They don't rely almost entirely on means-tested benefits like food stamps, AFDC, and SSI.

They have universal programs that pay a child allowance. They allow parental leave. They guarantee child support. And they have higher minimum benefits for the elderly and the permanently and totally disabled than we do.

Now, it goes without saying that every one of these countries has a universal tax-financed health insurance system, which covers all citizens, rich or poor. There aren't any poor kids who don't have Medicaid in any of these other countries. There aren't any poor parents on welfare who are afraid, if they take a job driving a cab or in a local McDonald's, that they're going to lose their health insurance benefits. And there aren't any long-term poor who either are going to lose their benefits or pay through the nose to pay the employer cost to keep it. That's just a given that they're better off than we are.

So, beyond this universal health insurance, what can we do? Now again, it's important to note that each country has a unique mix which fits its own circumstances and needs. We have to do the same thing.

We want a uniquely American way of fighting poverty, I think. We want a system that encourages self-reliance rather than reliance on public income transfer programs alone; a Friedmaniatic would certainly go for that.

We want to set up programs that safeguard incentives to work and become economically independent. And we'd like a system that builds on parental responsibility, not one that ignores it.

So, I have a few things there—pick two, three, four, one—that do that.

How about Mr. Friedman's negative income? If you're a Friedmaniatic, you like a negative income tax. Every kid in American gets a refundable child credit of \$800 to \$1,000, as long as—and this is for unmarried parents—they've identified the father of the kid. That's their responsibility. No child support order, no benefits.

If you put that together with the current Earned Income Tax Credit, which helps working poor families, the two of those together would pretty much ensure that working poor families weren't poor anymore, if you put those two together.

A standard system of guaranteed child support—again, for all single mothers with a child support order for their children. You have to identify the father, get a child support order that says that this is the father, then we'll guarantee you a minimum level of child support. But there's both sides to it, not just one side, not just the other.

As with a couple of my other colleagues here, I'd move to an at least year-long Head Start program, a child development, child-care system for

all low-income families with children. Such a system would guarantee at least a year for getting ready to learn—a developmentally oriented pre-school for all poor kids.

The opportunity would provide for immunizations, to check lead-based paint exposure, and other preventive measures would also benefit the kids directly. The point of this is that age five or six, every kid in America should be ready to go to school. They should be ready to learn; they should be healthy and start on an equal basis. We're not far from that. That's probably the least costly, in the short run, of these programs.

I'd also provide extended unemployment benefits, but then I'd connect them to a targeted reemployment and training effort. At some point, you couldn't just collect benefits. You'd have to admit that your job was gone. And you'd go out there and get retrained, and we'd put our main efforts in the JTPA and other programs on these people.

I merely want to emphasize that this helps unemployed parents. Because holding a family together, getting a parent who's unemployed and can't support the family back to work, I think is important. And I think all Americans would buy that.

For the elderly, I'd raise the minimum SSI benefit to the poverty line and use the assets or wealth test so we can say that—and it doesn't cost much to say—no elderly person in America should be poor or no permanently and totally disabled person should be poor.

Last but not least—and I think Walter would even like this—once these systems are in place, provide a two- or three-year limit on AFDC; that's all you get. Once your youngest kid is three, if you have guaranteed child support, if you have an Earned Income Tax Credit, if you have a job training program and have child care, go to work; get off the dole. I firmly believe in that too.

So, in summary, I think that if we have some fiscal will and leadership, we can do a much better job. We can learn a little bit from each of these other countries. We don't have to copy all of them; we don't have to do it as expansively as they do it. But we had better do something, particularly for kids. We tolerate the highest level of child poverty known among modern nations. I've studied this question several times. The results of my previous work have been published in *Science*, among other places. We just do a terrible, terrible job for kids. And we need to do something about it.

Thanks.

[The prepared statement of Dr. Smeeding follows:]

PREPARED STATEMENT OF TIMOTHY M. SMEEDING

Congressman Solarz and distinguished colleagues; thank you for inviting me today to provide comparative cross national evidence on the effect of income security policy on poverty in the U.S. and in seven other wealthy nations during the 1980's. One way to address the issue of "what worked" in the War on Poverty is to compare the changing effect of U.S. policies on poverty in America over time. But another more illuminating comparison is that of the U.S. to other similar nations over time. Here we can look at not only the impacts of our policies, but also those of our allies, friends and neighbors who, it turns out, have very different and much more effective means of fighting poverty through public programs.

We begin with some evidence on poverty across nations and over time, and on the changing effectiveness of income security policy in these nations. The nations we investigate are the U.S.; Canada and Australia - two similarly large, predominately English speaking and geographically diverse nations; and five European nations: Sweden, and four European Community countries: Germany, Netherlands, France and the United Kingdom. These comparisons indicate that other nations have been far more effective in fighting poverty than has the U.S. in recent years. Next, we turn to some programmatic explanations for these differences - the types of effective tax and transfer policies used in these nations to combat poverty. Finally we turn to the programmatic lessons which these policies hold for the U.S.

I. Poverty Across Nations and Over Time

Thanks to the Luxembourg Income Study (LIS) database, which is more fully explained in the appendix to this paper, we are able to directly compare income and poverty status across a wide range of nations. Essentially LIS is a large microdatabase which contains the same household income survey database that is used to measure poverty in the United States (Current Population Survey), and also similar surveys from 18 other nations. From LIS, we have selected a set of seven other nations which are very close to the U.S.A. in terms of economic status and data set structure for this comparison. For all of these but the United Kingdom, we have comparable data at two points in time: one around 1979-1981 and one around 1985-1987. The years are given by the availability of the other nations datasets. The U.S. data are for 1979 and for 1986.

Methodology. Every comparison of poverty involves two elements: income, or some other measure of economic well-being, and a poverty line to which income is compared. Our income definition is the same as that used by the U.S. Census Bureau, except that we add Food Stamps to money income and also take account of federal income and payroll taxes, including the effect of the Earned Income Tax Credit (EITC) on poverty status. The "official" poverty rates produced by the Bureau of the Census do not take account of Food Stamps or the EITC, thus neglecting the impact of two prime instruments in our national war against poverty. Our estimates take these program effects into account.

Our poverty definition uses the same differences for family size as those built into the U.S. poverty line, but sets the poverty line at 40 percent of median income in each country in each period. We chose the 40 percent line because of its closeness of the U.S. poverty line. In fact, the U.S. poverty line was 40.7 percent of median LIS income in 1986 and 42.1 percent in 1979. The result was a set of LIS-based poverty rates that were very close to the official U.S. poverty rates:

U.S. Poverty Rates from Two Sources:
Percent of Each Type of Units in Poverty

Category	1979 Official		1986 Official	
	LIS	U.S.	LIS	U.S.
All Persons	10.8	11.7	13.3	13.6
Elderly (65 or over)	12.9	15.2	10.9	12.4
Adult (18-64)	8.3	8.9	10.5	10.8
Children (17 or under)	14.7	16.4	20.4	20.5

Source of Official U.S. poverty rates: U.S. Department of Commerce, Bureau of the Census, 1991: Tables, 1,2

In fact, the LIS numbers yielded poverty rates that are a bit below the official figures, rates which include the effects of two of the programs which the U.S. government excludes from its figures. The estimates below come as close as possible then, to measuring the comparable level of poverty that one would find if we used the U.S. poverty line definition in each country.

Results. We begin by comparing poverty rates using the 40 percent figures across nations (Table 1) and over time (Table 2). In the mid to late 1980s the level of poverty in the U.S. was a clear outlier, compared to any other similar nation, including Canada - our closest neighbor. With the exception of childless adults, U.S. poverty rates were at least twice as high as those in all other nations studied. Particularly noticeable are the poverty rates for elderly and children, the two most vulnerable groups of citizens in all nations. Here we find U.S. poverty rates that are 3.8 to 2.8 times as high as those in other nations when measured by the same poverty definition. U.S. children have by far the highest poverty rate of any group, in any nation, at any time (see Table 2). Even our elderly - for whom we have made great strides in alleviating poverty in the 1970s and 1980s - had poverty rates far above those in other nations. In fact, the only country with double digit poverty rates for any group in the mid to late 1980s was the U.S.A. All other nations studied did a better job of fighting poverty than we did.

Our second table looks at changes in poverty in these same nations over time - from a year around 1979-1981 to a year around 1985-87. Despite their high level of poverty, the U.S. elderly did better than average in terms of change in poverty over the 1980s - other nations old did not improve as much as ours did. But, of course, other nations elderly all started, and stayed, at a level of poverty less than half of ours. Overall, and particularly for children, the U.S. had the sharpest increase in poverty among its citizens during the 1980s. This increase was far above the average increase in other nations studied. For instance, the LIS data show a 5.7 percent gain in child poverty over this period (the official U.S. poverty rates recorded a 4.1 percent jump). On average, other nations recorded a less than 1.0 percent gain in child poverty over this period. Canada, our closest neighbor, managed to reduce overall poverty by .5 percentage points and to reduce child poverty by .9 percentage points. Clearly the U.S. had by far the highest poverty rates and suffered the sharpest increases in poverty among the nations studied here during the 1980s. But why were our poverty rates so high? Was it

TABLE 1

COMPARABLE POVERTY RATES ACROSS SEVERAL NATIONS IN THE MID-1980S,^a PERCENT OF PEOPLE BELOW
40 PERCENT OF ADJUSTED MEDIAN FAMILY INCOME AFTER TAX AND TRANSFER

	United States ¹ 1986	Canada 1987	Australia 1985	Sweden 1987	Germany 1984	Netherlands 1987	France 1984	United Kingdom 1986	Average	Ratio of U.S. to Average
All People	13.3	7.0	6.7	4.3	2.8	3.4	4.5	5.2	5.9	2.3
All Elderly	10.9	2.2	4.0	0.7	3.8	0.0	0.7	1.0	2.9	3.8
All Adults	10.5	7.0	6.1	6.6	2.6	3.9	5.2	5.3	5.9	1.8
With Children	12.7	6.6	6.6	1.5	2.0	2.8	4.4	6.3	5.4	2.4
No Children	8.4	7.4	5.5	9.7	3.0	4.9	6.1	4.4	6.2	1.4
All Children	20.4	9.3	9.0	1.6	2.8	3.8	4.6	7.4	7.4	2.8

^aIncome includes all forms of cash income plus food stamps and similar benefits in other nations, minus federal income and payroll taxes. Income is adjusted using the U.S. Poverty Line Equivalence Scale.

^bThe ratio of the U.S. Poverty Line for a three person family to the adjusted median income was 40.7 percent in 1986. Thus, the 40 percent line is close to the official U.S. poverty line. See text for additional comments.

TABLE 2
CHANGES IN POVERTY RATES OVER TIME ACROSS SEVERAL NATIONS*
PERCENT OF PEOPLE BELOW 40 PERCENT ADJUSTED MEDIAN
FAMILY INCOME AFTER TAX AND TRANSFERS

	All People	All Elderly	All Adults	All Children
United States^b				
1979	10.8	12.9	8.3	14.7
1986	13.3	10.9	10.5	20.4
change	2.5	-2.0	2.2	5.7
Canada				
1981	7.5	4.7	6.6	10.2
1987	7.0	2.2	7.0	9.3
change	-0.5	-2.5	0.4	-0.9
Australia				
1981	6.2	2.8	5.4	8.6
1985	6.7	4.0	6.1	9.0
change	0.5	1.2	0.7	0.4
Sweden				
1981	2.9	0.1	4.2	2.1
1987	4.3	0.7	6.6	1.6
change	1.4	0.6	2.4	-0.5
Germany				
1981	2.7	5.0	2.5	1.3
1984	2.8	3.8	2.6	2.8
change	0.1	-1.2	0.1	1.5
Netherlands				
1983	5.5	2.3	6.8	4.0
1987	3.4	0.0	3.9	3.8
change	-2.1	-2.3	-2.9	-0.2
France				
1979	4.6	2.3	5.1	4.7
1984	4.5	0.7	5.2	4.6
change	-0.1	-1.6	0.1	-0.1
United Kingdom				
1986	5.2	1.0	5.3	7.4
Average				
Wave 1	5.7	4.3	5.6	6.5
Wave 2 ^c	5.9	2.9	5.9	7.4
change	0.2	-1.4	0.3	0.9

*Income includes all forms of cash income plus food stamps and similar benefits in other nations, minus federal income and payroll taxes. Income is adjusted using the U.S. Poverty Line Equivalence Scale.

^bThe ratio of the U.S. Poverty Line for a three person family to the adjusted median income was 40.7 percent in 1986 and 42.1 percent in 1979, thus, the 40 percent line is close to the official U.S. poverty line. See text for additional comments.

^cWave 2 Average includes UK86.

because of poor economic conditions or because of the inadequacy of our income security safety net?

Effect of Income Security Policy on Poverty

The purpose of this hearing is to investigate what worked in reducing poverty in the U.S. and other nations in recent years. Tables 3 and 4 address this issue. The majority of the effect of public income security policy - i.e. government tax and transfer policy - on poverty can be isolated by comparing the poverty rate before taxes and transfers to the rate after taxes and transfers using the same poverty line. This produces an estimate of the direct anti-poverty impact of policies aimed at reducing poverty. The after or "post" tax and transfer poverty rates are the same as those in Tables 1 and 2. We present figures for all people, for the three major age defined subgroups, and finally for children in single parent families - a group of increasing policy focus in all nations studied.

Poverty prior to taxes and transfers (so called "pre" tax and transfer poverty) almost entirely depends on the status of the market economy. Only levels of earnings and other market income sources affect poverty prior to taxes and transfers. In fact, the U.S. pre tax and transfer poverty rates are much closer to the other nations than one might expect (see top line, Table 3). Our pre tax and transfer rate in 1986 was 19.9 percent, compared to a 22.4 percent rate in other nations. In fact, then our government programs take place in an environment which begins with below average market based poverty rates. The big difference between the U.S. and other nations is in the change in poverty produced by public income security policy in the form of tax and transfer programs (third line, Table 3). Here the U.S. system reduces poverty by only 6.6 percentage points as compared to a 16.5 percent average effect in other nations. In fact, the impact of U.S. policy on pre tax and transfer poverty was the least for every subgroup investigated. Among all children, for instance, the U.S. tax and transfer system reduced poverty by only 1.9 percentage points; among single parents the U.S. effect was to reduce child poverty by only 3.9 points. For other nations, these impacts averaged 9.4 and 29.5 points, respectively. Even in Canada - our closest neighbor - the effect of tax and transfer programs on poverty among all children was to produce a 6.4 point decrease and among the children of single parents a 19.5 point decrease.

The 1980s produced higher market income based poverty rates in all countries (Table 4). Apparently the long period of sustained economic growth in the 1980s did not affect the growing inequality in wage income or the concentrated effect of long term unemployment on low income households (Blank, 1991). In the U.S., pre tax and transfer poverty rose by 1.4 points for 1979 to 1986. In other nations, the increase averaged 1.1 points; in Australia and Canada, .5 points. However, in all nations but the USA, the change in post tax and transfer poverty was less than the change in pre tax and transfer poverty rates. In other words, in other nations, the effect of the tax and transfer system on poverty increased while in the U.S. the income security system's impact on poverty decreased. This was true for all sub-groups of the U.S. poor. Again, the U.S. did least well for poor children. Our pre tax and transfer child poverty rate rose by 3.3 points but our post tax and transfer rate rose by 5.7 points. In the other countries the poverty increases were much more muted. Canada and Australia managed to decrease child poverty during the 1980s.

Summary. These numbers present a very negative picture of the U.S. tax and transfer system compared to that of other nations. The findings here corroborate evidence that we first presented for children in the early 1980s in one of the world's leading scientific journals, Science (Smeeding and Torrey, 1988). They reinforce our early 1980s evidence for other population groups as well (Smeeding, Torrey, Rein, 1988). In fact the most recent estimates are even less optimistic than

TABLE 3
TRANSFER SYSTEM EFFECTIVENESS: THE IMPACT OF TAXES AND TRANSFERS
ON POVERTY IN SEVERAL NATIONS IN THE MID 1980S

	US86	CN87	AS85	SW87	GER4	NL87	FR84	UK86	Average
All People									
Pre (Tax and Transfer Income) ^a	19.9	17.1	19.1	25.9	21.6	21.5	26.4	27.7	22.4
Post (Tax and Transfer Income) ^b	13.3	7.0	6.7	4.3	2.8	3.4	4.5	5.2	5.9
change	-6.6	-10.1	-12.4	-21.6	-18.8	-18.1	-21.9	-22.5	-16.5
Aged 65 or Older									
Pre	46.5	50.2	54.5	83.2	80.1	56.1	76.2	62.1	63.6
Post	10.9	2.2	4.0	0.7	3.8	0.0	0.7	1.0	2.9
change	-35.6	-48.0	-50.5	-82.5	-76.3	-56.1	-75.5	-61.1	-60.7
Adults (18-64)									
Pre	12.8	11.5	12.9	13.4	9.8	17.4	17.6	18.1	14.2
Post	10.5	7.0	6.1	6.6	2.6	3.9	5.2	5.3	5.9
change	-2.3	-4.5	-6.8	-6.8	-7.2	-13.5	-12.4	-12.8	-8.3
Children (17 or younger)									
Pre	22.3	15.7	16.4	7.9	8.4	14.1	21.1	27.9	16.7
Post	20.4	9.3	9.0	1.6	2.8	3.8	4.6	7.4	7.4
change	-1.9	-6.4	-7.4	-6.3	-5.6	-10.3	-16.5	-20.5	-9.4
children in single parent families									
Pre	58.1	56.6	70.2	23.2	46.0	70.3	43.1	71.2	54.8
Post	54.2	37.1	34.6	2.0	15.9	3.8	13.1	8.5	21.2
change	-3.9	-19.5	-35.6	-21.2	-30.1	-66.5	-30.0	-62.7	-33.7
other children									
Pre	15.7	11.7	11.3	5.2	6.9	9.2	19.4	22.2	12.7
Post	14.1	6.6	6.6	1.5	2.3	3.8	4.0	7.3	5.7
change	-1.6	-5.1	-4.7	-3.7	-4.6	-5.4	-15.4	-14.9	-6.9

^a"Pre" tax and transfer poverty compares family income based on earnings, property income and private transfers (e.g., private pensions, alimony and child support) to the same 40 percent after tax and transfer income poverty line used in earlier tables.

^bPost tax and transfer poverty includes the affect of direct taxes, including negative taxes such as the U.S. Earned Income Tax Credit, and public transfers on poverty. The "post" tax and transfer poverty rates are the same as those in Table 1.

TABLE 4
TRANSFER SYSTEM EFFECTIVENESS OVER TIME: IMPACT OF TAXES AND TRANSFERS ON
POVERTY IN SEVERAL NATIONS IN THE MID-1980S*

	United States			Average of All Other Nations ^c			Average of Australia and Canada		
	1979	1986	Change	Wave 1	Wave 2	Change	Wave 1	Wave 2	Change
All People									
Pre (Tax and Transfer income) ^a	18.5	19.9	1.4	20.6	21.6	1.1	17.6	18.1	.5
Post (Tax and Transfer Income) ^b	10.8	13.3	2.5	5.7	6.0	0.3	6.9	6.9	0
Change	-7.7	-6.6		-14.8	-15.6		10.7	11.2	
All People 65+									
Pre (Tax and Transfer Income)	51.0	46.5	-4.5	63.9	63.8	0.0	56.4	52.4	-4.0
Post (Tax and Transfer Income)	12.9	10.9	-2.0	4.3	3.2	-1.1	3.8	3.1	-.7
Change	-38.1	-35.6		-59.6	-60.6		-52.6	-49.3	
All People 18-64									
Pre (Tax and Transfer Income)	11.2	12.8	1.6	12.6	13.6	1.0	11.5	12.2	.7
Post (Tax and Transfer Income)	8.3	10.5	2.2	5.6	6.0	0.4	6.0	6.6	.6
Change	-2.9	-2.3		-7.1	-7.6		-5.5	-5.6	
All Children									
Pre (Tax and Transfer Income)	19.0	22.3	3.3	13.7	15.1	1.4	15.7	16.1	.4
Post (Tax and Transfer Income)	14.7	20.4	5.7	6.5	7.4	0.8	9.4	9.2	.2
Change	-4.3	-1.9		-7.2	-7.8		-6.3	-6.9	

^aPre: tax and transfer poverty compares family income based on earnings, property income and private transfers (e.g., private pensions, alimony and child support) to the same 40 percent after tax and transfer income poverty line used in earlier tables.

^bPost: tax and transfer poverty includes the affect of direct taxes, including negative taxes such as the U.S. Earned Income Tax Credit, and public transfers on poverty. The "post" tax and transfer poverty rates are the same as those in Table 1.

^cAverage of Canada, Australia, Sweden, Germany, Netherlands, and France.

those in our earlier publications. They also corroborate the recent evidence on U.S. - Canada comparisons during the 1980s presented by Rebecca Blank and her associate (Blank and Hanratty, 1991).

Simply put, U.S. families with low market incomes seem to work as hard as do the families in other nations, as measured by our close to average pre tax and transfer poverty rates (see also Smeeding and Rainwater, 1991). Others have shown that the U.S. poor are less likely to be long term dependent on welfare than are the poor in other nations (Duncan, et. al. 1991). But our anti-poverty system doesn't work as well as do the systems in other nations. Moreover our system worked less well during the 1980's, while other systems continued to prevent high poverty rates, even in the face of increased pressure from worsening unemployment rates and other market income related changes which drove up pre tax and transfer poverty in their countries. The major question is why do others do better than we do? What programs do they rely on which are absent in the U.S.?

II. A Comparison of Income Security Programs

The simple answer to why others nations do better than we do is that they put more effort into it: they expend more than we do, and they target it better than we do. That is, the tax and transfer systems in other modern nations are, in general, better suited to fighting poverty and to promoting economic independence than is the U.S. system. The purpose of this section is to review some of the factors which produce better outcomes for otherwise poor people in other nations.

Elderly. The growth in OASI benefits in the USA during the 1970s and 1980s has surely helped reduce poverty among the U.S. elderly. However, the U.S. old age security system is such that there is no effective public pension floor at 40 percent of median income or higher. The Supplemental Security Income (SSI) program, even including food stamps, has a Federal government floor which is only about 35-38 percent of the U.S. median. In other nations, the minimum standard public pension is 48-50 percent of median income or higher. In most nations, the minimum is set in the national social retirement (OASI) system. In others, there are special income-tested benefits to gross up the standard amount to some minimum level (Office of Economic Cooperation and Development, 1988). For instance, in Canada and Australia, minimum income programs for the elderly are set at 52-56 percent of adjusted median income (Coder, Smeeding, Torrey, 1990). Among the elderly then, the solution is either to raise the SSI floor or to have a special minimum benefit build into the Social Security program per se. Because the largest single poverty group are elderly women living alone, a special widows benefit might do the trick. For instance, Canada has combined special widows benefits with a reasonable income-tested benefit floor for all aged people. Their income-tested program has no assets or wealth test either. The Canadians allow their elderly to hold onto their assets, but then when the elderly no longer need their assets, they levy a national inheritance tax. Perhaps the U.S. should consider such an approach.

Children and their Parents. Most of the adult poverty problem in the U.S. is related to families with children, including single parents, so we discuss these two together. The U.S. is unique in that it (and Japan) are the only two modern nations which do not have some form of a universal child allowance. In some nations, e.g. Canada, these allowances are paid via refundable income tax credits. In other nations they are paid via the transfer system in the form of family allowances. In all nations, except for the USA, they are independent of work effort. They are given to parents on behalf of children as a universal right of citizenship. If we were to convert the U.S. personal tax exemption for children to an equivalent cost refundable tax credit - about \$800 - we would achieve the same floor under all children's incomes that other nations have.

Over and above child allowances, other nations have a set of interrelated programs to help families with children escape poverty. For two-parent families, other nations have more generous unemployment compensation systems that, after some period of extended benefits, are tied to a job-training program. The objective is to help workers in failing industries renew their skills and replace their earnings losses from plant closures with new jobs at decent wages.

For single parents, two additional policies are worth noting. First, there is a system of guaranteed child support (or advance maintenance payments) wherein the state provides insurance against the failure of child support payments by the absent spouse. This system is available in Netherlands, Germany, Sweden and several other nations. It protects against unemployment and/or low wage absent spouses. The second policy is one of providing extensive low cost child care for single parents who want to work. France and Sweden encourage single mothers to work via free or low cost child care, via job protection in the form of parental leave, and via related policies to provide single parents with job training and part-time jobs that allow them to mix work and parenting (Garfinkel and McLanahan, 1991). In Sweden and France single mothers are much more likely to work than in the U.S., Canada or the United Kingdom (Kamerman, 1991). The lessons to be learned here are that other nations have multifaceted and proactive policies which help reduce poverty among all age groups. They do not rely almost entirely on means - tested benefits, as does the US via the Food Stamps, AFDC and SSI programs. Other nations also have universal programs that pay child allowances, allow parental leave with pay, guarantee child support, and provide high minimum benefits for the elderly and the permanently disabled.

It goes without saying, of course, that all of these countries also have universal tax financed health insurance systems which cover all citizens - rich or poor. There are no poor children who go without Medicaid; there are no poor parents on welfare who fear that taking a job will mean the loss of Medicaid benefits for their families; and there are no long term unemployed who face either loss of job related health insurance benefits or a high cost premium to keep their job related health benefits.

III. Lessons for the U.S.

Other countries do better than the U.S., but beyond universal health insurance and universal child allowances, each country has its own unique policy mix which fits its own circumstances and national needs. We must also design our own system of anti-poverty support. My guess is that we'd want a system that encourages self reliance rather than reliance on public income transfer programs alone. We'd like a program, or set of programs, which safeguard incentives to work and to become economically independent. We'd like a system that builds on parental responsibility and not one that ignores it.

Based on my studies of other nations, and on my experiences with the U.S. system. I would recommend that the U.S. seriously consider the following measures:

1. Institute a universal refundable child income tax credit of \$800-1,000 per child for every child for whom the custodial parent has produced a child support order. This forces unmarried single mothers to identify the father so that child support enforcement can be pursued. In conjunction with the current EITC, this policy should move most if not all working poor families with children off of the poverty rolls.
2. Begin a system of guaranteed child support for all single mothers with a child support order for their children, thus guaranteeing a minimal level of child

support for all children in single parent families where the father has been identified.

3. Move at least to a year long "Head Start" style child development/child care system for all low income families with children. Such a system would guarantee at least a year of developmentally oriented pre-school for all poor children. Coupled with the opportunity for providing preventive health care (immunizations, lead based paint exposure checks, other preventive measures) this program would target all low income four or five year olds so that at age five or six, every child was ready to begin formal schooling in good health and with adequate developmental preparation.
4. Provide extended unemployment benefits but then connect them to targeted re-employment and training efforts for unemployed parents. Clearly a good job is the main road to economic independence and to family stability. Job losers should be retrained for new jobs. Our efforts should be targeted towards those who have the most to lose from economic change and de-industrialization, needy parents with children.
5. Raise the minimum SSI benefit to the poverty line and ease the assets or wealth test for the elderly and disabled. If economic independence cannot be achieved due to personal limitations, compassion should lead us to a minimum decent standard of living for the aged and the disabled.
6. Once these systems are in place, provide a two or three year limit to the AFDC program as suggested by Ellwood (1988). Once the youngest child is three, the single parent should, with the other help provided by the system outlined above, be ready, willing and able to move toward self-support. The other building blocks suggested above will then provide the necessary help to achieve self-sufficiency.

In summary, where the fiscal will and leadership exist, nations are able to effectively fight poverty. Every other nation studied outperforms the U.S. in this arena. It's about time that we begin to make poverty a priority in this country, starting especially with poor children, where we tolerate a level of disadvantage unknown to any other major advanced country on earth.

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LUXEMBOURG INCOME STUDY

A Division of CEPS/INSTEAD



Centre d'Etudes de Populations, de Pauvreté
de Politiques Socio-Economiques
International Networks for Studies in Techno-
Environment, Alternatives, Development

INTRODUCTION AND OVERVIEW

The Luxembourg Income Study (LIS) project began in 1983 under the joint sponsorship of the government of Luxembourg and the Center for Population, Poverty, and Policy Studies (CEPS) in Walferdange. It is now funded on a continuing basis by CEPS/INSTEAD and by the national science foundations of its member countries.

OBJECTIVES

1. to test the feasibility of creating a database containing social and economic data collected in household surveys from different countries;
2. to provide a method which allows researchers to use the data under restrictions required by the countries providing the data;
3. to create a system that allows research requests to be received from and returned to users at remote locations;
4. to promote comparative research on the social and economic status of various populations and subgroups in different countries.

Since its inception in 1983, the experiment has grown into a cooperative research project with a membership that includes countries in Europe, North America and Australia. The database contains information for some 20 countries for one or more years (see over). Negotiations are in process to add data from additional countries. The LIS databank will have a total of over forty datasets covering the period 1960 to 1988. In 1993, additional surveys will be added to represent the period of the early 1990s. Extensive documentation concerning technical aspects of the survey data, and the social institutions of income provision in member countries is being made available to users. This work is being supported by the U.S. National Institute of Aging, the Statistical Office of the European Community, and the OECD.

Reports by participants in the LIS project have appeared in several books, articles and dissertations. Each completed study is published in the LIS working paper series, which currently numbers more than 60 papers. The project conducts annual summer workshops to introduce researchers to the database, and to give scholars experience in cross-national analysis of social policy issues related to income distribution. Over 75 students attended the 1988, 1989 and 1990 sessions. A LIS Newsletter is published twice yearly and mailed to over 1100 scholars in 20 nations.

The LIS project is supervised by Timothy M. Smeeding (Project Director), Lee Rainwater (Research Director) and Gaston Schaber (President, CEPS/INSTEAD). Further information is available from Caroline de Tombeur at the LIS address below or Timothy M. Smeeding, Metropolitan Studies Program, 400 Maxwell Hall, Syracuse, NY 13244-1090. Telephone: (315) 443-9045; FAX (315) 443-1081; BITNET Smeeding@SUVM.

Countries Available in LIS Databank:

Australia			1982	1986
Austria				1987*
Belgium				1985*
Canada	1971	1975	1981	1987
Czechoslovakia			1983	1988
France		1974*	1979	1984
Germany	1968*	1978*	1981	1984
Hungary			1983	1988
Ireland				1987*
Israel			1979	1987
Italy				1986
Luxembourg				1985
Netherlands			1983	1987
Norway			1979	1986*
Poland				1986
Sweden	1968	1975*	1981	1987
Switzerland			1982	
United Kingdom	1969	1974	1979	1986
United States	1971	1975	1979	1986

* Available after July 1, 1991

Partial List of Variables:

V1	GROSS WAGES AND SALARIES	D7	GEOGRAPHIC LOCATION
V4	FARM SELF-EMPLOYMENT INCOME	D22	TENURE (OWNED OR RENTED
V5	NONFARM SELF-EMPLOYMENT INC.	D27	NUMBER OF CHILDREN
V8	CASH PROPERTY INCOME	D28	AGE OF THE YOUNGEST CHILD
V10	MARKET VALUE OF RESIDENCE	MARRIED	MARRIED COUPLE INDICATOR
V11	INCOME TAXES	D1	AGE OF FAMILY HEAD
V16	SICK PAY	D2	AGE OF SPOUSE OF FAMILY HEAD
V17	ACCIDENT PAY	D3	SEX OF FAMILY HEAD
V18	DISABILITY PAY	D8	ETHNICITY/RACE OF HEAD
V19	SOCIAL RETIREMENT BENEFITS	D10	HEAD LEVEL OF EDUCATION
V20	CHILD OR FAMILY ALLOWANCES	D11	SPOUSE LEVEL OF EDUCATION
V21	UNEMPLOYMENT COMPENSATION	D14	HEAD'S OCCUPATION
V22	MATERNITY ALLOWANCES	D15	SPOUSE'S OCCUPATION
V23	MILITARY/VET/WAR BENEFITS	D16	HEAD INDUSTRY CLASSIFICATION
V25	MEANS-TESTED CASH BENEFITS	D17	SPOUSE INDUSTRY CLASSIFICATION
V26	ALL NEAR CASH BENEFITS	D18	HEAD STATUS OF WORKER GROUP
V32	PRIVATE PENSIONS	D19	SPOUSE STATUS OF WORKER
V33	PUBLIC SECTOR PENSIONS	D21	MARITAL STATUS OF FAMILY HEAD
V34	ALIMONY OR CHILD SUPPORT	D25	HEAD DISABILITY STATUS
V39	GROSS WAGE/SALARY HEAD	D26	SPOUSE DISABILITY STATUS
V40	HOURLY WAGE RATE HEAD	LFSHD	LABOR FORCE STATUS OF HEAD
V41	GROSS WAGE/SALARY SPOUSE	LFSSP	LABOR FORCE STATUS OF SPOUSE
V42	HOURLY WAGE RATE SPOUSE	HRSHD	HOURS WORKED PER WEEK HEAD
D4	NUMBER OF PERSONS IN FAMILY	HRSSP	HOURS WORKED PER WEEK SPOUSE
D5	FAMILY STRUCTURE	YTAXHD	INCOME TAX HEAD
D6	NUMBER OF EARNERS	YTAXSP	INCOME TAX SPOUSE

REPRESENTATIVE SOLARZ. Thank you very much for a very impressive testimony.

Congressman Armeý, please proceed.

REPRESENTATIVE ARMEY. Thank you, Mr. Chairman.

Let me say fundamentally that I'm no different as a Friedmaniác than I was as a naïve Galbraithian. Deprivation breaks my heart wherever I find it. It elicits strong feelings of compassion from me.

The difference between a Friedmaniác and a Galbraithian is that a Friedmaniác realizes that compassion without understanding can be cruel. And that's the transition.

And my sincere concern is that fundamentally, as an economist, waste is what will drive you crazy. Waste is somebody's opportunity that's been spent and missed. That we have spent so much of our resources for so long and seem to have made so little progress.

Kimi Gray was probably the person that most clearly illustrated this fact to me when I looked at public housing. Because I too was outraged about the slum landlords in the early 1960s, and wanted something better. But I didn't want my government to be the slum landlords of the 1990s, and Kimi tells me that my government is.

So, if we're doing the wrong thing—and I appreciate the evidence you suggested—then, perhaps, there's a right thing we can do.

Let me also point out that Alfred Marshall was absolutely correct when he said that genius is synthesis, and Paul van Rossenstein wrote and was equally correct when he said judging each separate government program on its separate merits is a perfect formula for not thinking. So, I will try to be synthetic in this process.

One of the things that troubles me also is measurement and reporting of data: You indicated that you, along with other scholars in other nations, mutually developed your database. And I assume that if you work and develop your own database; that it's one in which you feel that you can place confidence.

One of the problems that we have, quite frankly, here in this job is that so much of our database is generated for us by government agencies. And I have learned that you can't have confidence in that.

Dr. Levitan, I did my master's thesis as a very, very young scholar in 1964—child prodigy, as it were; give me a break—on the implementation of the Manpower Development Training Act of 1962, I believe. And I believe that's when I first came across your work. Could I be correct in that? I don't know whether you had any involvement in the program.

DR. LEVITAN. Guilty.

REPRESENTATIVE ARMEY. And, as I wrote my thesis, I ended up giving the MDTA a very good evaluation in my young mind. And I look back on it, having spent now eight years in Congress, and realize that virtually every bit of information on which I relied for that thesis was a government document. And I shudder at my poor scholarship, to think that I had gotten away with that.

The same people that would deny me the right to cite the Reader's Digest were perfectly willing to use hearings from government committees. That was a frightening thing for me to stumble onto in later years.

So, database and comparisons and so forth become really quite difficult things with which to cope.

By the way, since this is to some extent the reconstruction of Dick Arney, I should say that, Dr. Williams, I am at least amused and, at best, struck by great admiration by your willingness to risk being not politically correct. Since we are going to have the reconstruction of Dick Arney, I too may risk being not politically correct, and the Duke English Department will just have to deal with it the best they can.

REPRESENTATIVE SOLARZ. I suspect in Texas you're politically correct. [Laughter.]

REPRESENTATIVE ARMEY. At least in the narrow confines of my district, I'm fine. But still one does worry about images and so forth.

I think the beauty of this Committee is that we should be able to dare to bridge and reach out and question.

I remember a former member of Congress in the Education and Labor Committee striking me almost dumb when he literally, in that Committee, dared to question whether or not Head Start had worked in the manner in which it had been hoped it would work and in the manner in which it is reported that it worked.

And I first confess I certainly would have neither courage nor folly enough to have suggested the possibility that it did not work. That would be a level of political correctness that could not be suffered very easily.

But I see Head Start. And then, at the same time—and I don't want to be guilty of post hoc, ergo protor hoc, by any means—I see rising drop-out rates; I see lowering SAT scores; I see so many of the tribulations that our youngsters are doing. And I wonder if, in fact, this former member had empirically, if only intuitively, stumbled onto something.

Is there an empirical basis by which we can celebrate the success of Head Start?

Now, Dr. Levitan, you give me cause for my heart to rise when you cite the evidence that Head Start and students in Head Start have done so much better than others. But that, I believe—if I'm correct as I look at this—the evidence is garnered by a report produced by a government agency; is that correct?

DR. LEVITAN. No, sir. The best evidence is presented by Professor Irving Lazar of Cornell University, who has made a longitudinal study of Head Start and, as far as I know, is a reliable scholar.

Now, what you have said about the member of Congress who has questioned Head Start, it depends on when it happened.

If you talk about the early days of the program, I'll confess my sins too. I questioned the value of Head Start in my first evaluation of Job Corps and testified so before a congressional committee. In 1967, Westinghouse came out with a report that cast doubts about the value of Head Start. Later studies have shown that the Westinghouse study was flawed,

and I would insist that Head Start has worked and has done a great deal for the kids.

The fact that you still have higher dropouts, again, Congressman Arney, as Dr. Williams just very eloquently pointed out, our society has a hell of a lot of problems. But let's not put it all at the feet of the Great Society's social welfare programs.

REPRESENTATIVE ARNEY. Oh, no, please don't misunderstand. I do not say the problems of society are the fault of the Great Society.

I say, has this set of programs, in which we forged so much of our resources and so much of our hope, have they worked? And if they haven't worked, is there perhaps a better set of programs that we can find someplace else? Or, is it possible that, far from their working, they may have aggravated circumstances?

I have no bone to pick one way or the other. My hopes and dreams and wishes were with the Great Society. But, as you know, in the final analysis, if it doesn't work, we can't afford to have it.

I don't think that you gave me the citation on the study, because it is a matter of enormous importance to me with respect to Head Start. I want very much for Head Start to be a program that worked. And if you have not provided that citation, I wonder if you could try to send it to me.

DR. LEVITAN. Certainly.

REPRESENTATIVE ARNEY. If I might ask one other question, because synthesizing these two remarkable testimonies here at the end, I was struck very deeply by something Kimi Gray said publicly and to me, and with a great deal of passion.

Kimi Gray, for those of you who don't know, is the Director of Kenilworth Apartments—our very successful Washington experiment in tenant management—which is now of course even extended to homeownership, who basically led a revolution against the housing authority because of the rats and the awful conditions that one finds in slums.

And she said to me, I am tired of watching my government rebuild plantations. The first thing that I realized immediately was this is not something I could say. I'm a dead man if I say it. Kimi, of course, does not stand for election, so she can say any damn thing she pleases, with a good deal of immunity.

But, Dr. Williams, you said something that sounded almost like that when you said that the worst of segregation in the South and the Reconstruction Era, and the most grievous days of prejudice in the South could not have done to the black American what our programs are doing. And the two statements connect up with an irrefutable, I think, observation.

First of all, let me just ask you this—I'm fond of pointing this out—is there an identifiable racial or ethnic group in America that we could, even on the basis of quasi-empirical observation, suggest is uniformly worse off than any other group of American people?

And I would suggest to you that the answer is yes, there is. And I would suggest that the group is the American Indian.

I would further observe that for the last 100 years the American Indian, with some tribal exceptions—and very notably in your State, Mr. Chairman—the American Indian has been kept almost totally, completely under the care of the Federal Government.

And yet, by every standard of well-offness, you find deprivation here that—if you haven't seen it as I have in fact, having worked as I did on reservations—it will break your heart in ways that you can't imagine.

And I think we would have to say, Dr. Williams, that we have had some very special targeted, defined programs that were racially in place. That is to say, we have special programs for black Americans; we have special programs for Hispanic Americans, and so forth. I mean, you could probably observe that there is a special failure of achievement of results in these same defined categories.

Now, when you talk about the remarkable success that you see in Canada and Australia—and you have obviously done your own empirical work—did you do any breakdown of results? Are there special programs for black Canadians or Canadian Indian populations? Or have there been differences in the results, in terms of the real lives of the real families, based on these categories?

DR. SMEEDING. I haven't done that because, first of all, generally it's hard to find them in the representative surveys because they're fairly small groups. So, I really haven't looked at aborigines and the Canadian Indians. And I'm not advocating that, in fact, we do anything to any population what we have done to the American Indian. I don't think anybody at this table would do that.

REPRESENTATIVE ARMEY. No, no, I'm not suggesting that either. But if you could observe, do the Canadians have special programs for their Indian population?

DR. SMEEDING. I don't know.

DR. LEVITAN. Yes, they do.

DR. SMEEDING. They do?

DR. LEVITAN. They do, Tim.

DR. SMEEDING. Professor Levitan says they do.

REPRESENTATIVE ARMEY. They don't have reservations in Canada, do they?

DR. LEVITAN. Canada does have reservations and special programs.

REPRESENTATIVE ARMEY. They do have some special programs. So, I should think it would be something if Dr. Williams' suggestion, in very strong language, is correct, and it certainly bears empirical foundation, even if only casually.

Mr. Chairman, let me end with, I have five children. I've done a pretty good job of raising my five children. I'm very proud of the results. They're very strong, independent people. My daughter, for example, is a self-sufficient, independent, young professional woman, whose only aberrance that I can find is the fact that she's a liberal Democrat. I'm sure her mother had some perverse influence. But all my children are wonder-

ful, and she is too, even for her misguidedness. In fact, she's so misguided, she thinks I'm misguided; that's how bad it is.

DR. LEVITAN. She learned from your youth.

REPRESENTATIVE ARMEY. Mothers, you know, can do that.

But at any rate, I kept all five of my children on a rigid grow-into-adulthood schedule. You have to finish high school at this age. You have to get your sophomore year, your junior year and so forth and so on. And you have to graduate and get out there and do your own thing. And they've all risen to that occasion, except for one. And I have to tell you, I have one kid that owns his Dad. I don't know why that happens, but you all know it happens. There will be one that you just want to hold them on your knee the rest of your life. Have you ever had that experience? You can't let him go?

I kept this one boy in the safety net, and he is still dependent today. And of all my five children, he's the biggest, the strongest, and certainly he is bright. And of all my five children, the one that I kept in the safety net—to keep me secure as a daddy, and I don't have any doubt about that—is the one child that doesn't live the satisfaction of an autonomous, independent, self-sufficient life, because I singled him out for special treatment.

Is there a corollary—I mean obviously Keynes or Marshall, as Keynes wrote about Marshall, said we must think about the general in light of the particular, and we don't want to be too courageous with reasoning that way. But is there a corollary? Do we in fact victimize certain select groups because we set them off for favoritism?

DR. WILLIAMS. Well, I would like to just point out that some casual empiricism suggests that this might be the case. One of the foremost characteristics about the United States is that, number one, we're a nation of minorities. And none of the minorities came here, that I know of, and faced an open-on welcome and had a whole lot of money with them when they came.

When the poor Irish were coming in the 1840s, fleeing the potato famine in Russia, somehow, they made it en masse into the mainstream of American society—Italians and other ethnic groups. And there was no food stamp program, I believe, around in 1848.

So, one might want to ask, well, the various ethnic groups that we made most comfortable, in terms of dealing with the issues of poverty, they are the very ethnic groups that are having the most difficult time entering the mainstream of American society, en masse, as have other ethnic groups.

And I would suggest that this is not a phenomenon just peculiar to the United States. Poor people are poor, but they're not fools. They're economic animals like the rest of us. That is, if a mother with three kids is receiving cash and in-kind benefits that total up to \$14,000, \$12,000 a year, well, she's not going to settle to give that up—and of course that's not taxable—and take a job that may be in keeping with her productivity for around \$7,000 or \$8,000 a year. It's a losing economic proposition.

And so, to the extent that that is true, we create dependency. And that's not only true in the United States about some of these effects of the welfare system. Sweden has over 30 percent rate of illegitimacy. In Russia, very often there's difficult times to get a house. Traditionally, it's been a difficult time to get an apartment. Many young girls have a baby in order to move up in the queue to get an apartment in Russia, and then after they get the apartment, they put the baby up for adoption. Then they might marry or live with a man, and then have their own baby.

So, people do respond to economic incentives out there. And I believe a whole lot of people want to say that people don't respond to the economic incentives created by the state.

REPRESENTATIVE ARMEY. Mr. Chairman, I thank you.

REPRESENTATIVE SOLARZ. Thank you very much for an interesting colloquy.

Dr. Smeeding, I'm looking at your Table 3. Am I correct in interpreting that it, in effect, compares poverty rates between the United States and other countries?

DR. SMEEDING. Yes.

REPRESENTATIVE SOLARZ. And you have the United States, Canada, Australia—

DR. SMEEDING. Germany, Netherlands, France, and the United Kingdom.

REPRESENTATIVE SOLARZ. This is a fascinating chart, and I want to pursue it. Do you see this chart, Dr. Williams?

Now here—and you'll correct me if I'm misinterpreting your chart, Dr. Smeeding—if you look under all people, Dr. Williams, you'll see Post-tax and Transfer Income. As I understand it, that means that after tax and transfer income policies, 13.3 percent are considered to be in poverty here. And for the others, it's 7 percent for Canada, 6 percent for Australia, 4.3 percent for Sweden, and so on and so forth. And the average for all is 5.9 percent.

Now, one conclusion that seems to emerge from this chart is that the poverty rate in the United States, after tax and transfer policies have been taken into account for our country and all these other countries, is much higher than in other countries. And I gather from the testimony that we got from Dr. Smeeding that the main reason for this is—in fact, if you look at the line above Pre-tax and Transfer Income, you see that actually, with the exception of Canada and Australia, every one of the other countries has a higher poverty rate than we do, prior to the tax and transfer policies. In the case of Australia, it's just about the same. Yet, after that tax and transfer policy, the poverty rate is far, far lower. Now, to my perhaps naive and untutored eye, this seems like a significant success for these countries, insofar as one considers the reduction of poverty a success. Would you interpret this differently? In other words, what significance would you attach to that? Because the significance that I intuitively attach to it is that by tax and transfer policies it is possible

to substantially reduce the poverty rate. These other industrial democracies have all done that, the consequence of which is that their poverty rate is way under ours. And if reduction of poverty is considered desirable, that would seem to be a useful thing to do. I'll leave aside for a moment whether it can be afforded and that sort of thing. But would you give a different interpretation to these figures?

DR. WILLIAMS. I've read the paper. Maybe those countries give the people more of the money that's been obtained in their names. I don't know.

There is a problem in the measurement of poverty in the United States. I mean, I can't comment intelligently on the facts that he's arranged here, but, as I pointed out, the Congressional Research Service says that every poor family, in terms of total welfare means-tested program, gets \$23,000 a year, and that's more than a level of poverty. And so maybe the policy recommendation would be just to give poor people those \$23,000 in cash.

DR. DANZIGER. Congressman, let me comment on that allegation. I think it is misleading; it represents a simple mathematical error.

REPRESENTATIVE SOLARZ. Comment on what, his observation?

DR. DANZIGER. It relates to this chart, as well.

There are two problems with this \$23,000 claim. One is that the proper denominator for this calculation is not the number of people who were poor after receipts transfers, which is what has been used, but the number of people who were poor before the receipt of transfers. This appropriate denominator is about twice as large as the one that was used. In other words, if we have one poor family that is \$5,000 below the poverty line, and through a combination of SSI and food stamps, they get taken out of poverty, then those \$6,000 have been well spent. But they are excluded from the calculation because they are no longer poor.

What the chart does is to take every poor family that remains poor and use them as the denominator. But the bottom number should be the number of people who were poor before transfers, not the official poverty population, which is measured after transfers.

The second problem is that not all of the transfers are intended by Congress to go only to the poor. That is, the spending is spread over an even greater population. For example, food stamps are designed to go to people who have income up to 130 percent of the poverty line. So, one should not argue that the food stamp program does not because benefits go to people who have incomes at 125 percent of the poverty line. One has to be very careful interpreting this chart.

DR. SMEEDING. Let me add, a third of the money you're talking about here is in the Medicaid program—a third of it. And that goes to 185 percent of poverty now for single parents.

DR. WILLIAMS. Well, the point is, what is the figure if you include people before transfers?

DR. DANZIGER. It's about a third of what the chart shows.

The most recent study that I have seen is based on data from the Census Bureau's Survey of Income and Program Participation. It was published in a refereed economics journal, the *Journal of Human Resources*.

In April 1986, for example, the average person who received income-tested cash transfers received \$379 per month. If you look over all recipients of cash and in-kind transfers; that is, if you include Social Security recipients who do not have to be poor by law, the average is \$700 a month. So, you don't get anywhere near this average of \$20,000 or \$14,000 per poor family.

REPRESENTATIVE SOLARZ. How many more poor people would we have in the country today if it weren't for the programs enacted during and pursuant to the War on Poverty?

DR. DANZIGER. If we had the same kind of spending we had in the mid-1960s, the poverty rate, instead of being roughly 13 percent, would probably be closer to 18 or 19 percent.

REPRESENTATIVE SOLARZ. Well, that almost precisely parallels Dr. Smeeding's figure, which says that in our country, before tax and transfer policies, 19.9 percent would be poor. When you take into account tax and transfer policies, 13.3 percent are. That's an interesting coincidence.

Have you ever calculated what it would cost us, in dollar terms, to emulate the tax and transfer policies of the other industrial democracies that have succeeded in reducing the poverty rates in these other countries, to an average of even less than 6 percent?

DR. SMEEDING. No, sir, I haven't. But the Canadians got it to 7 percent, and they don't spend that much more than we do, or do the Australians.

REPRESENTATIVE SOLARZ. Is it possible to do that?

DR. SMEEDING. It's possible to do that. You can look at how much they spend. And my guess is that they probably spend, I guess, \$60 or \$65 billion more than we do on programs which affect this group.

But again, it's real hard, Congressman Solarz, because a universal program that gives \$800 or \$1,000 to every kid, doesn't single out the poor, the blacks, the whites, or the Latinos.

REPRESENTATIVE SOLARZ. Well, I'd like to ask you and Dr. Levitan to respond to what I think was the essence of Dr. Williams' testimony, at least as I understood it, which is that these poverty programs and related policies of the Federal Government have created a kind of welfare dependency that has induced a poverty of the spirit. While we are acting perhaps out of compassion, it's a misguided sense of compassion, because the people that we think we're trying to help, we actually end up hurting. That instead of going out and getting jobs, they rely on their welfare checks, and this encourages, I guess, a continuation of the welfare cycle.

He argues that you can't blame the high-unemployment rate in the black community on racism and discrimination, because, while I'm sure that you would acknowledge that there is racism and discrimination,

you'd argue that it's less than it was in the past. And in the past you didn't have these enormous unemployment rates of the community.

The argument, as I understand it, seems to be that you know you have this cushion to rely on—safety net, as it were—that food stamps, Medicaid, and the Aid for Dependent Children creates a kind of cocoon. And, as he points out, why would someone want to give up all those benefits and take a job that would pay them less than they're getting from all of the benefits. But by not taking the job, their spirit is corroded, and they lose initiative and are ultimately worse off.

Have I done an injustice to your testimony?

DR. WILLIAMS. I would have rather said it myself, but go ahead. [Laughter.]

REPRESENTATIVE SOLARZ. Well, that's probably not as eloquently or precisely put as you, but I think that was one of your main points.

How do the rest of your respond to that?

DR. DANZIGER. Well, I alluded in my testimony to the problem of recognizing the diversity of the poor. I would start with that group among the poor which receives almost no welfare—two-parent families with kids. If you want to abstract from race, you can look at white, two-parent families with kids, and the story is much the same.

Over the period since 1973, low-skilled workers—defined as high-school graduates or less—have found it increasingly difficult to generate enough income to keep a family of four out of poverty. This is a group for whom the disincentive effects of transfers are not the issue. They do not get many transfers. Some of them will get food stamps and some of them, particularly after 1986, will benefit from the expanded Earned Income Tax Credit. So, you find economic hardship generated by economic changes for groups that do not rely heavily on transfers.

I do not want to argue that there aren't individuals or groups among the poor for which Dr. Williams' characterization would fit. I would say that the largest number I would go with, to try to roughly characterize it, would be that there are five million people who are persistently dependent on welfare. There are about 30 million people who are poor. So, just at this rough level, a sixth of the poor might fall into this group.

REPRESENTATIVE SOLARZ. There are about 30 million poor in the country?

DR. DANZIGER. About 30 million poor.

REPRESENTATIVE SOLARZ. Of that 30 million, how many would you consider to be working poor?

DR. DANZIGER. Well, I thought you might ask that, so I have the exact number.

In 1987, which was the last computer run I had, if you look at all poor persons and ask about the head of their family, you find the following: Among families with children, 24 percent of the heads worked full time; 38 percent worked part-time; and 38 percent did not work at all during the year.

REPRESENTATIVE SOLARZ. So, about 62 percent worked?

DR. DANZIGER. Yes, that percentage worked either full time or part-time.

REPRESENTATIVE SOLARZ. So, if you take these people, plus their children, what percent of the 30 million would count?

DR. DANZIGER. That group is families with children. If you add to it the elderly, disabled, people without children who are working either full time or part-time, I'd say that you end up with maybe 25 percent or less of the poor where someone does not work and is not elderly or disabled.

REPRESENTATIVE SOLARZ. Well, Dr. Williams, if I understand that correctly, it seems to suggest that of the total population of poor people in the country roughly three-quarters of them are working, part-time or full time. Obviously, the children are not working, but I'm ascribing to a working head of household the children in that household, because they have to depend on the head of the household for their money.

So, it would seem that—please correct me if I'm wrong—approximately three-quarters of the people who are poor in this country are not suffering from a poverty of the spirit, if one defines poverty of the spirit somebody who has lost interest in supporting themselves, trying to support their family, and feel a sense of responsibility to go out and work; these people are working. They haven't taken the easy way out.

DR. WILLIAMS. Well, first of all, let me say first that I was focusing my remarks particularly, so far as black people are concerned, and you just need to do some casual empiricism. But still, this large group of poor people that Dr. Danziger talks about, their situations are aggravated by government policies that are not even included in my testimony.

For example, the Social Security tax is devastating. A lot of people pay more in Social Security tax than they pay in income tax. Maybe you need to get rid of that. They'd have more after-cash income. And some of the collusions and cartels that Congress supports aggravates the plight of the three-quarters of the population that work full or part-time.

But going more directly to your comment about the debilitating effects of the poor, I need an economist to tell me that a person would prefer \$7,000 in income before taxes to \$12,000 or \$14,000 in income after taxes. Now, I don't know anybody that works that way.

DR. SMEEDING. I absolutely agree with Walter on that. And that's why I said we ought to get rid of the AFDC program.

What it creates—and people talk about this all the time—is a poverty trap. We are stuck. If you want to keep your Medicaid, if you want to keep your public housing unit, if you want to keep your benefits, you can't work.

REPRESENTATIVE SOLARZ. So, you say substitute a child allowance?

DR. SMEEDING. Substitute a combination of two things—three things really.

First of all, a child allowance. That's fairly low. That's not enough to do it by itself. Guaranteed child support, where we guarantee you some

amount if the father can't pay or won't pay, as long as you have said who the father is, that's the reciprocal part.

If you put those two things together, along with providing child care for somebody and making sure they don't lose their health benefits, then you go out and go to work.

REPRESENTATIVE SOLARZ. At what level would you peg the child allowance?

DR. SMEEDING. Child allowance. I'd go probably between \$800 and \$1,000. One thousand dollars is what the National Commission on Children has recommended—Jay Rockefeller's group—that's pretty expensive.

REPRESENTATIVE SOLARZ. Right now, you get it as a credit on the income tax?

DR. SMEEDING. No. Now, you get it as a deduction.

REPRESENTATIVE SOLARZ. Right. You would wipe that out?

DR. SMEEDING. Right. I would make a refundable credit for everybody, and we tax it. For people like us here and for myself and my four kids, we tax it.

REPRESENTATIVE SOLARZ. What would be the net cost to the Treasury of such a program?

DR. SMEEDING. Well, I believe that it might be about—the National Commission on Children claims that their program would cost \$40 billion.

I think that if you, at the same time, gave this credit to kids, turned other exemptions into equal cost credits, you could probably get away for \$30 billion.

REPRESENTATIVE SOLARZ. Dr. Williams, would such a program be attractive to you?

DR. WILLIAMS. It sure beats the existing state of affairs.

REPRESENTATIVE SOLARZ. Right.

Now, let's assume we had such a program. What impact would that program have on the poverty rate in the country? We now have 13.3 percent.

DR. SMEEDING. There are some simulations that have done that. By itself, it probably will reduce the child poverty rate by about a third. In other words, if you're talking about a poverty line of \$12,000 for a family of four, and you're giving the two kids or three kids \$1,000 each, that's \$2,000 or \$3,000. That by itself isn't going to get them out, but it gives you a starting point.

You know, I led a congressional seminar and Representative Nancy Johnson, who is the ranking Republican on the House Ways and Means Welfare Committee, said, what would a single mother do with \$1,000 like that?

I said, well, they'd probably go out and, if they didn't already have a car—and a lot of single parents don't—they'd get a car. Maybe, they'd live in a better place.

REPRESENTATIVE SOLARZ. What about Dr. Williams' point—and I'd like the rest of you to comment on this—which he made at the outset of his

testimony concerning definition of poverty. He has some rather intriguing statistics of looking at people today, compared to 50 years ago; 68 percent of the people who are allegedly poor have an automobile——

DR. WILLIAMS. 62 percent.

REPRESENTATIVE SOLARZ. 62 percent. Like Bob Gates, I can't remember everything that was said to me, but I pick up part of it.

He pointed out a high percentage have air conditioning and the like. And he made the argument that 50 years ago, if you had a car, you were considered wealthy. If you had air conditioning 30 years ago, 40 years ago, you were considered wealthy.

DR. LEVITAN. I have the same reaction, Mr. Chairman.

I don't know the statistics, but take telephones. Some 90 percent of households have telephones. A few years back a telephone was a luxury. So, I think to compare some of these life conveniences with what happened 40 or 50 years ago does not make much sense to me.

I think that, in most of these cases, we live in a different society, and therefore some things that were considered luxuries are now necessities.

My reaction to Dr. Williams' testimony was somewhat less learned than my two other colleagues. I had the feeling as he was talking about the good old days—and one advantage that I have over Dr. Williams, and it may be the only one, is that I'm older than he, and I can remember for many more years that the good old days were horrible. So, therefore——

DR. WILLIAMS. Did I say that?

DR. LEVITAN. I said that the good old days were horrible.

DR. WILLIAMS. No, no. Did I say that the good old days were good?

DR. LEVITAN. Well, Dr. Williams, you didn't say it was good. But you compared it to something that happened 30, 40, 50 years ago, and I'm saying that such comparisons are not very meaningful.

I think another point that I don't see in Dr. Williams' testimony is that there is such a thing as quality of life. I think that it is very important to consider that the Great Society—the welfare system—does not mean only money. But it means a great deal about relations in our society.

I once had the honor of being with Dr. Williams on the same panel. And I suggested to him that when I came to Washington—it was after the Civil War—at that time I remember I could never have had lunch with Dr. Williams in a Washington public restaurant. Now, I don't know whether Dr. Williams thought it was a big deal to have lunch with me, but at the same time, I think it's very important to consider that the Great Society also contributed a great deal to equality in our society.

And finally, at the danger of losing my liberal credentials, I would say that I think we're overestimating the importance of money and not enough work. Although it was indicated by Dr. Danziger and Dr. Williams and Dr. Smeeding, I think that we're relying too much on providing money rather than on work. In other words, for instance, take what the Senate is debating today, the terms of extended unemployment insurance. Now, of course, as a card-carrying liberal, I'm for it. But at the same

time, I testified before another Subcommittee recently and I said, why not provide the long-term unemployed a job rather than the income maintenance? I didn't hear a single member of Congress propose that we give that person a job rather than additional unemployment insurance.

REPRESENTATIVE SOLARZ. What kind of job?

DR. LEVITAN. Well, public-service employment. We had it throughout the 1960s and 1970s under Kennedy; we had it under Nixon, Ford, and Carter, and abolished most of it under Reagan.

REPRESENTATIVE SOLARZ. You mean, give them a public-service job for the amount of their unemployment?

DR. LEVITAN. Well, what you can do is equal it to the unemployment insurance benefit. If you have a person who's unemployed—let's say he was making \$20 an hour—I would not compel him to work 40 hours. But let's say the unemployment insurance is \$200, that person would have to work only 10 hours instead of 40 hours.

I think there are many adjustments that can be made. But I certainly believe that we have not recently paid sufficient attention to public-service employment, creation of jobs.

One more point and that is the connection with the Family Support Act—the welfare reform that Congress passed three years ago. I think that one of the problems with that act is that it provides for education and training, but not for a job for successful trainees. I am afraid that the welfare reform of 1988 is due to fail because you have not established jobs.

As I said, maybe I have now lost all my credentials as a liberal and I'll join Congressman Arney and Congressman Williams, but we should stress more work than income.

REPRESENTATIVE SOLARZ. I gather, with the exception of Dr. Williams, the other three witnesses would probably agree with the statement that, while the War on Poverty obviously did not succeed in eliminating poverty, it did succeed in significantly reducing the incidence of poverty; would you agree with that?

DR. LEVITAN. And also alleviating deprivation. If we give them food stamps, it makes a big difference, even if they remain below the poverty level.

REPRESENTATIVE SOLARZ. Were there any programs in the War on Poverty that you would say in retrospect—

DR. WILLIAMS. I thought you said you'd give me time to respond to what he said.

REPRESENTATIVE SOLARZ. I didn't realize that you wanted to respond at this point, but please proceed.

DR. WILLIAMS. Yes, I do. When he is trivializing the fact that families have automobiles, telephones, etc., the crucial point to recognize is that this has something to do with the way we define poverty. That is, if we define poverty in the relative sense, we're never going to get rid of

poverty until we get a rectangular distribution of income. But if we define poverty in an absolute sense, that means we're going to get rid of it.

And then he's talking about the good old days. I would be seriously worried if I went to a doctor and took his prescription and I got worse all the time, I'd be wondering about his prescription.

When I was talking about the good old days, I was talking about the good old days in general. I was pointing out that there are several things that are entirely new and devastating to black people. That is, I was pointing out that in the 1930s the illegitimacy rate was 14 percent among blacks as a group, compared to 61 percent and rising now. In black neighborhoods, people felt far more secure than they feel today. There wasn't all that kind of crime. As a matter of fact when I was a young kid, we used to run away from white kids chasing us in Philadelphia to black neighborhoods. Today, we might run the other way.

And finally, in terms of family stability, it is critical to the development of young people and it has gone down; it's gone in reverse. So, the poverty program is devastating—the welfare state.

REPRESENTATIVE SOLARZ. Well, you mentioned three developments that have taken place in the black community, which are obviously deeply disturbing—the incidence of illegitimacy which has gone all the way up, the incidence of crime which has gone all the way up, and the incidence of family break-ups, single-parent families which has obviously gone up, as well. To what do you attribute these developments?

DR. WILLIAMS. Well, it's not due to evil spirits and God. That's one thing. It must be a causal relationship.

REPRESENTATIVE SOLARZ. We're talking about trivializing arguments. I'm asking you what you attribute it to?

DR. WILLIAMS. I'm attributing it to the growth of the welfare state, and the devastating effects that it has on black people and on incentives. And moreover—

DR. DANZIGER. Correlation is not causation. There are dozens of published studies which attempt to ask, by making comparisons between states with higher and lower welfare benefits, whether or not these problems are higher or lower.

There are a variety of economic and social problems that affect the white and black community. And there is a complex link between very diverse outcomes.

Dr. Williams' arguments remind me of the following problem that arises when one mixes correlation and causation. We could find a correlation for the 1970s between the rate of economic growth in a state and its temperature in January. We could also find a correlation that child poverty rates were falling in states with low welfare benefits. We know that during those years, economic growth was more rapid in the Sunbelt. Should we conclude that warm temperatures increase growth and high welfare benefits increase poverty?

It turns out that the reason child poverty was falling in the Sunbelt was because they were doing very well economically in those periods. It had nothing to do with January temperatures on those welfare benefits.

The most detailed research on the effects of welfare, by very technical economists, ranging from James Heckman of the University of Chicago to Robert Moffitt of Brown University, just don't find the kinds of negative disincentive effects that Dr. Williams attributes to government benefits.

REPRESENTATIVE SOLARZ. Well, I have a number of additional questions, but Congressman Armev has to leave, so let me yield to him at this time.

REPRESENTATIVE ARMEV. Thank you, Mr. Chairman.

Let me again stress my appreciation to each and every one of you as panelists. This is, I think, a very important and worthwhile discussion.

I do want to, Professor Danziger, bring something to your attention, because if you have too much reliance on something like the green book, you can often be misled.

You mentioned in your testimony that taxes on the rich decreased in the 1980s, and I just wanted to bring to your attention that that is not true. According to the IRS' own figures—and I want you to know that I supervised this data crunching, so I'm very confident about it—the average income tax payments for the top 1 percent of the wage earners, adjusted for inflation, increased 51.3 percent between 1981 and 1988, while at the same time the average tax payment for the lowest 50 percent of the wage earners decreased by 25.7 percent. This is one of the myths that we kept from the Joint Tax Committee's—

DR. SMEEDING. Wait a minute. What happened to the incomes of that top 1 percent; how much did that increase?

REPRESENTATIVE ARMEV. Well, the point still remains that they paid a higher—certainly their incomes went up during that period of time and so did the incomes of the lower extremes.

DR. SMEEDING. Oh, I don't—

REPRESENTATIVE ARMEV. If you want to find a period of time in recent history in which any American quintile of income distribution decreased, you have to find the period of time from 1976 to 1980, I believe.

There was no decrease in the incomes of any Americans after 1980. Again, what I'm saying—one has to be real careful about this, but the point still remains that the tax changes in the income tax code shifted the burden of taxes to the higher income bracket. What mitigated against that shift was the enormous increases in the FICA taxes that took effect in the 1980s.

But my time is short, so I won't go on. But I really think that Dr. Levitan and Dr. Smeeding have hit on where the key is. We all agree that there isn't anybody here that doesn't say deprivation is deplorable, whether it be deprivation of physical or emotional or cultural well-being, it's deplorable, and we'd like to see it eliminated.

Our question is, is our government doing a good job of it? We asked before, how bad would poverty be if we had not had those programs? We say it would be worse.

I might say how bad would poverty be today if, in the last 15 or 20 years, we'd had Canadian programs instead of American programs? It would probably be better. So, the question is what is the best thing we can do to get the maximum antipoverty bang for the buck.

Let me just remind you, Veblen wrote in passionate terms about the spirit of workmanship, and the question we ask ourselves is where does the spirit of workmanship come from? How can it be taught? Can it be taught in a short course or must it be taught through a lifetime, where integrated families provide the instruction?

What was the value in the context of this concept called the spirit of workmanship? Clarence Thomas' grandfather, could he have acquired it without his grandfather? Everybody wants to dismiss the stories of his relationship with this man. But I'd say Veblen would have appreciated that relationship in the most clear and precise terms, in terms of what it did in the development of this personality.

We know that, in a Maslovian sense, if you want to achieve the rungs of self-actualization by that point on the ladder, your achievement will come from work. And it is in fact very important to a certain kind of antipoverty which, if denied, does mean an erosion of the soul or of the spirit. So, the connection between work and the reduction of poverty, I think, becomes critical. And the question is, have we a system of programs and benefits that alienate people from work? And is it the structure of our antipoverty programs that does so? You say we ought to make changes like they do in Canada to bring people back to work.

Dr. Williams has said that, and I think quite frankly, quite correctly so, we all know the history of Davis-Bacon. And we know the racist history of the motives for Davis-Bacon. Black folks are coming up from the South and taking jobs in the North. And Davis-Bacon was to stop that. And you can in fact go back and read the record, and you'll find that nobody ever shuddered about it.

Does Davis-Bacon today mitigate against the opportunity for a black American, in particular, to get a job, keep a job, to have a job? Does minimal wage work more against the unskilled, less well-educated black American than it does the more skilled Anglo-American?

I think these are real things. Let me talk about discrimination.

I want to tell you that I hate racism and discrimination. I also hate, by the way, cartel arrangements and I agree with you. This Government that prosecuted the cereal industry in a matter that resulted in my most funny lecture for five years—remember shared monopoly? It was so silly that students signed up for my course so that they could hear the lecture on shared monopoly.

Do you remember the case against the cereal manufacturers? This Government—all the time they were prosecuting the cereal manufactur-

ers—was sponsoring the cartels for all the inputs for the cereals. And they finally laughed the shared monopoly case out of court.

And government tolerated cartels in citrus; they tolerate the cartel in nuts, peanuts, the peanuts program; it's a shame. And if I were a black American, with George Washington Carver as one of the few heroes I would have had a chance to read about in my history books, I would be particularly offended by the peanut program.

So, the government will implicate itself in behavior that it will not accept in the private sector, in antitrust, and in the area of racism and discrimination. And I would suggest to you that alienating people from the work force shows up when you have something like the earnings limitation for Social Security recipients.

Why should a 65-year-old American citizen pay as much as a 58 percent income tax because they are able and want to continue to work, by way of denying them their benefits, because they are in fact working. That's discrimination; that's age discrimination, and our government does it.

If we have age discrimination in the Social Security laws of this country, do we, in fact—whether consciously or unconsciously—have a discrimination that alienates people from the world of work in such things as minimum wage, Davis-Bacon and other of these practices?

And the final analysis is, we won't have an opportunity for youngsters, who will be the next generation, to learn the spirit of workmanship off welfare, if they don't have somebody for whom to work, and if we have policies that alienate and fail these children.

And I, for one, say we must dare to look at those things. I think we've had today, Mr. Chairman, a rare opportunity to do so.

Like anybody who dares to breach the norms of political correctness, I will live, in the next few days, in dread fear that my political enemies will read these statements today and translate that all into the allegation that Dick Arney is a racist or a sexist or an agist or some other "ist."

But I've come to the point where I think that if we really in fact want to find a way for our government to do its duty in providing equality of opportunity, rather than sacrificing that opportunity and obligation on the altar of equality of outcome, then we'd better dare to have our political enemies make unfounded allegations against our character because we had the courage to raise the question.

So, Mr. Chairman, I'm sorry I went from questioning to soapboxing, and I did get on my soapbox. But I want you to understand that I, for one, appreciate the honest debate. And I do hope that Dr. Levitan, if you think about it, might send me that citation on the study that I requested.

Thank you again, Mr. Chairman.

REPRESENTATIVE SOLARZ. Thank you, Congressman Arney.

We had originally called this hearing to consider the success and failure of the War on Poverty. We've spoken about some of the successes. Do you see any failures of the War on Poverty, any programs which

demonstrably didn't work or live up to expectations, or which were perhaps even counter-productive?

DR. LEVITAN. AFDC is definitely a failure.

REPRESENTATIVE SOLARZ. Was that a War on Poverty program?

DR. LEVITAN. Well, it started out, of course, in 1935. I don't distinguish between the New Deal and the Great Society. But the point is that while it served the purpose of providing income, what we should have done is to provide jobs.

REPRESENTATIVE SOLARZ. Are there any other programs that were part of this that have failed?

DR. LEVITAN. Well again—as I mentioned before the Manpower Development Training Act—while we did some good, it is to a large extent also a failure, because we really did not provide the necessary funds for the training. And under the Job Training Partnership Act, we did even worse. And therefore we did not change the behavior of the people as the Job Corps did in which we invested enough money

DR. DANZIGER. I was going to say that if there was a failure, it's what Sar Levitan was just saying. It was the failure to build in more of the component toward provision of jobs. Provision of jobs was explicitly not part of the package; in part, because it was expected that economic growth would continue and make the large-scale public provision of jobs unnecessary.

REPRESENTATIVE SOLARZ. Dr. Williams, your argument is that it is the welfare system that has been the primary cause of increasing the illegitimacy and crime rate in the black community and the break-up of the family. If this is so, why hasn't the welfare system had a comparable impact on whites?

DR. WILLIAMS. I don't know.

REPRESENTATIVE SOLARZ. Well, doesn't this suggest the possibility—

DR. WILLIAMS. There could be a special case, in some cases?

REPRESENTATIVE SOLARZ. There may be other reasons that explain it? I mean, because the welfare benefits to which you refer are available, regardless of race, and there are many whites who receive them, I gather, in fact, that white illegitimacy is increasing also, but not by nearly as much as black illegitimacy.

DR. WILLIAMS. Well, it surely appears that whatever negative effects that it had—and I cite you information from Sweden, the 30 percent illegitimacy rate in Sweden, and in Russia you have similar problems as well, and among white people in the United States, Mexican-Americans or hispanics, as well—a worse effect on blacks. Now, why it did that, I can't give you an answer.

REPRESENTATIVE SOLARZ. But you're looking at a phenomenon that is increasing illegitimacy and break-ups, that sort of thing, and you're attributing it to the welfare system. But how do we know it's because of the welfare system; particularly, when the welfare system doesn't seem to have produced a comparable impact on other sectors of the society?

DR. WILLIAMS. Well, there's a lot of casual empiricism that one can look at. And then also again, one has to give an alternative explanation for explaining the dramatic reversals that we've seen. And moreover, when you ask the question about the jobs training program, one has to ask about that. In the 1940s, if you find that unemployment is lower among blacks than it is now, and if you find that labor force participation rates is greater among blacks than it is now, one has to say that something went wrong. And the Manpower Training Program did not help it at all, because you have to come up with different figures.

REPRESENTATIVE SOLARZ. Do any of you have an answer to that question? He says, okay, if it wasn't the welfare system, what was it?

DR. LEVITAN. What it was, was the breakdown of the family, that's the first important thing that I would mention.

REPRESENTATIVE SOLARZ. Right. But he would say, I believe, that the breakdown of the family was induced by the welfare system.

DR. LEVITAN. But the middle-class whites have been affected by the erosion of the family. Out-of-wedlock births and divorces have risen. And for the middle-class blacks, it's the same thing. It did not increase that much.

What has happened is that we have a different society, where permissiveness is the norm. And, as I mentioned before, I think that there is a great deal to be said for rectitude, which we are not practicing now. And therefore that has contributed, I think, more than anything else to the breakdown of the black family, and we shouldn't forget that in the 1980s we also reduced the amount of help that we gave to poor people.

DR. SMEEDING. I just want to speak to one thing that Walter said twice now, which I reacted to it, and that is the illegitimacy rate in Sweden. A lot of the numbers that they call illegitimacy in Sweden are households in which two parents live together, but they're not married. If you look at the percentage of children who live in families where there is one parent in that household and children under 18, it is lower in Sweden than it is in the United States.

DR. WILLIAMS. That's a problem. I'd like to see the data on that.

DR. SMEEDING. Believe me, I can send you all you want.

DR. WILLIAMS. But the point is here, what's different between welfare today and welfare yesterday in the 1930s? One would want to know, and I don't know all the details.

Could a young girl get welfare? Was she promised an apartment? I mean, what the government in a sense says is look, we can take you out of this misery of living in a single-family household, Dad raising hell and stuff like that, if you only go out and have a baby.

REPRESENTATIVE SOLARZ. But you see the problem that I have with your analysis—and I'm groping for answers like everybody else is—if there's any one thing that I truly believe, it's that people are people, regardless of their color or their religion.

I agree with something you said before, that people are economic animals. And I think most people—unless you're emotionally disturbed—will respond rationally to a set of stimuli that you put before them, whether they're black, white, hispanic, Asian, or whatever. They will do what makes sense for them, which is why I would believe that, to the extent a program has counterproductive consequences, it should presumably have it across-the-board. To the extent it has positive benefits, a training program, for example, I would expect it to work as well for whites, blacks, and hispanics of comparable income and educational levels and the like.

DR. WILLIAMS. There's no reason to expect that.

REPRESENTATIVE SOLARZ. Why?

DR. WILLIAMS. People are different.

REPRESENTATIVE SOLARZ. Well, individuals are different.

DR. WILLIAMS. No, people systematically differ by race. Now, I'm not saying that as an insult. I'm saying that there are systematic differences between people by race.

For example, 75 percent of NBA players are black. 30 percent of American Nobel Prize winners are Jewish. People differ by ethnic groups.

I cannot give the full explanation to your satisfaction.

REPRESENTATIVE SOLARZ. Well, if you hold class and education constant, I would think that the difference between racial groups is very, very limited. If all the other factors are equal—family background, education, neighborhood, environment, and that sort of thing—and you take a hundred who are black and a hundred who are white and everything else is more or less constant, I would expect fairly similar attributes.

DR. WILLIAMS. Well, it's nice to say that, but there are systematic, historical differences between blacks that play a very, very important role where blacks are today.

I see that as something where there's considerable reluctance to talk about, but there are systematic, historical experiences that play a role. For example, you take a poor, illiterate Italian coming to New York City—your own city—in the 1920s. If that man had industry and ambition, he could go out and buy a car and write the word Taxi on it and he was in business. Today, a similar person with industry and ambition, he would have to go out and buy a \$125,000 license, which has been as high as \$140,000. I'm asking the question, people who care about opportunities for the poor, do they support that kind of law that cuts off that bottom rung of the ladder?

REPRESENTATIVE SOLARZ. By your own testimony, such a person could also drive a gypsy cab.

DR. WILLIAMS. Oh, my God. And so that makes the medallion system in New York okay?

REPRESENTATIVE SOLARZ. I didn't come here to debate the medallion system.

DR. WILLIAMS. No, I'd like to hear it from some of these other economists here. Would you say that a law that requires \$125,000, in order to legally operate a taxi, is nice for creating opportunities?

DR. SMEEDING. No, I agree with you there.

DR. DANZIGER. But the issue is whether or not Head Start ought to cover a third of poor kids or all poor kids. That's the issue at hand.

REPRESENTATIVE SOLARZ. That was one of the other questions. Right now, you say a third of the eligible kids for Head Start receive Head Start?

DR. DANZIGER. I think Sar Levitan had that figure in his testimony.

DR. LEVITAN. With the increase, it would be about a third in 1992. And a great many of them—I forget the exact percent—but I think more than half are enrolled in programs that operate less than six hours. To provide slots for all poor 3- to 5-year-olds, it would cost seven billion dollars; that's a ballpark figure.

REPRESENTATIVE SOLARZ. What percentage of the children in Head Start, based on linear studies, seem to demonstratively benefit?

DR. LEVITAN. I can't give the exact numbers. The answer may be in the longitudinal study to which I alluded.

REPRESENTATIVE SOLARZ. Is it your impression that it's a substantial percentage?

DR. LEVITAN. Yes, there's a good indication that those kids who went through Head Start, and particularly full-day Head Start, have showed gains. As I pointed out before, they were more likely to go onto college; there was less out-of-wedlock births, and all these things that I consider—and I think that most of us would consider—undesirable.

REPRESENTATIVE SOLARZ. Dr. Williams, the medallion program for taxis in New York is not part of the War on Poverty, which is what this hearing is about.

DR. WILLIAMS. I'm not talking about that. We're talking about poverty. And one thing that creates poverty is cutting off people's opportunities.

REPRESENTATIVE SOLARZ. Right. Dr. Williams, the Head Start program was part of the War on Poverty. Do you think this is a worthwhile program?

DR. WILLIAMS. Yes, I do. But I think it points out one of the tragedies. That is, we are pouring billions and billions of dollars into an educational system, and we need other kinds of education as substitutes for what that education system is not doing.

We're asking businessmen to educate people. We're asking for special programs to educate people. And, lo and behold, we're spending increasing billions in education, so we ought to do something elemental at the core to deal with these problems so that we don't have to have add-on programs to help poor people get some educational goods.

REPRESENTATIVE SOLARZ. Why do you think that the economic growth in the 1980s did not produce a decline in the poverty rate in the country?

DR. SMEEDING. Sheldon is probably the best-suited person at this table to answer that, I think.

DR. DANZIGER. Well, one of the factors is a changing international economy, which places less skilled workers at a disadvantage. The other is increasing technology, which does the same.

Again, in a study using the cross-country data for Dr. Smeeding's project, a colleague of mine at Boston College, Peter Gottschalk, finds that other countries have very similar trends for low-wage workers. But those countries tend to offset the labor-market effects through their more comprehensive government programs.

REPRESENTATIVE SOLARZ. In other words, unlike the past where economic growth was perhaps more evenly distributed along the income scale, in the 1980s economic growth was concentrated in the upper ends of the income scale, while at the same time you didn't experience similar growth at the lower end of the scale. So, while overall there was growth, the less skilled, poorer parts of the population didn't benefit from it.

That leads me to my next question, which is, given the changes that have taken place in the international economy and the fact that well-paying jobs for unskilled people are becoming fewer and fewer, what do we do for this segment of the population?

DR. SMEEDING. Well, one thing that we try and do is we try and give the next generation better skills than this generation had. The other thing we do is, if they happen to have a bunch of kid they're trying to support or if their wages are too low to keep their family out of poverty, we have a child allowance program or an earned income tax credit.

REPRESENTATIVE SOLARZ. It's obvious, I think, to everybody that if we're going to adapt to a changing international economy, we have to equip the children of the country to function in that economy.

But does that mean we have to, in effect, write off the current generation? Or is there a way to help the people who are beyond school age, but who don't have the education and skills that are needed for the modern economy, but who 30 or 40 years ago could have gotten a manufacturing job in an assembly line somewhere that paid—for those days—reasonably well?

DR. DANZIGER. Well, you've now hit a hard question. If you had to do a hard calculation—do you help the three-year-old or the 16-year-old high school dropout—you would find that the most successful programs to date are those that focus on early childhood education.

In the area of retraining dropouts, we ought to keep experimenting with a variety of new programs. We have not yet found the kind of success that would lead us to form a massive program, but we are ready to endorse a tripling of the Head Start budget, which would probably require another five billion dollars.

Unfortunately, because we did emphasize antipoverty policies in the 1980s, we lost a decade of potential experimentation to see what works. And what you now see are a variety of programs in a lot of states and

communities trying to work with disadvantaged youths and improve their skills so that they can compete in the labor force. But that is an area where the results are not at all clear.

I do not think you can find somebody to get up here and say, "if you spend ten billion dollars on 17-year-old dropouts in this program, I know that we can achieve these results." And I think that is why there is now a focus on the next generation of young children. We need to aid them before they end up as dropouts.

REPRESENTATIVE SOLARZ. What do you think of Dr. Williams' point that there are a number of very serious problems that we have in the society today, like illegitimacy and that sort of thing, which government really can't do much about?

DR. LEVITAN. Well, government can do something about it. I don't think that you can restore the two-parent family very easily. But once the child is born or even before the child is born, prenatal care, universal Head Start and then Chapter 1, as well as the other programs, if they're properly funded, can do a great deal to save the next generation.

But if we're going to have only partial programs and not enough investment in the programs, then success will be less likely. I pointed out that the Job Corps is an expensive program, but it saves money in the long run.

REPRESENTATIVE SOLARZ. Let me give you an example and this may be an unfair question, because I don't know that any of you have dealt with this or thought about it. But I was visited in my congressional office in Brooklyn a week or so ago by some people from Coney Island. They were seeking my support for a project that they wanted to start to help deal with the problem of teenage pregnancy. And they were telling me that in Coney Island, young girls between the ages of 13 and, say, 15, 12 percent of them are pregnant. And if you count those that have already given birth or whatever, it's probably somewhat higher.

And I asked them, well, how much of this is due to the fact that they don't know about birth control methods or family planning? How much is it because they want to have children?

They said, well, some of it, as they understood it, was due to the lack of knowledge of information. But much of it, they said, was due to a variety of other factors, such as social pressures. Every other girl in the housing project, or most of them are pregnant, and so they're under a lot of pressure to get pregnant. It's a macho thing for their boyfriends to show that you can produce a son. And they gave three or four or five different reasons why these young girls actually want to have children.

And I was thinking to myself, how do you deal with it? And then they pointed out that one of the problems is that very often these kids don't live with their parents because the parents are out; they're drug addicts or they're in jail. And so they're brought up by the grandparents, and the grandparents have completely lost control of them. And really this is, I suppose, nothing new. But you think, how does a government deal with a problem like this? Do you have any thoughts on that?

DR. SMEEDING. One thing, certainly, birth control. A second thing, certainly, is the consequences of being a teen mother. The same way that this is your brain; this is your brain on drugs. This is your life if you stay in school; this is your life if you have a baby and drop out.

Another thing—and I firmly believe in this, and I say it every time I give my testimony—you enforce paternity. Parents should support their children. Tell me who the father is. Let's go out and get an order. Maybe they can't pay today, but at some point in the future, they're going to have to support the kids.

And the other thing that I really don't like about—and I probably will get some agreement, at least, probably from Walter—the War on Poverty was the way we did public housing. You build ghettos where you only—almost by definition—allow in single mothers with kids who have been on the list and on welfare for a long time. There's no good role models for the kids in these areas. There are very few people who work very much. And I think the whole public housing thing, the whole idea of finding a place where we could put a bunch of poor people—mainly black people—and drive by them on the way to work every day, or take the subway underneath them, that was a devastating mistake.

And I think a primary cause of a lot of our slum problems is, in fact, the public housing policy that made landlords rich and encouraged people to live in situations where—

REPRESENTATIVE SOLARZ. You know, Dr. Smeeding, we undoubtedly should do the things you mentioned. But I must confess to a very uneasy feeling that, even if all those things were done, probably a substantial majority of these young girls that are getting pregnant would continue to get pregnant.

It's not because they don't know about birth control. And it's not because somebody hasn't told them what the consequences are. It's either because they choose to ignore it, or because they don't believe it, or there are other pressures that are greater, or whatever.

Obviously, there are problems beyond the solution of government. But if they're beyond the solution of government—and by government, I mean the kind of metaphor for collective action by the society—we see very serious social problems in our country and society. And it's very important to the health of our society to solve those problems. But if you can't do it in one form or another by the government, then how do you?

DR. WILLIAMS. Let me say the following. I think that one of the things that we can do is not to have official attacks on institutional structures, such as the family. Let me give you an example of what I mean.

For example, where I live, in order for my daughter to get her ears pierced, I have to give parental permission. In order for her to go on a ski trip by the school, I have to give parental permission. But it's possible that she may be able to get an abortion without parental permission. Now, I'm not bringing up the issue of abortion, one way or the other. But the point is that if she does not need parental permission, if the authority of the family is undermined on something as important as abortion, why

should she listen to me about abstaining from sex or using drugs or things like this?

I'm saying that there are certain things that have transpired in our society that are quite different from the past that have undermined authority. In some places, for a principal to go into a kid's locker to look, he needs a search warrant.

And so I think that what government needs to do, not only at the federal, state and local level, and at the courts, is to stop this attack on institutions.

REPRESENTATIVE SOLARZ. Well, you make a very good point.

Let me ask the others a final question, so we can go and vote.

To the extent that some of the most serious pathologies in the country today are related in one form or another to the breakdown of the family—not exclusively but to some extent—what about Dr. Williams' point that, on this question of parental consent, if a young girl, a teenage girl wants to get an abortion, that by not requiring parental consent, you inevitably undermine the authority of the family, and thereby contribute to the trend that has pathological consequences in society?

DR. LEVITAN. We end up, or at least I end up, agreeing with Dr. Williams. Certainly, we've done much to deny and break down the authority of the family.

REPRESENTATIVE SOLARZ. You would require parental consent?

DR. LEVITAN. I would require parental consent. I would give the principal more authority, as far as the school is concerned.

REPRESENTATIVE SOLARZ. I suppose the argument on the other side would be that, if you require parental consent, you will get a lot of young girls who will not be willing to seek consent—out of embarrassment or fear or shame or whatever—who then, without parental consent, won't be able to get an abortion in a clinic and will end up going to some back alley practitioner. And then a certain percentage of them will get mangled and die.

DR. LEVITAN. Mr. Chairman, every solution to a problem creates new ones. And I think what Dr. Williams said makes much more sense to me.

Obviously, you're not going to solve the problem. But what I'm suggesting, if I understand Dr. Williams, is that we have to enhance the authority of the leaders of society—whether it's parents or it's principals—to help children to control their lives.

REPRESENTATIVE SOLARZ. I have a note here. What about a daughter who's a victim of incest? I assume you can make a provision in the law that, in such circumstances, the girl could submit an affidavit saying that the father was——

DR. WILLIAMS. That's a different matter.

DR. SMEEDING. You need another panel here.

You wanted us to talk about poverty. You've changed the horses here quite a bit.

REPRESENTATIVE SOLARZ. Well, this has been very helpful. I think that we've illuminated some important issues and certainly put it into a very interesting statistical perspective. And I think it's been a very constructive hearing, and I appreciate your willingness to take so much time.

The hearing is adjourned.

[Whereupon, at 4:50 p.m., the Committee adjourned, subject to the call of the Chair.]

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THE WAR ON POVERTY: ADMINISTRATION POLICY AND ALTERNATIVE STRATEGIES

TUESDAY, NOVEMBER 19, 1991

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The Committee met, pursuant to notice, at 10:00 a.m., in room 2359, Rayburn House Office Building, Honorable Stephen Solarz (member of the Committee) presiding.

Present: Representatives Solarz and Armev.

Also present: Lucy Gorham, professional staff member.

OPENING STATEMENT OF REPRESENTATIVE SOLARZ, MEMBER

REPRESENTATIVE SOLARZ. The Committee will come to order.

In 1977, at the dedication of the new Health and Human Services building, Hubert H. Humphrey—one of the War on Poverty's greatest champions—reminded us that the moral test of government is how that government treats those who are in the dawn of life, the children; those who are in the twilight of life, the elderly; and those who are in the shadows of life, the sick, the needy, and the handicapped.

Fourteen years later, as millions of Americans prepare to face a winter of economic hardship and dwindling expectations, Vice President Humphrey's words are, if anything, even more salient.

As we convene our final hearing in this series on the legacy of the War on Poverty, we come face-to-face with the grim reality of continuing and growing poverty in America.

For while there may be disagreement about whether the recession has ended, it is indisputable that poverty in America has worsened over the last year.

Recently released Census Bureau statistics for 1990 show that for the first time since 1983 the number and percentage of Americans living in poverty has grown.

In 1990, poverty levels rose to 13.5 percent from 1989's 12.8 percent.

There were 33.6 million people mired in poverty last year, 2.1 million more than the year before.

Furthermore, with the fragile economic recovery and state social service budgets strained to the limit, there is a very real possibility that 1991 poverty statistics will be even worse.

In this series of hearings, we have attempted to measure the true impact of the War on Poverty.

Many of those most critical of this effort, some Presidents among them, have often failed to distinguish between the successful antipoverty initiatives of the past generation, such as Head Start and the Job Corps, and the 50-year-old welfare system that manifestly needs further reform.

These critics also ignore the crucial role that the creation of Medicare and expansions in Social Security benefits have played in substantially reducing poverty among the elderly.

Finally, they often assert that pro-growth economic policies alone will do more to end poverty than federal programs, ignoring the experience of the 1980s when the longest peacetime expansion in U.S. history did little to increase economic opportunities for the poor.

The purpose of today's hearing is to find out, based on the experience of the past 25 years, what can be done to significantly diminish poverty in America.

It may be too much to believe that we can eliminate poverty completely, but surely we can and must make progress toward this critical goal.

The real question is how best to meet this enormous but essential challenge.

We have with us today, in order to help us consider these important questions, one of the Administration's most imminent spokesmen, a former colleague and, I must say, a very good friend for whom I have the highest personal regard, Jack Kemp, who is now serving as Secretary of Housing and Urban Development, who will discuss with us the Administration's plan and programs for combatting poverty.

In addition, we will also hear from one of the leading Democrats in the Congress in this area, another very good friend and a fellow member of the New York delegation, Representative Tom Downey, who is the Chairman of the Ways and Means Subcommittee on Human Resources, who will focus, as I understand it, on congressional initiatives to help diminish poverty in our country.

After we hear from Congressman Downey, we will hear from a third panel of witnesses, which will include Robert Greenstein of the Center on Budget and Policy Priorities, and Stuart Butler of the Heritage Foundation, who will discuss alternative strategies for combatting poverty.

Our final two witnesses will discuss private-sector efforts to alleviate poverty in the country.

We will hear first from Linda Wilcox of Coastal Enterprises, Incorporated; and our final witness will be Stella Horton of the Education, Training and Enterprise Center.

Unfortunately, we had also hoped to hear from Dr. Norris Haynes of the Yale Child Study Center, but Dr. Haynes is ill and will not be able to participate in the hearings.

Before I ask Secretary Kemp to begin his testimony, why do I not ask my other very good friend and colleague and participant in these hearings, the gentleman from Texas, Congressman Armeý, for whatever words he might like to offer.

REPRESENTATIVE ARMEY. Thank you, Mr. Chairman.

Let me ask, with consent, to put my formal statement in the record.

REPRESENTATIVE SOLARZ: Without objection.

OPENING STATEMENT OF REPRESENTATIVE ARMEY

REPRESENTATIVE ARMEY. This is a continuing series of hearings on a very important subject.

I think there is one point from which we both approach this, and where we are in total agreement: poverty and the conditions of poverty are heart-breaking, and they must be dealt with as quickly and effectively as possible.

I want to also join you in welcoming Secretary Kemp and Congressman Downey.

I feel like I must observe that, given three New Yorkers in such prominence here, it's probably a good thing for the Nation that we have one Texan.

That makes the odds about even.

[Laughter.]

Even though my time will be shared between here and the Banking Committee where there is a good deal of mischief afoot on a markup, I will try to spend as much time here, and I think a part-time Texan ought to balance three full-time New Yorkers.

We will make the best effort we can, and I want to thank you all for your patience with me and your grand sense of humor.

REPRESENTATIVE SOLARZ. Let me say to my friend from Texas, I am delighted the ratio is now down to 1 to 3.

[Laughter.]

Some have said it was higher in the past.

Jack before you begin, let me just make one other observation. In the past, this Committee has often been a pulpit for competing ideological antagonisms.

Congressman Armeý and I have tried to approach these hearings in a genuine effort to determine how serious the problem is, and how it can best be dealt with.

While it remains to be seen whether we will succeed, it is my very real hope that at the conclusion of these hearings we will be able to come up with some agreed-upon assessment of the problem, together with some joint recommendations about how to deal with it.

There is one thing I think, in principle, probably all of us can agree with. That is, if we are going to make any real progress in dealing with the problem of poverty, it would certainly be very helpful if we could begin to forge the kind of cross-party and cross-ideological coalitions

which have tended to allude us in the past. To the extent that we continue to quarrel about this over here, the chances of meaningful action are greatly diminished.

So, I want you to know, we approach your testimony not in any kind of adversarial spirit, but rather in a genuine desire to get the benefit of your thinking about this problem and your suggestions for dealing with it.

**STATEMENT OF THE HONORABLE JACK KEMP, SECRETARY
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

SECRETARY KEMP. Well, Mr. Chairman, thank you for that very gracious introduction and for the warm welcome that you and Congressman Armev have provided me.

I know I speak for Tom Downey when I say that as colleagues in the Congress, and while on different sides of the aisle, I take with great hospitality your willingness to look for a new way, some synthesis between what appears to the public as a diametrically opposed position between Democrats and Republicans, and liberals and conservatives.

Congressman Armev alluded to the fact that we are three New Yorkers.

Let me say that I grew up in Southern California. I played pro football for the Buffalo Bills.

If I look a little disheveled today, it is because I sat up until 12:15 last night watching Jim Kelly decimate the Miami Dolphins.

[Laughter.]

REPRESENTATIVE SOLARZ. In 17 years here, I have never seen you look "disheveled."

[Laughter.]

SECRETARY KEMP. Maybe disorganized a little bit.

I live now in Bethesda, Maryland. So, I do not want Congressman Armev to feel left out.

I am not here representing New York or Texas.

I am obviously a member of the Bush Administration, so I represent hopefully the collective wisdom of our Domestic Policy Council's Economic Empowerment Task Force, which I chair.

Mr. Chairman, today, I really do speak as someone that I think you would expect has not spent necessarily all his time theorizing about this problem, but who has spent a lot of hours and days and nights, if you will, in pockets of poverty that really, as you pointed out earlier, are a stain on our democracy at this point in our Nation's history.

I am not a Hubert Humphrey democrat.

I am on the other side of the political aisle, but I have great regard and respect for the late, great Senator Hubert Humphrey.

I want you to know that I think it took a lot of courage for you to invite me here.

I have been called a "witch doctor," "snake oil salesman," "dangerous riverboat gambler," and a "voodoo economist," and that was coming from my own Party, so I can imagine what you guys used to say about me.

[Laughter.]

But seriously, Mr. Chairman, I really respect the effort that you and the other members of this Joint Economic Committee are making.

I want to say, at the outset, I am one of the members of the Administration and the Republican Party who views with great anticipation the type of bipartisan cooperation that you talked about at the beginning.

I have said publicly that efforts such as are being made by this Committee, and also by my friend Tom Downey, and by Charlie Rangel, Mike Espy, Senators Bentsen, Moynihan, and other leading spokesmen and women for the Democratic Party are very much welcome.

I would like to think that my heart-felt feelings about the economy and the recession and the War on Poverty will be taken in the spirit of the cooperation that you have alluded to so dramatically at the beginning of this hearing.

A Chinese philosopher one time said that there is a lot of wisdom on this earth, but unfortunately it was all divided up among human beings.

I do not come with a fount of wisdom, and I do not come with all the wisdom. I just come with a little piece of that wisdom that I know many of us are concerned about.

And the other people, the panels and those who testified before this Committee, will share their wisdom with you, and I want to offer it in the spirit that you introduced these hearings.

I share your belief and that of Congressman Arney that it is a moral and political imperative that this country wage war on poverty.

The whole world is looking to us for leadership. We have provided the type of leadership that is helping to lead us to a global democratic revolution.

As in all revolutions, Dickens reminds us from the French Revolution on, there are contradictions and paradoxes, such as he starts his book, *A Tale of Two Cities*: "It was the best of times; it was the worst of times."

Today, it is the best of times in terms of our hopes for the world, in terms of our hopes for a more peaceful, democratic, liberal trading world order, if you will.

It is the worst of times if you are homeless, if you cannot afford a first home, are poor and caught in the welfare trap.

It is the worst of times if you have been caught up in the despair that grips all too many people's lives that leads in some cases to some of those decisions that people make about drugs and alcohol or crime.

I am not making a case that crime, alcohol and drugs are the result of poverty, but I am suggesting that poverty indeed creates an attitude and a behavioral modification syndrome that reflects itself in some of the social pathologies that we see all too often in these pockets of poverty.

So, let me take it to an even stronger statement: Abraham Lincoln's House Divided Speech helped rally this country to the moral impediment of ending slavery in the last Century.

I would hope that with all my heart that the efforts that are being made, not only by those of us in our Party, but by those of you in your political party, can remind America today that a house divided between affluence on one hand and grinding, abject poverty on the other cannot stand.

We will survive, but we cannot stand as an example to the rest of the world as a model of democratic social justice, or entrepreneurial capitalism with a human face, if this is to be allowed to continue.

So, I approach this with a sense of urgency, and I approach it with a sense of cooperation, and I approach it with a sense of passion that has led me to the conclusion that we cannot politically or morally condone the existence of the level of poverty, despair, homelessness, and joblessness that all too often grips this Nation.

I am going to ask unanimous consent, Mr. Chairman, that the remarks that I have prepared be put in the record in their entirety, and I will summarize them.

REPRESENTATIVE SOLARZ. Hearing no objection, your entire statement will be placed in the record.

SECRETARY KEMP. I was hoping somebody would object and I could read the whole thing.

[Laughter.]

But seriously, I need to respond to one thing that you said at the opening, Mr. Chairman. That is, the seeming conflict between the pro-growth forces and the pro-safety net forces.

I want to say at the outset that—and I do not speak for just myself now, I speak for the Administration and the President—we need a safety net under which people should not be allowed to fall, but we also need a ladder of opportunity upon which people can climb.

Now, that is not a cliché with me, nor is it with you, or Tom Downey.

But I want to say with all the emphasis I possibly can that this economy, whether it is technically in or out of a recession, is less important than the fact that people are, as the President has said, and as you and others have said, people are hurting.

Unemployment is way too high. It is particularly high among minority men and women. It is unconscionably too high among the poor.

The greatest enemy of the poor is recession. You cannot save the safety net in a recession.

David Broder in Sunday's *Washington Post* had a fascinating column about state and local governments running out of money. I mean, you can go to any state in the country.

I saw today where Connecticut after a tax increase in 1990 is dealing with another deficit in 1991, and projected in 1992.

David Broder quotes the National Association of State Budget Officers, NASBO—I've never heard of them before, but I will take his word for it—they said their latest state expenditure report compiled by this National Association showed double-digit spending increases in three-fourths of all the states in our country for corrections, Medicaid and Social Services, keeping prisoners out of the way, and having to pay medical bills for the poor. It says the fastest growing element of state spending are squeezing out programs that the middle-class really value.

I think it is starting to pit the middle-class versus the poor.

It leads to the type of thing where a David Duke could get 39 or 38 percent of the vote of one state.

Not everybody that voted for David Duke is a racist. But there is a problem whenever an economy is in a contraction, you end up with demagogues coming to the surface.

I do not need to remind the Chairman that Adolph Hitler came to power in a severe depression. His first putsch in Munich occurred during the hyperinflation of 1923.

So, it is absolutely essential that the economy perform at high levels of growth, output, employment, and opportunity, and in that sense, Mr. Chairman, I am egalitarian in terms of opportunity. I am not egalitarian in terms of reward. I guess I do not need to remind the Chair of that.

You are right about Head Start, and Job Corps, and help for the medical bills of poor people.

Frankly, we have to find even a better way to do it.

Mr. Chairman, the welfare system, in and of itself, needs radical perestroika, restructuring, radical overhaul.

I know I am supposed to be a conservative and you are supposed to be a liberal, but both of our hearts bleed for poor people who have to deal with the welfare system that is basically an entrapment and a swamp into which they are being pulled. It perpetuates dependency. It perpetuates all of the behavior that is at odds with what we know to be true about climbing up that ladder that has heretofore been called the "American Dream."

On the second page of my testimony, I mentioned some ways in which poverty has been created.

I won't go into it, but, Mr. Chairman, of all the things I would like to impress upon this panel today, it is to accept your thesis that we need a third way; that we need to honestly and candidly, and objectively explore empirical evidence of success, if there is success—and I think you alluded to some—and also candidly, intellectually, and politically, with honesty and candor, explore what has happened.

Why is it that after \$2.4 trillion of the Great Society War on Poverty spending we have more poverty, as you put it?

Mr. Chairman, I have come to the conclusion that, in effect, we have two economies.

We have a macroeconomy that is predicated upon incentives and rewards for productive human behavior. It is predicated upon private

property. It is predicated upon market incentives. It is predicated upon the link between effort and reward.

The inner city—and I am not blaming now the victim, I am blaming the system. I, while conservative in my values, am radical in my belief that we need to alter and change and reform and bring perestroika to this system. In the inner cities of America, these pockets of poverty, in effect, Mr. Chairman, you have almost a third world socialist economy, or an Eastern European socialist economy.

There is very little private property. It is mostly public or public housing.

The reward for working is not as great as the reward for welfare.

Now, rather than be accused of giving a Duke-like statement about welfare, I do not blame the people. I blame the system.

I heard the President say in Cochran Gardens—a public housing community in St. Louis—that if the system is not working we should change the system.

I must admit, I had something to do with encouraging the President to see how fundamentally at odds the welfare system is with the aspirations of poor people.

My metaphor for this is the young woman written up in *The Wall Street Journal*. Her name is Grace Capitello. She has a 5-year-old daughter. She wanted to send her daughter to college—what a radical idea! She wanted to send her daughter to college, so she saved money.

She was fined literally \$15,000 by a Judge in Milwaukee, Wisconsin, because she had exceeded the asset limit on Aid to Families with Dependent Children. You know the story well.

She said at the bottom of *The Wall Street Journal* article that she will never save again for college, or a first home, or a piece of property, or have a savings account as long as the system punishes her as being a fraud. She said she was going to go out and get a job.

The article does not say, if she gets a job in Milwaukee, Wisconsin, Washington, D.C., or in New York City, Mr. Chairman, with one daughter, one child, the government will begin to take away her welfare and will begin to tax her income to the point that the reward for her working is probably lower than the reward for being on welfare.

Now, something is wrong, and we need a radical change.

This economy punishes people for being married.

At the Martin Luther Public Housing Community in Harlem, New York, when a woman got married recently, her rent jumped—not recently, about a year ago—from \$60 a month to \$600 a month because she added a wage earner to her household, and the rent jumped from \$60 to \$600.

You will be glad to know, Mr. Chairman, I changed that by government fiat. I just changed the regulation.

We put a cap on that charge on public housing residents for women, or family, or marriages.

I would do all of this by fiat if I had the opportunity. I do not have the opportunity in every case.

Obviously, we need tax reform. We need a greater break for the family.

I applaud what Tom Downey is attempting to do, as is Bentsen, Roth, Republicans like Coates and Wolf—I mean, the family is the most over-taxed institution in the United States of America.

Had the family had an exemption for their children that was in 1991 dollars—the equivalent of the 1946 Tax Code—the exemption for your children would be worth \$7,000. That means a family of four would not pay any tax up to and including about \$35,000 of income.

We give people in America a tiny \$2,000 IRA account, and if they ever cash it in, we nail them to the wall.

It is a disgrace that this country does not say no tax on income or savings of any low- and moderate-income person as they begin to move from the welfare and unemployment lines, if you will, to work and climb the ladder of opportunity.

The ladder, incidentally, Mr. Chairman, rises as high as it possibly can. There are no limits to how high a man or woman in this country can rise, by and large, if they do it legally, and if they do it obviously in producing either a widget or something that the consumer wants to buy.

The problem is not the ladder's height; the problem is the ladder does not dig deep enough into the pockets of poverty.

As I said, we now have a third-world, socialist, inner-city, welfare economy that is not the fault of the victim; it is the fault of the system, and your efforts to explore avenues of change in the system are to be highly applauded.

Some ideas, real quickly, and then I will try to respond to any questions.

Now, these are all in the President's budget, so I want to assure all my colleagues at the White House in John Sununu's office who are watching me to see that I am politically correct—

[Laughter.]

SECRETARY KEMP. —I said with my tongue firmly planted in both cheeks—

[Laughter.]

SECRETARY KEMP. —that I am not saying anything that is not in the President's budget.

Now, do not get me in trouble, Congressman Solarz. I know you have a quip coming.

REPRESENTATIVE SOLARZ. Well, I was going to say that it appears the manifestations of socialism are to be found not only in the inner cities, but even in the White House, where the Thought Commissar attempts to control the—

SECRETARY KEMP. I brought that on myself, I know.

[Laughter.]

That is what I get for adding a little levity to the occasion.

[Laughter.]

SECRETARY KEMP. But, look, I have plenty of blame for Congress, as I am sure your Party has plenty of blame for the White House.

I am here speaking for the President, and you are here, not speaking for the whole Party, but you have some answering to do when you stop and think that Chairman Rostenkowski has yet to extend the Low-Income Housing Tax Credit that is on the Democratic and Republican platform.

You have some answering to do for the fact that Enterprise Zones has been sitting on the Ways and Means Committee's lap for ten years, as co-sponsored by members of the Black and Hispanic Caucuses, and I got the Conservative Opportunity Society Caucus to co-sponsor it. It ought to be done, and it is an outrage that it has not been done.

We have not extended the R&D tax credit for technology, or investment in research and development.

Mortgage revenue bonds are still sitting on someone's desk over at Ways and Means.

I am not picking on Dan Rostenkowski. I am not picking on anybody.

In the spirit of the occasion, you said you thought that there ought to be less blame and more efforts to find that synthesis, that third way, and in that spirit, I want to say what I think we ought to do.

This is not the final list. I offer it in the spirit of the occasion.

Number one, we should eliminate the tax on the entrepreneur who wants to start a business in a red-lined area of the United States of America.

Charles Rangel said the biggest problem of a minority businessman or woman is setting access to seed corn and venture capital.

Therefore, he wants to—and I support it and the Bush Administration supports it—give an investor in a minority enterprise of an Enterprise Zone a 100 percent exclusion from taxation on the first \$50,000 of investment in the stock, the debenture, or the equity of an Enterprise Zone enterprise.

Many members of your Party are supporters of an earned income-tax credit or a refundable EITC.

I believe we ought to expand the earned income-tax credit so that that woman in Milwaukee, or that man who is unemployed in your District, Mr. Chairman, who takes a job, does not find their income going down because of taxes and loss of welfare. There should be no tax up to 180 percent or so of the poverty level.

Number two, we ought to rapidly and radically alter the access that poor people have to property in the inner cities.

I am trying to do it in public housing. Your friendship and sympathy with this idea is well-known.

I know it causes heartburn on the left, and, frankly, it causes some heartburn on the right.

I am getting accused of being a big government conservative because I want to give people some opportunity to get access to homes, and on the other hand, you would be accused of privatizing public housing.

Somewhere in between these radically different views of the approach to privatizing public housing, or home ownership opportunities in public housing, I think we could come to a conclusion. Yet, for FY 1992, Congress gave us, I think, just 40 percent of the President's budget requests for helping low-income families become homeowners.

I am committed, and President Bush is committed, to creating a million new homeowners among the ranks of low- and moderate-income people by 1992.

I hope we can meet the goal, Mr. Chairman, but frankly it is going to be tough, given the fact that the Congress did not appropriate enough money. They gave us 40 percent of our budget for that.

If you read Michael Scherraden, the Professor of Washington University in St. Louis, who wrote a book called *Assets and the Poor*, the single most important thing he said you can do to fight poverty is to give low-income people on welfare today, which is basically creating a dependency, and give them a chance to get access to property, seed corn, assets, and venture capital. Our whole welfare system should be aimed at not perpetually making people dependent upon Washington, D.C. or the government, but on giving them an opportunity to convert their Section 8 voucher for housing assistance for a downpayment on a home, if that is their choice.

Public housing should be homesteaded, as we are trying to do, and as Lincoln did in the last century.

Unemployment compensation should be allowed to be taken in a lump sum, hypothetically, to put a downpayment on a piece of property, or to maybe start a business.

Did you know, Mr. Chairman, that in Chicago, Illinois, a woman living in public housing had a janitorial service. A businessman, out of the goodness of his heart, gave her a computer. She was accused of welfare fraud because she had an asset that exceeded the AFDC laws.

Any asset is a violation of the welfare laws.

We tell the American people, we want you to save. We want you to be businessmen and women. We want you to go to work, but the welfare system in this socialist economy takes away the asset and the property, and worst of all, takes away the incentive for getting out of poverty.

It is a national disgrace, and I pledge to you, Mr. Chairman, I will do everything I can to work with you and this Committee, on a bipartisan basis, on behalf of the Administration, to do whatever it necessary to alter the conditions in which we have forced people to live in the United States of America.

Finally, a couple of other things.

The low-income housing tax credit has to be extended. I told the Urban Caucus, Mr. Chairman, that I would commit the Administration to that support. The President is committed to it. It is in our budget, and it has yet to be passed by the Congress.

IRAs for downpayments on homes. That is widely viewed as a good idea.

It shocks me that all these good ideas are floating around, but we say that we do not have time in this session of Congress.

Why not, Mr. Chairman?

Enact a Pro-Family tax cut to give families more after-tax income. Downey, Bentsen, Roth, Coates, Wolfe, there is a broad consensus that we need to do something to remove the tremendous burden that is suffocating the families of America.

I am going to stop on this point, Mr. Chairman.

When you stop and think about it, good education, a good job, and a decent home—no matter how humble—is about the greatest avenue and ladder out of poverty that the world has ever known. It has converted millions of immigrants. It worked in our last century. It worked at the beginning of this century.

Unfortunately, the system is not working today. I would hope the debate is not just over spending, because if the debate is over spending, it is going to be a very poor debate.

The debate has to be about what changes we have to make in our tax code, in our policies, in our asset accumulation, in the welfare system, and in health care. With all due respect, while I believe that the poor need to be subsidized in their health care, health care is a jobs issue. Education is a jobs issue. Housing is a jobs issue.

We need, finally, and it would be no secret if Jack Kemp were to bring a chart as to what I think is the most serious consequence of the 1986 Tax Reform Act.

I think we made a serious mistake, Mr. Chairman. I say it with some humility, because Bill Bradley and myself, and Dick Gephardt, and a lot of members of both parties, President Reagan—gosh—I think there was at least near unity, if not unanimity, on the idea of bringing down the tax rates on labor and capital in order to encourage economic growth, and make the system fairer.

We made a mistake.

In one fell swoop, we took the capital gains tax from 20 to 28 percent. We left it unindexed. We removed any consideration of the passive loss investment for real estate being treated with the same conditionality as it is in other investments.

And we literally changed our depreciation schedules and made them longer for investing in real estate and equipment than they were prior to the 1981 Tax Act.

But the good news is that what we did wrong can be corrected.

That is the essence behind the President's desire to cut the capital gains tax rate.

Now, I want to say—only for myself—I do not think we should tax capital gains. I think we should tax income once, or we should not tax it on any asset held longer than 2 or 3 years.

We certainly should not tax it on the inner-city entrepreneur.

But the reason it should be cut to 15 percent, Mr. Chairman, is—and as I said—this is my third closing, but this is the final—as the Rabbi said,

before I speak, may I say a few words—before I conclude with my conclusion, may I conclude with this observation.

The collapse of the new, net business formation, the entrepreneurial sector of our economy, the sector of the economy upon which we depend for jobs, the sector of the economy which exploded in the 1980s, no matter what else you think about the 1980s—putting aside Reagan, or Kemp-Roth, or anything else—the remarkable growth rate was in the small-business entrepreneurial sector.

A *Wall Street Journal* editorialized recently and said, "Minority Enterprise Expanded by Literally Two-Thirds in the 1980s."

More new businesses were formed by African-Americans, Hispanic-Americans—women went into business by a faster rate than ever before in the history of this country. There was an 80 percent increase in Hispanic-owned businesses.

Now, I am going to say something radical. The only way you can create employees is to create employers. The only way you can create new jobs is to create more small businesses. The only way you can create small businesses is to remove the burden on the men and women who create those jobs—i.e., cutting the capital gains tax, which is the highest in the world. We have the highest capital gains tax rate in the world. It is unindexed.

I want to make a case that it ought to be at least 15 percent. It ought to be indexed. But I do not want to miss out on the opportunity to say that, even worse than that, Mr. Chairman, the value of real estate in the Northeast United States, both commercial and residential, according to Alan Greenspan, Bill Seidman, Wayne Angel of the Fed, and others in the FDIC, is causing the cost of the bailout to go up, is causing the revenues of the states to go down. It is causing us to end up in a zero-sum contest between, as David Broder said, the middle class and the poor.

I think it is a free lunch to cut it—a free lunch. It would raise the value of real estate. It would raise the value of financial assets. It would lead to higher revenues for states and cities. It would lead to a reversal of this terrible record of losing new businesses. It would help create jobs.

It would lower the cost of the RTC bailout. And I will tell you what, Mr. Chairman, I want to say, as a member of the RTC Oversight Board, if we do not do something about the high and unindexed capital gains tax rate in the United States of America on the residential property, on commercial real estate, on financial assets, on homeowners, and on entrepreneurs, we are going to end up with an FDIC bailout that exceeds the bailout—well, I cannot say that—it is going to be excessive. It is going to be costly to the taxpayer.

And the nonperforming loans of the portfolios of every intermediary institution from the thrift, from the banks to the insurance companies, is going to cause serious problems for this country.

It is inconceivable to me why we cannot get together on an incentive-oriented tax reform effort to lower the cost of labor, lower the cost of

capital, and help the American family deal with these economic straits, and fight poverty at the same time.

I thank you for your indulgence, Mr. Chairman, and your hospitality.

[The prepared statement of Secretary Kemp, together with charts, follows:]

PREPARED STATEMENT OF HONORABLE JACK KEMP

Mr. Chairman and members of the Committee, thank you for this opportunity to discuss a new war on poverty, and thank you for your leadership in exploring ways to help the poor.

It has been almost three decades since this country first declared "unconditional war on poverty." In that time, poverty has become entrenched as never before in this country, ending its steady decline from 30 percent after the Second World War to 12 percent in 1968. Since the upsurge of social welfare programs – which have doubled as a share of Gross National Product (GNP) – that progress against poverty has stopped. There is no denying the noble intentions of the Great Society, but since the mid-1960s, we have spent \$2.6 trillion on a war on poverty – and poverty appears to be winning.

I would be remiss if I did not point out that poverty numbers are deeply distorted by the fact that the Census Bureau does not count in-kind welfare payments, such as food stamps, housing and Medicaid, and a significant portion of AFDC. In fact, the Census misses over \$11,000 in benefits per household, according to Warren Brookes.

But the poverty numbers also don't reflect the critical consequences of the breakdown of the traditional American family, as increasing numbers of Americans in poverty are in one-parent homes with no one working at all. In fact, in 1959 28 percent of poor families were headed by women. Last year, 62 percent were headed by single mothers. Nearly all welfare programs today subsidize that type of family, which actually promotes a rising poverty rate.

If one steps back and examines some of the orthodox notions about fighting poverty, one can see why they have not succeeded, and indeed why we have created more poverty.

How do countries cause poverty? What policies and principles destroy the economy and cities and make people dependent on government? Let me offer some suggestions:

- o Impose steeply graduated tax rates on labor and capital, leave them unindexed as well, and then allow inflation to push people into ever higher tax brackets that are confiscatory.
- o Reward welfare at a higher level than working.
- o Tax the entrepreneur who succeeds in the legal economy -- while permitting the underground and untaxed economy to flourish.
- o Reward people who stay in public housing more than those who want to move up and out into private housing and homeownership.
- o Give a greater reward to the family that breaks up, rather than to the family that stays together and remains intact.
- o Encourage debt and spending rather than saving, investing and risk taking.
- o Finally, destroy the link between effort and reward.

Mr. Chairman, we have effectively created two economies in this country. One economy – the mainstream economy – is democratic capitalist, market oriented, entrepreneurial, and based on private property. It offers incentives for working families

and rewards work and investment, productivity and saving. Indeed, incentives abound for productive economic and social behavior.

It was this economy, triggered by the income tax rate cuts in 1981, that generated 21.5 million new jobs, more than four million new businesses including record increases in the number of minority-owned businesses, relatively low inflation, and a higher standard of living for most people. This economy created more jobs in the last decade than all of Europe, Canada and Japan combined. The GNP grew by a third and revenues increased by 40 percent. And according to the U.S. Treasury, federal income taxes paid by the top one percent of taxpayers surged by more than 80 percent from 1981 to 1987. In 1980, the wealthiest five percent of Americans paid 35 percent of income taxes, and after the tax cut they paid 46 percent, and the top 50 percent of earners accounted for 95 percent of total income tax collections.

But there is another economy – a second economy that is similar in many respects to Third World or Eastern European socialist economies. It functions in a fashion opposite to the democratic capitalist economy, indeed it is neither capitalist nor democratic. It predominates in the pockets of poverty throughout urban and rural America. This economy has barriers to productive social activity, and a virtual absence of economic incentives, rewards or private property. It denies black, Hispanic and other minority men and women entry into the economic mainstream as much as Jim Crowism did after the Civil War. It stresses dependency over independence; subsistence over self-sufficiency, and literally has eliminated the link between effort and the reward for productive human activity.

The irony is that the second economy was born of desire to help the poor, alleviate suffering and provide a basic social safety net. The results were a counterproductive economy and a counter-intuitive welfare system aimed at perpetuating poverty, instead of the springboard to prosperity that was the hallmark of the American dream.

Mr. Chairman, the 1980s were a decade of renewal and opportunity. But not for everybody. This is the worst of times for people who can't afford to buy their first home; for people without jobs, who are homeless, who are trapped by drug addiction, who are living in despair. I believe, Mr. Chairman, that the most important way this nation can combat despair, poverty and hopelessness is to use the tools of democracy, homeownership and entrepreneurial capitalism as a ladder for upward mobility.

Let me outline some ideas for a national agenda to help low-income people and our nation find the keys that will help unlock the shackles on growth, hope and opportunity. Many of these items are contained in the President's growth and empowerment agenda, and many are supported by members of Congress on both sides of the aisle:

- o Eliminate the capital gains tax in distressed urban and rural communities that we would designate as Enterprise Zones, to help expand ownership of business and create new jobs.
- o Use housing policy to expand homeownership opportunities for low-income and minority families through resident management, urban homesteading and privatization of public housing and other properties; increase the use

of tenant-based assistance; and implement self-sufficiency programs to promote greater choice, dignity and asset accumulation.

- o Eliminate the excessive tax rates on persons trying to leave welfare and take jobs. Today, those who attempt to leave welfare face the highest marginal income tax in the United States.
- o Encourage homeownership by allowing first-time homebuyers to use their IRAs for downpayments, without tax penalty.
- o Increase the supply of affordable housing for minorities and the poor by extending the low income housing tax credit (LIHTC).
- o Foster quality education by expanding educational choice through magnet schools, tuition tax credits, educational vouchers and family choice.
- o Enact a pro-family tax cut to give families more after-tax income in order to reduce financial pressures, to help families keep more of their resources to take care of their children, and to help them break free of government assistance."
- o Cut the capital gains tax rate to launch a new decade of economic growth, capital formation and job creation.

Let me address some of these issues in more detail.

First, Enterprise Zones. We need to greenline for success those areas of our country that have been redlined for failure. President Bush has again asked Congress to establish 50 Enterprise Zones in which the capital gains tax would be eliminated completely. Enterprise Zones have proved themselves at the state level, through they are

just a glimmer of what could be achieved with the power of Federal initiatives. Enterprise Zones would directly benefit those who need the basic commodities of an economy: Jobs and a steady income. Enterprise Zones would create rungs on the ladder of opportunity for those residents who are below the poverty line.

Second, is a radical new direction in housing and welfare policy. When I became Secretary of HUD, I made a commitment to wage war on poverty by using the resources of the Department to expand homeownership and affordable housing opportunities; to empower the poor through resident management and urban homesteading; to fight homelessness; and to create jobs and economic development. These activities are at the very heart of HUD's historic mission to fight poverty. But Mr. Chairman, this Department and the Bush Administration have intended from the outset not to be constrained by the traditional means of fighting poverty that have become grossly inefficient and that have placed low-income families on a treadmill of endless poverty and dependence.

We clearly recognize the need to provide basic shelter assistance to the millions of families who live in substandard housing, are faced with homelessness, or who pay large portions of their modest incomes for rent. However, this Administration does not buy the argument that poverty is a permanent or perpetual condition. We have proposed programs and budgets intended to redirect housing policy back to the poor and low-income families who are the intended beneficiaries of HUD programs, with the goal of ending poverty and dependence.

To an extent, we have had the cooperation of Congress in this effort. Congress authorized the Administration's HOPE Grants proposal to enable low-income families and tenants to become homeowners with a stake in their communities. HOPE is intended to break the cycle of poverty, dependence and despair that has entrapped low-income families, and to replace it with access to assets, private property and opportunity.

The most successful asset-based anti-poverty program in American history got underway a hundred years before the Great Society. It was Abraham Lincoln's Homestead Act of 1962. Homeownership is the classic path to the American dream. The median net worth of homeowners in 1984 was 30 times that of renters. Homeownership is a fundamental building block of prosperity in America. It is no different for the poor than for the middle class.

Congress also approved the Administration's Shelter Plus Care initiative to expand community-based mental health facilities, drug abuse treatment, job training and day care to help the long-term homeless get the shelter and support services they need to re-enter the mainstream economy. It also approved the Administration's Family Self-Sufficiency program to link Section 8 and public housing assistance with job training, education and other assistance to provide residents with opportunities for upward mobility.

Unfortunately, the promise of some of these new directions in housing was not matched by the performance of Congress in appropriating the funds for them. Because Congress approved only 40 percent of the authorized amount, we will have to settle for great deal less than we had hoped, the opportunity for homeownership will be delayed or denied for thousands of low income families, and we will have greater difficulty meeting

our goal of 1 million new homeowners by 1992. Congress also funded both the Shelter Plus Care program at a small fraction of the Administration's request.

At the same time Congress chose to protect the status quo. It ignored the evidence that housing vouchers and certificates will meet the affordability requirements of most families with "worst case" housing needs and at the same time give low-income families greater choice of where to live. Instead, it funded public housing new construction, which will create one-half as many units of housing as a comparable amount of tenant-based rental assistance. It even waived the matching requirement for the new HOME program, which was intended to provide a preference for more efficient tenant-based assistance and light rehabilitation over new construction. Congress even stripped the Department of its ability to implement rules that would have stopped the awarding of public housing operating subsidies to inefficient public housing authorities for the maintenance of vacant public housing units.

Third, we must help welfare recipients move to economic independence. If a woman on welfare in New York with two children, or a father who is unemployed takes a job, their income goes down. The startling fact in America today is that the highest marginal tax rates are being paid not by the rich, but by welfare mothers and unemployed fathers who want to take a job. In most cities, a welfare mother with two children would have to earn \$18,000 to \$20,000 in a private sector job to earn the equivalent of the average tax-free welfare payment.

But the loss of income is not the only barrier. According to the Wall Street Journal, when a woman in Milwaukee, Grace Capetillo, accumulates a small savings

account as a nest egg to help send her daughter to college, she is legally guilty of "welfare fraud," and faces a \$15,000 fine. Tell me how it's possible to run a welfare system which tells people that if you work and produce and invest your time and your talent and your energy, you're going to me worse off. There is no link between effort and reward. People who come off welfare should not face higher marginal tax rates than the wealthiest of our citizens. Savings and assets should not be penalized but encouraged.

Other initiatives. The President's "Excellence in Education" Act which makes choice among public and private schools the centerpiece of improving America's education, has not been passed by Congress. But I believe this Committee should look closely at choice in education for inner city schools where poor people are far too often trapped in second rate schools.

The President's empowerment agenda also includes IRAs for first time homebuyers to help young families accumulate savings for downpayments on their first homes. It includes more authority for states to experiment in welfare reform at the state level, such as Governor Tommy Thompson in Wisconsin.

Last, Capital Gains. Mr. Chairman, I read an interesting column by David Broder in Sunday's Washington Post concerning the serious budget shortfalls being faced by states from Maine to California. States governments everywhere are running out of money and are proposing drastic cuts in state services -- employee layoffs, reductions in aid to education and aid to local governments, and abolition of state agencies. The states responded to low revenues by raising taxes, and when the economy did not respond, they were forced either to cut services or raise taxes again.

The culprit in the Broder piece is, of course, the Federal government, the failure of whose economic policies has crippled the capacity of state and local governments to meet their responsibilities.

Mr. Chairman, budget deficits are a clear indicator of slow economic growth, and the Federal government is to be blamed for that. But the answer to the problem of slow growth of the economy, at the most fundamental level, is not finger pointing but an action that will unleash the pent up forces of our economy, namely a reduction in the capital gains tax.

Mr. Chairman, one reason for supporting a capital gains tax cut is that such a cut would benefit the states. This is not a revelation. The capital gains tax is effectively a transaction tax which can be avoided by not transacting. This is called the "lock-in" effect, and as a result of the 1986 Tax Reform Act, capital gains have been treated as ordinary income. The tax is effectively the highest it has ever been for almost all Americans, and because of the inflation of the last 20 years, many of the capital gains are not real. One part of the problem for government finance is that the lock-in cuts the tax flow.

The other part of the problem is that high capital gains taxes reduce the value of all capital assets – stocks and bonds, commercial real estate and residential property. Assets that must face a prohibitive capital gains rate are worth less than those facing a lower rate, such as the 15 percent rate proposed by the President. The rise in property values would increase revenue streams to even the smallest school district and unlock and increase the value of capital assets.

Mr. Chairman, it was not Jack Kemp or Ronald Reagan or George Bush – but President John F. Kennedy – who said almost 30 years ago: "It is a paradoxical truth that tax rates are too high today and tax revenues are too low – and the soundest way to raise revenues in the long run is to cut rates now."

Assets, as well as income, are the key to escaping poverty. Only assets appreciate over time, providing a cushion during hard times and a foundation for risk-taking. Assets become a catalyst for entrepreneurship and new wealth. The entrepreneur who uses his talent, intellect and labor to provide a new product or service is the primary source of economic growth and wealth creation in this country. Instead of seeking to redirect the way wealth is distributed, we must create the conditions that create wealth in the first place.

The most important thing we can do to help those in poverty help themselves is to reduce the cost and increase the flow of capital. You cannot create new employees without first creating new employers. The tax on capital is a tax on the ability of Americans to create new wealth. Stifling tax rates on capital gains have driven up the cost of capital to the point where we have a "capitalistic economy with no capital." The Administration sees it as a tax on innovation, risk-taking and job creation, and thus as a tax on the poor, the jobless and the future of the nation.

Under the current capital gains tax we will have to continue to settle for a meager 1 or 2 percent growth in the economy each year, at a time when we need a decade of 4 or 5 percent annual growth.

Experience and common sense show us that an expanding economy increases income to the government, as well as providing opportunity and a better life for our people. Government revenues steadily increased in the 1980s, and there is no reason to stop there. Even sustained, modest 4 percent increases in economic growth will double the size of the economy to \$10 trillion during the next decade and sharply increase revenues which will be available to develop infrastructure and help educate our children, and reduce the deficit. The alternative, Mr. Chairman, is the loss of jobs alone is simply unacceptable.

From 1978 to 1986, when the capital gains tax rate was incrementally reduced from 49 to 20 percent, investment seed capital – the lifeblood for the entrepreneur – increased almost a hundred-fold. At the same time, Federal revenue from capital gains nearly quadrupled from the jump in economic activity. Moreover, the number of black-owned businesses soared during this golden age of venture capital, increasing by more than a third in just four years. Blacks, Hispanics and other minorities have the most to gain from a capital gains tax cut because they have most of their capital gains ahead of them.

Abraham Lincoln said in a speech more than 130 years ago: "I don't believe in a law to prevent a man from getting rich; it would do more harm than good. We wish to allow the humblest man an equal chance to get rich with everyone else. When one starts poor, as most do in the race of life, free society is such that he knows he can better his condition; He knows that there is no fixed condition of labor, for his whole life. I want

every man to have the chance, and I believe a black man is entitled to it – in which he can better his condition – when he can look forward and hope to be a hired laborer this year and next, work for himself afterward, and finally hire men to work for him. That is the true system."

There are not enough minority businessmen and women in America, despite the large increases of the 1980s – 80 percent for Hispanic businesses, 60 percent for Asians and nearly 50 percent for Black-owned businesses – there are today less than 500,000 black-owned businesses and not enough Hispanic-owned businesses. John Jacob's speech on the "State of Black America in 1989" stated that there were only about 300,000 Black entrepreneurs in 1982, about 2 percent of all small businesses. And Black Americans, which comprise 13 percent of the population, own only one-half of one percent of the Nation's \$29 trillion of capital stock. There are 14.1 million small businesses in America, and we want minority business people to have the same opportunity to realize their dreams as other Americans in the free-enterprise system have. Our goal should be no less than to double the number of minority-owned businesses by the end of this decade.

It was surprising to some that when the President and I visited the Cochran Gardens Tenant Management Corporation in St. Louis in May, the President was applauded when he called for a reduction in the capital gains rate. But the people of Cochran Gardens have a far better understanding of what it takes to succeed in the free market than those who have never known what it's like to be locked out, kept down, and held hostage by the second economy. They understood the President's message, because they know who will benefit from lower capital gains taxes.

Taken together, all of these pieces represent an ambitious agenda and a new direction in domestic policy that can empower the poor and expand opportunity.

In the last meeting of the President's Task Force on Economic Empowerment and Opportunity, we considered ideas that should take us even further. I'm happy to see that many Congressmen agree with me that we need to change our welfare system towards self sufficiency, work, and business development. In this regard, the Task Force is considering alternatives that might allow persons on AFDC and other federal subsidy programs to accumulate assets and achieve greater self-sufficiency.

At HUD we are also looking at some dramatic new changes in public housing. The Wall Street Journal recently wrote of the enormous problems in public housing; the bureaucratized system of distressed PHAs, excessive staffs, and huge subsidies to the tune of \$5 billion per year with little to show for the money. Bob Woodson has called it "the silent scandal" and issued a study of management abuses in public housing.

HUD is going to address these problems aggressively with some radical changes to create what we call "perestroika in public housing " – building on our HOPE program. The initiatives we are looking at will help bring choice, competition, and competence into public housing.

Finally, I would be remiss if I didn't point out the good work which many are doing on the right and the left on pro-family tax policy. The National Commission on Children suggested a higher children's tax credit or exemption. Senator Bentsen has made a positive proposal on the children's tax credit. The Heritage Foundation, American Enterprise Institute, and the Progressive Policy Institute have all recommended

variations of this idea. The Republican Platform has recommended higher exemptions for families for more than 8 years. But the principle is a sound one -- allow families to keep more of their own income to raise children, to pay for health care, to pay for college education, and the need for government support will drop accordingly.

I've attached a chart on the family exemption demonstrating that the exemption would be worth over \$7,000 today had it kept up with rates of inflation and income growth in the post World War II period. It seems to me that this is not only something which is important from a fairness standpoint, but by bolstering the family structure our nation's social and economic fabric would be strengthened.

Mr. Chairman, I also see positive signs that Congress is beginning to take seriously both the importance of stimulating growth and creating jobs and opportunity through improvements in the tax code. Members on both sides of the aisle from Phil Gramm, Bob Kasten, Lloyd Bentsen and Pat Moynihan in the Senate, and from Newt Gingrich and Vin Weber to Tom Downey and Charlie Rangel in the House have introduced tax cutting bills that deserve serious attention.

Just as important, however, is the fact that members on a bipartisan basis are beginning to question the ability of the current welfare system to encourage initiative and reward work and responsibility. I want to commend Vin Weber and members of the House Wednesday Group for examining this issue in depth. But I want to give special mention to a Democratic Congressman from the Mississippi Delta, Mike Espy, who happens to be a rising young leader in the Black Caucus. He has made a particular commitment to providing incentives for the accumulation of assets as the route to

opportunity and economic independence. I mention Mike Espy not just because he led a group of 66 House Democrats who supported increased HOPE funding, but because he speaks from the heart about a wide range of new approaches -- like microenterprises and self-employment -- to helping those who are poor, because the old ways simply don't work.

The Congressman said recently: "...it's time we adopted policies which help the poor move from dependency -- to independence. It's time we adopted programs which help them move from subsistence -- to self-sufficiency. It's time we stopped merely giving people fish, and taught them how to fish, and helped them get a rod and a reel." He went on to say that he learned as a child growing up in the Mississippi Delta that he who controls your home, controls your life.

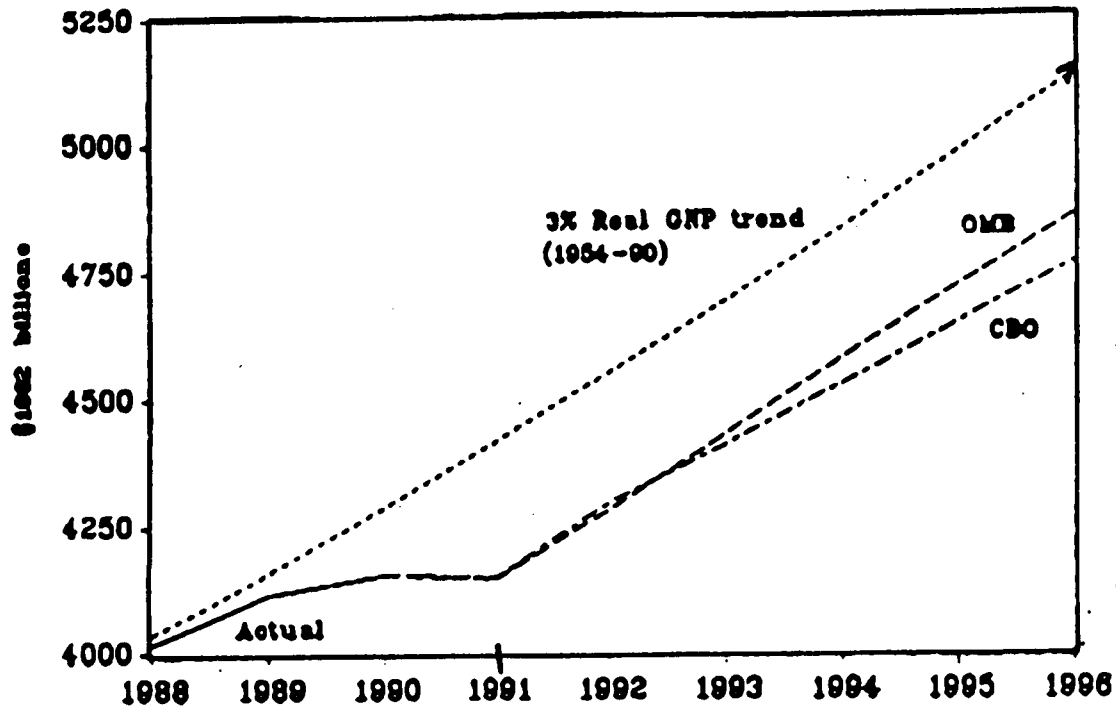
Let me make it clear that one does not judge success in fighting poverty by the number of people we are able to assist, but by the number that have moved out of poverty -- those who have access to housing and homeownership, jobs and opportunity. The premise behind Enterprise Zones, HOPE, capital gains tax reduction and the whole range of "empowerment" strategies is that where life liberty and the pursuit of happiness are concerned, all Americans -- rich and poor -- are equally endowed to be architects of their own self-creation. We have a moral and political obligation to use democratic capitalism to fight poverty, and we can win that war.

I know there is a debate over the timing of new tax and economic growth initiatives. In my view -- and I am speaking for myself as chairman of the President's Economic Empowerment and Opportunity Task Force, as Secretary of HUD and as a

former colleague of yours who is deeply concerned about increases in unemployment and poverty, the decline in the value of residential and commercial real estate values, the slowdown in housing starts and the dramatic rise in barriers to affordable housing – the hour is late. I urge the Congress to move expeditiously to put jobs, growth, hope and equality of opportunity back into our national economy and to engage in radical perestroika of our inner city welfare economy. I pledge the cooperation of every member of this Administration to work with you to that end.

REAL GNP, TREND & OMB/CBO PROJECTIONS

336



Source: Bear Stearns

AMERICA'S "SOCIALIST" SECOND ECONOMY

How Welfare and Tax Policies

- o penalize marriage**
- o discourage work**
- o prohibit savings and assets**
- o smother entrepreneurial capitalism**

Turning Low-Income Communities into Poverty Traps

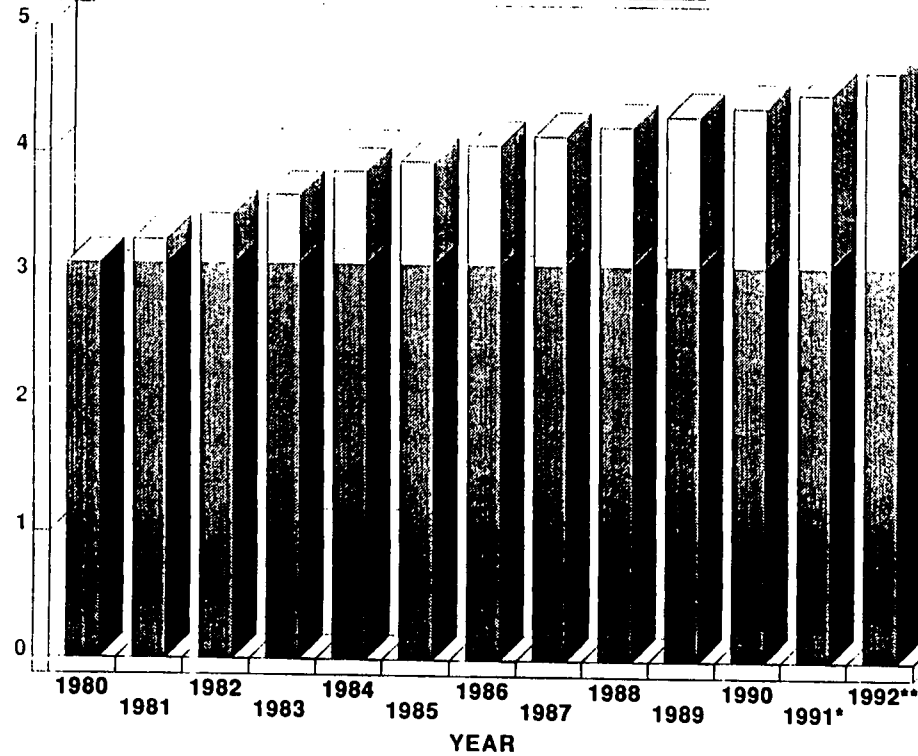
Legislative Status of the Bush Empowerment and Opportunity Agenda

	Legislation Introduced	Passed by Congress	Signed by President	Appropriations Passed by Congress	Appropriations Signed by President
Educational Choice & Flexibility:					
Excellence in Education					
Housing:					
HOPE (including HOME, Shelter Plus Care)					
IRA's First-Time Homebuyer					
Job Creation and: Economic Growth					
Capital Gains Tax Cut					
Enterprise Zone & Job Creation Act					
Community Opportunity Act					
Social Security Test Liberalization					
Anti-Discrimination:					
Bush Civil Rights Act					
Crime:					
Crime Control Act					

Reagan-Bush Record

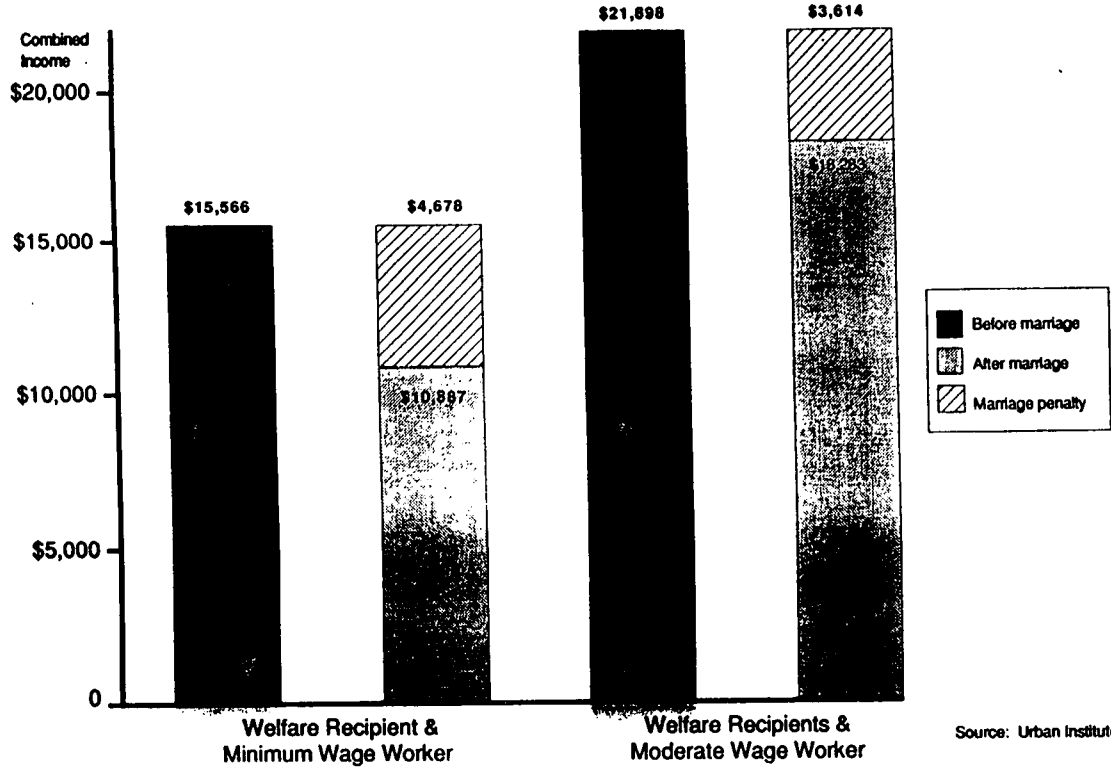
Number of Families Assisted
Under HUD Programs

Millions



* Estimate
** Estimate includes
units for HOME

Marriage Penalty for a Single Parent on Welfare with Two Children



**MARRIAGE PENALTY FOR A SINGLE PARENT ON
WELFARE WITH TWO CHILDREN**

Welfare Recipient and Minimum Wage Worker

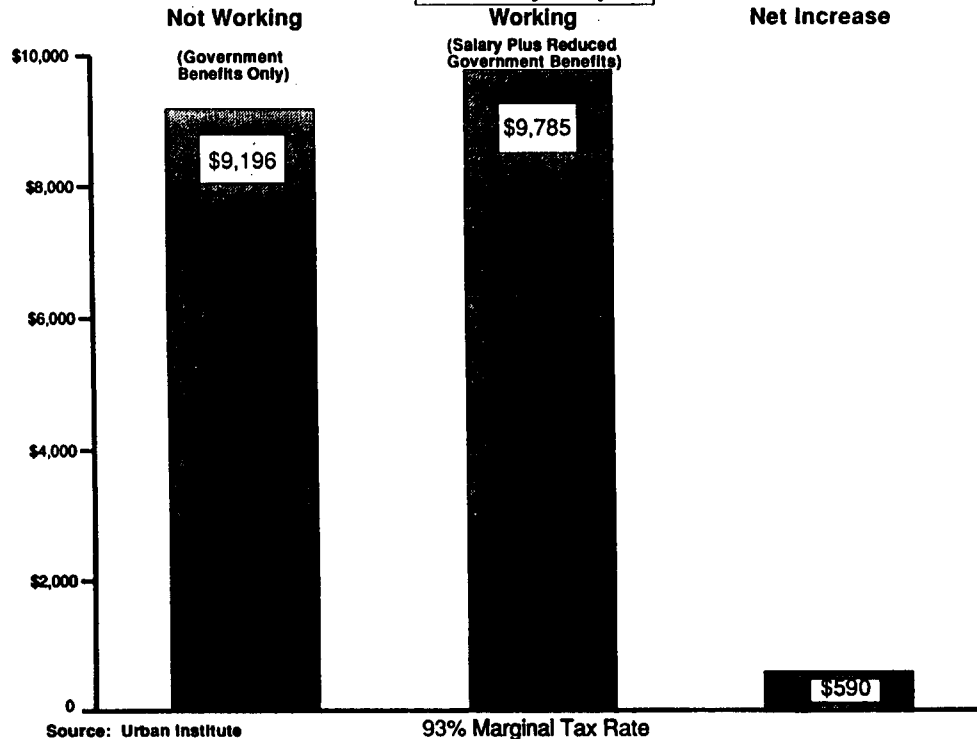
- o The welfare income of a mother with two children is approximately \$9,196 under current law; the income from a minimum wage job is approximately \$6,370 (\$8,500 minus \$2,130 for work expenses and taxes).
- o After marriage, one might expect the income of this household to be the total of \$9,196 and \$6,370, or \$15,566. However, because of the marriage penalty built into our American welfare system, the income for this family is reduced to \$10,887!
- o The decrease of combined income (welfare and minimum wage) is \$4,678. An income reduction of 30 percent for just getting married!

Welfare Recipient and Moderate Wage Worker

- o Assuming the same welfare income of a mother with two children (\$9,196 under current law) and the income of a moderate wage worker of \$12,702 (\$15,000 minus \$2,298 for work expenses and taxes), one would expect the income of this household to be \$21,898.
- o However, because of the marriage penalty, the income for this family is reduced to \$18,283.
- o The decrease of combined income (welfare and minimum wage) is \$3,614. An income reduction of 16.5 percent for getting married!

Work Penalty for a Single Head of Household on Welfare with Two Children

\$8,500/year job

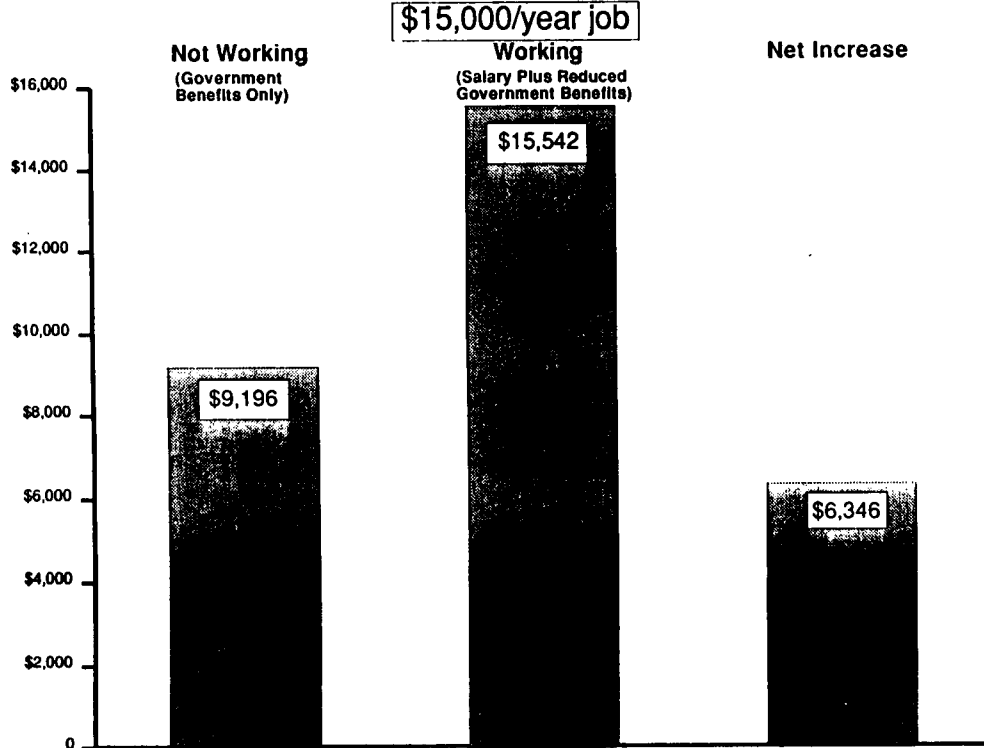


**WORK PENALTY FOR A SINGLE
HEAD OF HOUSEHOLD ON WELFARE WITH TWO CHILDREN**

\$8,500/YEAR JOB

- o The average annual income of a welfare mother with two children is \$9,196. (This amount includes AFDC, Medicaid, and Food Stamps.)
- o After taking a minimum wage job of \$8,500, the family's after tax, after job expenses, combined welfare and minimum wage income grows to only \$9,785!
- o This is an annual net increase of \$590 in combined welfare/minimum wage income for a head of household that just got an \$8,500 a year job.
- o The result is an effective marginal tax rate of 93 percent for taking a minimum wage job! A welfare recipient effectively retains only 7 cents for every dollar earned!

Work Penalty for a Single Head of Household on Welfare with Two Children



Source: Urban Institute

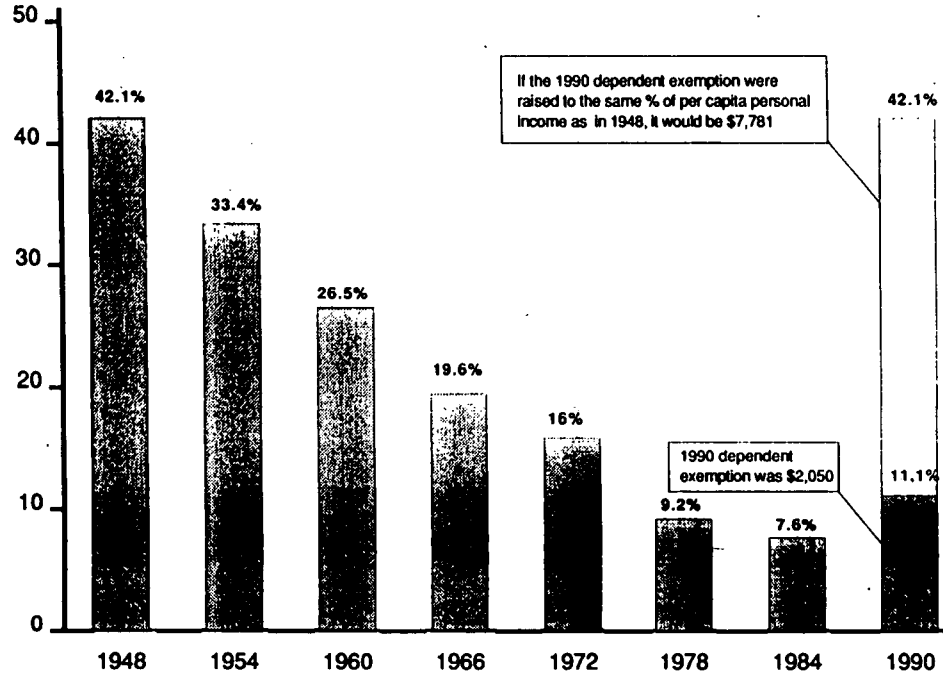
58% Marginal Tax Rate

WORK PENALTY FOR A SINGLE
HEAD OF HOUSEHOLD ON WELFARE WITH TWO CHILDREN

\$15,000/YEAR JOB

- o This graph assumes again that the average annual income of a welfare mother with two children is \$9,196. (This amount includes AFDC, Medicaid, and Food Stamps.)
- o After taking a moderate wage job of \$15,000, the family's after tax, after job expenses, combined welfare and minimum wage income grows to \$15,542!
- o This is an annual net increase of \$6,346 in combined welfare/moderate wage income for a head of household that just got a \$15,000 a year job.
- o The result is an effective marginal tax rate of 58% for taking a moderate wage job. A welfare recipient taking a moderate wage job effectively retains only 42 cents on every dollar earned!

Dependent Exemption as a Percent of Per Capita Personal Income, 1948-1990



Source: Urban Institute

**DEPENDENT EXEMPTION AS PERCENT OF
PER CAPITA PERSONAL INCOME, 1948-1990**

- o In 1948, the exemption per child for filing taxes was \$600 per person, representing approximately 42.1 percent of per capita income.
- o By 1990, the exemption per child was \$2,050, representing only 11.1 percent of per capita income.
- o In order to keep pace with inflation and maintain the dependent exemption/per capita income percentage of 42.1 percent in 1948, the 1990 exemption per child would have to be \$7,781.
- o Over time, the American tax system has actually reduced the tax incentive to have children!

REPRESENTATIVE SOLARZ. Well thank you very much, Mr. Secretary.

I appreciate both the passion as well as the precision. You have offered quite a few suggestions here, and I want to take a little bit of an opportunity to explore some of them with you.

But let me begin by first attempting to establish what I think may be some common ground.

I assume you would agree, based on your testimony, that while economic growth is essential as part of any longer term effort to dramatically diminish the level of poverty in this country, the experience of the 1980s would seem to strongly suggest that economic growth alone is not likely to solve the problem?

SECRETARY KEMP. Economic growth alone will not solve the problem of the intractable level of poverty that grips these pockets of despair. You are right.

REPRESENTATIVE SOLARZ. Second, it is——

SECRETARY KEMP. But it is an essential ingredient, Mr. Chairman.

REPRESENTATIVE SOLARZ. Right. Well, I think we agree on that point.

What I want to do, just at the outset, is to establish some areas of agreement, and then move into some of the precise proposals that you have made.

SECRETARY KEMP. All right.

REPRESENTATIVE SOLARZ. Second, I assume you would agree that most of the poor people in this country are not on welfare? That while all people on welfare are poor, the majority of the poor are not on welfare? And, in fact, the majority of the poor people in this country are the working poor, as distinguished from the nonworking poor who are by and large on welfare?

SECRETARY KEMP. May I offer just a quick observation?

I talk about "poor people" or "low-income people." I think it is very dangerous to get into the type of thing that the Census Bureau got into, where they start defining someone as "poor" and someone as "working poor," because, ultimately, if you look at people in terms of this—almost a perpetual condition—you begin to think of them as perpetually dependent upon it.

The reason I do not want to say that I totally agree with that is because I was the one that introduced Alice Frazer to the Queen. The Queen has five palaces. She comes into Alice Frazer's home, and Alice Frazer gives her a big hug, and so the British press was just aghast at it and said, "Well, why did you hug the Queen?"

She said, "Well, I wanted the Queen to see my palace."

Now, Alice Frazer is not—she statistically is poor, but she is not poor. She thinks she has a palace because she owns her own two-bedroom, one-bath home over here on Drake Place in Southeast Washington, D.C.

The statistics, Mr. Chairman, are skewed because there are a lot of people who are elderly that are cash poor, but they are middle-class property owners.

There are a lot of people that the Census Bureau counts as "poor" who have some assets.

So, I think, according to the Heritage Foundation and Warren Books, the Census Bureau missed over \$11,000 of benefits to households that is not even counted. So, we have to be very careful before we make these statistical analyses.

REPRESENTATIVE SOLARZ. There is an entirely legitimate debate over what ought to be the appropriate criteria for "poverty." But we are not going to resolve that debate right now. There is an established definition of "poverty."

SECRETARY KEMP. Yes.

REPRESENTATIVE SOLARZ. It is the basis on which we have judged it for roughly 30 years. And until such time as we have an agreed-upon change in the definition, I think, for the purposes of analysis, it is best to stick with that definition.

SECRETARY KEMP. I definitely think, though, Mr. Chairman, I have to make this point again, we have to count in-kind benefits.

REPRESENTATIVE SOLARZ. Yes, but the problem with counting in-kind benefits, Mr. Secretary, and it may well be that in a revised definition of "poverty," in-kind benefits should be included. I am inclined to think some of them should be. But the problem is that there are other missing dimensions to the problem. For example, as you probably know, the Poverty Index was formulated by Molly Orshansky in the mid-1960s, and it was based on a calculation that the poverty rate would be established by taking the minimal cost of a nutritious diet for an individual and then multiplying it by three because they had done some studies, which indicated that the average family spent one-third of its income on food.

Since that time, the percentage of the average family's income spent on food has declined considerably. So, there are very serious reservations about whether the Orshansky formula is adequate.

But using that formula which has been the basis for calculating poverty in the country—I think it is statistically unassailable, and I assume you would agree—the majority of the poor people in the country are not currently on welfare?

I assume that you would agree also that the majority of poor people in the country do not live in inner cities? Although the inner-city poor is a significant component of the problem, they are not by any means the totality, and they are not even a majority of the problem.

Would you agree with that? That there are many rural poor?

SECRETARY KEMP. I agree with that.

REPRESENTATIVE SOLARZ. There are many people living in metropolitan regions, but not in inner city—

SECRETARY KEMP. I agree with that. I have been to the Mississippi Delta, and there is grinding and abject poverty, as well.

REPRESENTATIVE SOLARZ. Now, you indicated that we needed growth—

SECRETARY KEMP. Yes.

REPRESENTATIVE SOLARZ. —and you also indicated that we needed to sustain the safety net. I agree with both of those.

But it seems to me, and I think you have also indicated in your prepared testimony, or in an article you wrote that I saw, that when President Bush criticized the War on Poverty, he did not mean to indict every antipoverty program; some of them clearly have worked. Granted that many of them have not.

But of those that have worked, I can think of two in particular—Head Start, which seems to be a big success, and the Chapter 1 program that provides remedial assistance in reading and math for students that are considered—

SECRETARY KEMP. Title I, right.

REPRESENTATIVE SOLARZ. —economically and educationally deprived.

SECRETARY KEMP. Yes, sir.

REPRESENTATIVE SOLARZ. I am struck by the fact that in spite of the success of these programs and in spite of the fact that a substantial percentage of the young children in the country, who meet the economic criteria, are qualified for Head Start, do not benefit from these programs because there is not enough money for them.

I would have thought that an essential element of any comprehensive antipoverty strategy would be full funding for these programs, particularly since full funding would not exactly break the bank.

I did not hear any references to this in your own testimony or, if I recall it, in your prepared statement. But I am interested in how you would feel, as part of a comprehensive anti-strategy program, about supporting full funding for Chapter 1 and Head Start.

Do you think that makes sense?

SECRETARY KEMP. Yes, I think it makes sense. Absolutely.

Look, I am in a peculiar position, Mr. Chairman. I am the HUD Secretary who is talking about issues that cross a lot of different agencies. But as the President's Chairman of the Economic Empowerment Task Force, I cannot disagree with your statement about education.

In fact, I mentioned in my testimony everything from magnet schools ... when I was in the Congress, you and I, and Barber Conable, and others got an emergency funding level for Title I and Magnet School support. So, I am a strong supporter of that and Head Start. I would like to see Head Start in every public housing community in the United States of America.

I cannot imagine having a public housing community without Head Start, day care, social services, job training, and giving the contracts for rehabilitating the existing public housing to minorities and the children who live there.

We are trying to do that with a new program called "Step Up."

So, I strongly support that.

But the point I made, Mr. Chairman, is an important one. It is a zero-sum budget process when you focus only on—not "you," but the country—spending and deficits to the exclusion of the growth of the

economy, that it becomes Head Start versus the suburbs; Title I versus something else; or housing versus the space program.

Goodness gracious. What has America come to when we have a debate over legitimate spending priorities, and everybody thinks it is a giant game of musical chairs.

REPRESENTATIVE SOLARZ. Well, let me then——

SECRETARY KEMP. I think somebody has to look at the denominator, which is the size of the GNP.

REPRESENTATIVE SOLARZ. Well, you have put your finger on what I think is a very serious problem. I suspect that you and I could devise a comprehensive antipovertry strategy which would include tax incentives to facilitate economic growth, but which would also include an effort to strengthen the safety net——

SECRETARY KEMP. Yes.

REPRESENTATIVE SOLARZ. ——to remove disincentives for people on welfare——

SECRETARY KEMP. Absolutely.

REPRESENTATIVE SOLARZ. ——to go out and earn money, which would provide full funding for better educational opportunities for young people in need; which would provide child-care allowances that, in and of itself, would probably do more to dramatically lower the poverty rate in the country than anything else——

SECRETARY KEMP. A child care tax credit would do——

REPRESENTATIVE SOLARZ. No, I meant a child allowance.

SECRETARY KEMP. Oh.

REPRESENTATIVE SOLARZ. The kind of program that you, I thought, had conceptually endorsed, that Mr. Downey and others have talked about. We could probably do all of that.

But the bottom line would be that it would result in a reduction in revenues because of some of the tax incentives, and it would also result in an increase in expenditures. Because if you fully fund Head Start, you fully fund Chapter I; you do some of the other things that would be necessary to strengthen the safety net, and you would increase expenditures.

That appears to be incompatible with the budget agreement that we have. How do you deal with that conceptually and politically?

SECRETARY KEMP. Well——

REPRESENTATIVE SOLARZ. I mean, even if in the long run it might produce economic growth and partially pay for itself, how do you deal with it? We are locked into this budget agreement right now.

SECRETARY KEMP. Well, it is no secret how I felt at the time about the so-called 5-year budget agreement. I am a strong supporter of and defender of, and participant in, an Administration which agreed to the budget deal.

The Congress did not come in kicking and screaming. There are a lot of members of your Party who loved it as a way of reducing deficits and getting control over expenditures, or cutting defense and raising taxes. I

do not know, but frankly, Mr. Chairman, if I am slowing down here, it is because I am on very thin ice.

REPRESENTATIVE SOLARZ. Could I—

SECRETARY KEMP. I feel a sense of urgency.

I want to make this point, if you would give me a moment, Steve. I have a chart in my testimony on the last page which shows how the economy is growing and the projections under OMB and CBO until 1996.

Then, it has a dotted line as to what the economy would be at 3 percent, which is below the postwar Truman, Kennedy, Nixon, Reagan growth rates.

I want to make the point that the difference between the dotted line on real GNP growth of 3 percent per annum until 1996 and the projections of OMB and CBO amounts to \$2 trillion of GNP—6 million jobs—and about \$75 billion of revenue.

So, the reason I am focusing on the size of the pie is because there are so many people focusing on spending and deficits and debt to the exclusion of the denominator, which is the size of the GNP.

The question today before us is not just what to do about Head Start, or day care, or the Downey tax cut, or the Kemp/Bush proposal. The question is not getting out of the recession or jump-starting the economy. The question is what kind of an economy, what kind of a pie, will we have by the end of the century that will support and sustain the revenue base of this country, to do what you want to do, and what Downey wants to do, or Kemp wants, and to do to get this country back on a chart—

REPRESENTATIVE SOLARZ. Right. Mr. Secretary—

SECRETARY KEMP. —toward full employment, no inflation, and waging war on poverty.

REPRESENTATIVE SOLARZ. Mr. Secretary—

SECRETARY KEMP. We cannot do it in the current debate where David Broder says that every single city and state in the country is having to reduce expenditures and raise taxes.

REPRESENTATIVE SOLARZ. Mr. Secretary, let me make it very clear that I—

SECRETARY KEMP. That is why I think we ought to look at the budget with an eye on negotiating a modus—

REPRESENTATIVE SOLARZ. Yes. Mr. Secretary, let me make something—

SECRETARY KEMP. —vendi between us.

REPRESENTATIVE SOLARZ. Let me make something very clear—Mr. Downey is waiting, also, so I do not want to prolong this for too long.

I yield to no one, not even to you, in my desire to facilitate economic growth. Obviously that would be manifestly desirable for the country. We desperately need it. There would be all sorts of benefits associated with it.

You are, as I understand it, particularly proud of the role that you played in fashioning the tax cuts at the beginning of the 1980s, which you

and others argued, led to the longest period of peacetime prosperity in the country.

We do not have to debate now the wisdom of all of that. We were on different sides at the time, but it is clear that there was a period of economic growth. Some say it was not as great as it was in previous decades, but nevertheless the economy grew——

SECRETARY KEMP. You called it, Mr. Chairman, to quote you, "the longest peacetime economic recovery without inflation in the 20th Century." Those were your words, Mr. Chairman.

REPRESENTATIVE SOLARZ. Right. But——

SECRETARY KEMP. Something caused it.

REPRESENTATIVE SOLARZ. The purpose of today's hearing is not to focus on what needs to be done to spur economic growth.

SECRETARY KEMP. I appreciate that.

REPRESENTATIVE SOLARZ. However, that is important.

The focus of today's hearing is on what we can do to diminish poverty in America. I think we both agreed that one of the lessons of the 1980s is that prolonged economic growth, in and of itself, does not seem to constitute a solution to the problem.

The poverty rate did not go down in the 1980s. If we had not had economic growth, it would have been much higher, undoubtedly. But it did not go down. So, one conclusion I draw from that experience is that, even if we were to take all of your suggestions, and even if they turned out to be accurate and that it produced the beneficial consequences that you suggest, it is unlikely by itself to significantly diminish the poverty level. It might avoid increases in it, but based on the experience of the 1980s, it is not going to solve the problem.

SECRETARY KEMP. Mr. Chairman, to be fair, I talked about both macro-growth, as well as micro-compensatory incentives for growth.

I am not lacking in ideas about what to do in the pockets of poverty, or on tax reform, or on welfare reform, or on spending, or on housing reform, etc.

But I did allude to the fact that, in effect, we have today a capitalist economy for the rich and a socialist economy for the poor.

The poor of Europe are turning to capitalism while our inner cities are turning to socialism.

REPRESENTATIVE SOLARZ. You mean that a socialist economy in the sense that you would argue that most of the people who are poor in the inner cities live in public housing?

SECRETARY KEMP. No, I am talking about the incentives that are exactly opposite of what you would expect in a democratic, capitalistic economy.

REPRESENTATIVE SOLARZ. OK, so——

SECRETARY KEMP. And putting a human face on it is what you and I are out to do.

REPRESENTATIVE SOLARZ. So, you think that requires welfare reform.

SECRETARY KEMP. Radical welfare reform.

REPRESENTATIVE SOLARZ. What specific, in concrete terms, reforms are you suggesting?

SECRETARY KEMP. In all HUD-assisted public housing that is owned by the Federal government or assisted by HUD, give people a chance to opt out of public housing and get a chance to own their own unit.

I saw where the Mayor of Moscow said he is going to give all the public housing in Moscow to the residents free—free.

REPRESENTATIVE SOLARZ. How would you suggest doing it here?

SECRETARY KEMP. The way that I have suggested under the Hope in the Home Proposal.

REPRESENTATIVE SOLARZ. Which is?

SECRETARY KEMP. That was passed under the National Affordable Housing Act, which the Congress in its infinite wisdom funded at less than 50 percent of the President's request.

REPRESENTATIVE SOLARZ. How would you propose to do that?

SECRETARY KEMP. By forming a resident management corporation in every public-housing community in the United States of America, allowing them to get equity and stock in the corporation—

REPRESENTATIVE SOLARZ. But where do these—

SECRETARY KEMP. —and then ultimately, if they want to, buy their own residence at a sharply reduced rate below the market, and we would make a commitment to them—a social contract, if you will—to rehabilitate the existing stock of housing in exchange for them putting in their own sweat equity into the management, control, and ultimate ownership.

REPRESENTATIVE SOLARZ. But where do they get the equity?

SECRETARY KEMP. No tax on the income of the low-income woman or unemployed father up to 180 or 190 percent of the poverty level. Eliminating the capital gains tax in every redlined area of America. Changing the welfare system to include the asset accumulation. Change AFDC so that a person could have up to \$10,000 of assets before they get accused of fraud by a welfare woman, which is the way it is today.

I could go—

REPRESENTATIVE SOLARZ. Does the Administration support each of these suggestions?

SECRETARY KEMP. Yes.

REPRESENTATIVE SOLARZ. Every one of them?

SECRETARY KEMP. Well, I would say that these are ideas and concepts that we are advocating and supporting, and I would imagine that there are a lot of good ideas in the Congress that are not universally supported.

The problem I tried to mention, Mr. Chairman, is that the economy's contraction, the slowdown of the economy, makes it almost impossible for any civil man or woman alive today to do anything either on the spending side or on the tax cut side, if you will, or tax rate reduction side, if you will, to do the type of things that this Committee is investigating in these hearings.

My frustration is that the President's budget has 90 percent of the things I have mentioned in it today.

REPRESENTATIVE SOLARZ. You suggest—

Secretary Kemp. And 90 percent of the things I have mentioned today are supported by Democratic members of Congress. Yet, we are on automatic pilot and cannot do anything because we are—I don't know—locked in this political charade that the President is to blame from the Congress' side, and, of course, we spend a lot of time blaming you all, and frankly I think that the American people deserve a lot better, particularly poor people who are the most hurt by a recession.

REPRESENTATIVE SOLARZ. Right.

SECRETARY KEMP. And I have to close with my John F. Kennedy quote that drives my liberal friends crazy, but he actually said it in 1963. It is not Ronald Reagan or Jack Kemp that said:

It is a paradoxical truth that tax rates can be so high as to cause revenues to fall. Therefore, in order to raise revenues now, we must lower our tax rates on capital and labor.

And he did it, and revenues went up, and spending went down.

Reagan did it in 1981. Republicans have to put aside their feelings about Democrats, and Democrats have to put aside their antagonism toward Republicans, and begin to realize that the tax system in America today is an assault on the poor. It is an assault on capital. It is an assault on Democratic capitalism.

We have what Jesse Jackson said, Mr. Chairman—are you ready for this?

[Laughter.]

He said at the Black Enterprise Magazine's 20th Anniversary, run by Earl Graves, that, "Capitalism without capital is nothing but an 'ism.'"

In other words, it is a theory. It is an abstraction. I am making a case today that he is right. We have a capitalist economy with no capital, and particularly no capital for the poor.

I am not talking about money in terms of green; I am talking about property, ownership, jobs, education—that is, capital. What a mother or father teaches their children is capital. What our schools should be teaching is capital, in that it creates incentives, or should, and we have capitalism in America without enough capital.

We have to stop looking at our democratic, capitalistic economy as a warfare between the classes, and begin to say we need a rising tide that will lift the boat. And if boats are sunk on the bottom of the harbor, Mr. Chairman, as Vernon Jordan reminded me a number of years ago when I had quoted that statement—that is not an original with me—he said, "well, Kemp is right about the boats that can float, but he is wrong about the boats that are sunk on the bottom of the harbor."

I pledge to you that if you and I, and Downey, and Bentsen, and Rostenkowski, and Bush could get together and get the tide rising again in a dramatic fashion so that we can double the size of our economy in the next 10 years—and at 4 percent growth, the economy doubles in 10 years—at 4 percent growth, the economy will double, I guess, in 11 years, and if we could get together on a pattern that would lead this country to

doubling the economy over the next 10 years, I believe with all my heart that we would not only have the revenues to repair boats that are sunk on the bottom of the harbor, but we would have a policy that would dramatically reduce the level of poverty in this country.

REPRESENTATIVE SOLARZ. Well, Mr. Secretary, listening to your last presentation, I am reminded of the colloquy behind *Hotspur* and *Glendauer* in Shakespeare where one says to the other: "I can summon spirits from the vast and murky deep;" and the other says: "Why, so can I. So, can any man. But will they come when thou dost call them?"

[Laughter.]

I mean, we all would like to have 4 percent—

SECRETARY KEMP. I will call the spirits at the White House if you will call the spirits of the Ways and Means Committee.

[Laughter.]

You cannot keep criticizing President Bush for failing to have a domestic agenda when every single tax change that he has sent to the Congress has been turned down by a Committee of the Congress.

REPRESENTATIVE SOLARZ. If all of your suggestions for changes in the tax code were adopted, is it your view that we would achieve this level of 4 percent real growth?

SECRETARY KEMP. I think we should commit our country to a social compact with the poor to achieve enough growth in the economy, whatever it takes, to get at least 4 or 5 percent growth per annum, and then implement the compensatory affirmative action-like—small 'a' affirmative action—affirmative efforts, compensatory efforts in our pockets of poverty to create the type of educational opportunity, the type of job opportunities, and the type of ownership that I have been talking about.

Let me stop. I know this is frustrating, but I need one 30-second sound bite, not for the press, but for your Committee.

Black America represents 13 percent of the population of the United States. It owns less than one-quarter of 1 percent of the total capital stock of the United States of America.

We need a radical change, not a redistribution of wealth. We need access to wealth, access to capital, access to property, access to ownership of businesses and homes for minority men and women, if we are ever to complete the job of fighting poverty.

REPRESENTATIVE SOLARZ. Well, I certainly agree with that, Mr. Secretary.

One final question, and I am going to repeat it. If your suggestions for reforms in the tax code were adopted, do you have any—

SECRETARY KEMP. Yes.

REPRESENTATIVE SOLARZ. —economic evidence, any basis on which to assure us that we would achieve the level of 4 percent real growth, which you described as a desirable target?

Or is it simply a hope? And is there an empirical basis for making the judgment that if these reforms are made that level of growth will be achieved?

SECRETARY KEMP. I believe with all my heart and with all the objective empirical evidence of the past 30 years, from the Kennedy early 1960s to the Reagan early 1980s, to the problems of today, that if a combination of the type of tax proposals and monetary and trade policy that I think, hopefully, we are on, we would achieve higher than a 4 percent growth per annum without inflation. I believe that with all my heart.

Now, do I have an econometric model that could come up with that?

I do not personally have one because I am not in that business, but I think CBO and other econometric models are basically and primarily driven by spending and demand models instead of taking into account the incentive of men and women and individuals to engage in economic activity.

That is the biggest problem of most of the modeling done in this town. But, yes, I do believe that.

REPRESENTATIVE SOLARZ. Well, on that note, let me thank you very much for coming. It is always interesting to hear what you have to say.

I hope you have not lost your job as a result of anything you may have said to us.

[Laughter.]

If so, you are always welcome back in these precincts. We have a reapportionment coming up in New York, and perhaps a district can be created for you.

[Laughter.]

SECRETARY KEMP. Thank you.

[Laughter.]

Representative Solarz. Thank you very much, Jack.

We are now pleased to hear from Congressman Downey.

Tom, I am sorry you had to wait as long as you did. I am pleased that you had a chance to hear the Secretary's testimony because I will be asking you about many of the suggestions that he made.

Let me just simply say that I know of no one in the House that has worked more creatively on this problem of poverty than you, and I think that we are very fortunate to have someone like yourself in the position that you are in.

So, I am delighted you could be with us, and we look forward to the benefit of your experience and wisdom.

**STATEMENT OF THE HONORABLE TOM DOWNEY
A REPRESENTATIVE IN THE CONGRESS OF THE
UNITED STATES FROM THE STATE OF NEW YORK AND
ACTING CHAIRMAN, SUBCOMMITTEE ON HUMAN RESOURCES,
COMMITTEE ON WAYS AND MEANS**

REPRESENTATIVE DOWNEY. Thank you, Steve.

REPRESENTATIVE DOWNEY. It is not often we get to hear Shakespeare quoted by our Chairman. I also appreciate that degree of literacy, as well. [Laughter.]

Before I begin my statement, let me begin with just a general comment.

You stated at the outset that you wanted this to be a search for the truth where we might put aside our partisan differences.

I think that E.G. Dion's book, *Why American Hate Politics*—I do not know if you have read it—is really a wonderful departure. He says that the American people have liberal instincts and conservative values, and our politics addresses none of that; that we are ships passing in the night.

I agree with that.

I hope you do ask me about Secretary Kemp's suggestions because some of them are very novel, very interesting, and I suspect, if John Sununu is watching, a surprise to him and to me.

Let me begin with just one statistic that I find truly alarming.

I think we provided it to you, Mr. Chairman, "The State of the Child"—and this was done by the fine Ways and Means Committee Staff—it is a compendium of statistics.

I have always found one of the most interesting aspects of this is the living arrangements of children under the age of 18.

If you go down to the fourth column, there is an item—"Living with a never-married parent as a percentage of all children"—and the raw numbers.

In 1960, there were 243,000 children under the age 18 living with a never-married parent. In 1989, there were 4.8 million—an astonishing increase—and I would submit one of the reasons why we have such an intractable problem in dealing with poverty.

Poor individuals in minority inner-city neighborhoods with high rates of welfare receipt, single-parenthood, and joblessness, as you pointed out before, Mr. Chairman, comprise only a small portion of the entire poverty population.

Although poverty rates are higher among black and hispanic Americans, white individuals comprised 66 percent of the poverty population in 1989.

Some families spend a lifetime in poverty while a majority are poor temporarily or for limited periods. Many poor families work hard.

In 1989, close to 30 percent of all poor families with children had the equivalent of one or more persons working full time, full year.

I mention these facts to remind us that the poverty population is dynamic and certainly not homogeneous.

Poverty reduction initiatives focused on troubled urban neighborhoods will go only so far to address the problems of the poverty population.

Such initiatives do nothing to ensure that child support is enforced, nor do they ensure health insurance coverage, nor do they necessarily enhance job skills, nor do they ensure at least poverty-level wages.

The success of the war on poverty among nonelderly populations has been muted by a dramatic social trend in this country; that is, the growing number of single-parent families.

In 1960, 9 percent of all children lived with only one parent at any point in time. Today, that number has skyrocketed to 24 percent. Female heads of families are five times as likely to be poor as other families with children.

Another factor that has propped up poverty rates in this country is the performance of the economy.

We have experienced three recessions over the past 12 years, which have lowered incomes and yielded greater rates of poverty.

Furthermore, all of the evidence shows that income growth has been stagnant, if not declining, for those at the bottom over the last decade and a half.

In the early 1980s, President Reagan promised America that a rising tide would lift all boats. Yet, despite seven and a half years of sustained economic growth—as again you pointed out—during the 1980s, young families with children in the lowest two quintiles in 1989 had average real incomes 13 percent lower than their counterparts in 1979.

Even the House Wednesday Group admits that in their recent report on families that a rising tide may not lift all boats. In addition, governmental policies are lifting fewer individuals out of poverty, compared to a decade ago.

If we highlight any policy failure today, we should highlight the failure of supply-side economics and its trickle-down theories to boost economic growth, to raise incomes for working Americans at the bottom as well as the top, to create jobs, and to reduce the budget deficit. It has not done any of those things.

Congress is moving in new directions to provide assistance to the poor, with a particular emphasis on the growing number of individuals in working poor families and single-parent families with children.

The broad goals are to reward work and to promote parental responsibility, and we get there by focusing our efforts outside the welfare system, a system which most Americans—recipients as well as taxpayers—find faulty.

One of the most important nonwelfare initiatives to pass into law in recent years is the major expansion of the Earned Income Tax Credit.

In the budget reconciliation bill for fiscal year 1991, Congress recognized the growing problem of the working poor and expanded significantly this refundable credit that supplements the earnings of low-income families with children.

By 1994, all working families with children earning less than \$24,000 a year will be eligible for at least some benefits. Families earning between \$8,000 and \$13,000 will be eligible for a benefit of up to \$2,400.

With the EITC expansions, working poor families will have more support in choosing work over welfare, and welfare families will have more incentive to enter the work force.

Congress has also worked on proposals specifically designed to help welfare recipients become self-sufficient.

Most recipients receive little, if any, support from a noncustodial parent and must work full-time, year-round at a very decent wage in order to make it without welfare.

In 1988, Congress enacted the Jobs Program as a major part of the welfare reform bill. The program is designed to address barriers to work, and help AFDC recipients become self-sufficient. Thus, today's AFDC program offers more than eligibility to technicians who calculate benefit levels and distribute checks.

States are operating jobs programs with work, education, and training activities and providing supportive services, such as child care, that will increase the skills and employment prospects of welfare recipients.

A lack of child-care or health-care assistance can make it extremely difficult for a recipient family to leave welfare.

Quality child care is expensive, and many jobs, unlike welfare, come with no or limited health-care benefits.

Under the Welfare Reform bill, an AFDC family is now guaranteed a year of Medicaid benefits and subsidized child-care assistance if it is able to leave welfare through work.

Changes made to our Nation's child support and enforcement system represent an important component to antipoverty strategies. In 1989, there were 10 million women living with children apart from a natural father. Only 58 percent of these families had child-support awards in place. Only 37 percent of these families received any award, and only 26 percent of these families received the full amount of the award.

Without support from the father, single-parent families with limited earnings' potential have little chance of making it on their own without welfare.

The Welfare Reform bill made many needed changes to the child-support and enforcement system, but more needs to be done to improve the sorry record of child support in this country.

I will soon introduce child-support legislation that will move us closer to ensuring parental responsibility and rewarding work.

The legislation will have two major components.

The first set of proposals will enhance the establishment and enforcement of child-support awards. The second will provide insured child-support benefit to children at any income level when the noncustodial parent fails to pay what he owes, and an improved collections system to ensure that he pays, if he can.

The potential benefits of this approach are many.

It holds fathers, as well as mothers, responsible for the support of their children.

Paternity establishment would increase because only those children whose paternity is known would receive an assured benefit when the father failed to pay.

Furthermore, welfare receipt would decline.

Families who failed to receive private child support would have an income base that they do not now have, which would make work much more attractive than welfare.

As you may know, many members of Congress have recently introduced additional legislation designed to provide income support outside the welfare system to families with children.

At the beginning of this session of Congress, Senator Al Gore and I introduced one such bill, The Working Families' Tax Relief Act. The bill eases the tax burden for 35 million American families with children by replacing the personal exemption with a refundable child-care credit. The credit, unlike the personal exemption, provides equal benefits to families at all income levels.

Overall, the bill cuts taxes for working families with incomes between \$10,000 and \$75,000 by more than \$20 billion a year.

The work incentive effects of the proposal parallel those of the earned income tax credit expansions. It would support the work effort of those in the labor force, and make work a viable alternative for welfare recipients.

Finally, I would like to mention the importance of health-insurance legislation in any scheme that seeks to reward work.

Recently, Congressman Clay Shaw and I wrote an Op Ed piece that I hope will appear in the *Washington Post* over the next few days.

The piece chronicles the major improvements that we have made in supporting the work efforts of low-income and welfare families, and provides detailed information about financial situations of a particular family that left welfare to work at a \$12,000 a year job.

The example shows that, even taking into account the earned income tax credit and other program improvements, a lack of permanent health-insurance coverage can more than eliminate the financial difference between welfare and work for a family.

[The prepared statement of Representative Downey follows:]

PREPARED STATEMENT OF HONORABLE THOMAS J. DOWNEY

I am delighted to have an opportunity to appear before the Joint Economic Committee today. As the Acting Chairman of the Subcommittee on Human Resources, I appreciate the complex set of issues that your Committee is tackling in this series of hearings, and would welcome any policy recommendations you would like to share with our Subcommittee.

Before describing recent anti-poverty initiatives, I'd like to dispel several old myths. We have learned over the past decades that the poverty population is dynamic, and certainly not homogenous.

Poverty occurs in many other settings besides inner cities, and among white families as well as minority families. Poor individuals in minority, inner-city neighborhoods with high rates of welfare receipt, single parenthood and joblessness comprise only a small portion of the entire poverty population. Rural poverty rates are almost as high, and in 1986 even exceeded, poverty rates in the central city sections of metropolitan areas. And although poverty rates are higher among black and Hispanic Americans, white individuals comprised 66 percent of the poverty population in 1989.

In addition, while some families spend a lifetime in poverty, a majority are poor temporarily or for limited periods. For example, it is estimated that of the 3.5 million children born around 1970, 20 percent lived temporarily in poverty during the following 10-year period, 8 percent were poor for half of the ten years, and another 8 percent were poor for each of the ten years.

Many poor people work hard. In 1989, close to thirty percent of all poor families with children had the equivalent of one or more persons working full-time, full-year. Fifty-five percent of poor, married-couple families with children had the equivalent of one or more full-time workers.

I mention these facts to emphasize that poverty-reduction initiatives have the potential to affect a broad range of individuals, and we should take this into account in designing our approaches. Furthermore, we must recognize the limited potential of some initiatives, such as those focused on troubled, urban neighborhoods, to address the problems of a broader poverty population.

The Administration likes to proclaim the War on Poverty a failure. That's an issue we could debate until Godot arrives. But there are some facts. The data show that most of the increased spending on income maintenance programs since the beginning of the 1960s occurred in social insurance programs, like Social Security and Medicare. These income transfers have reduced effectively the poverty rate among elderly Americans. Means-tested income transfer programs, such as AFDC, food stamps and Medicaid, also grew, although the effect on poverty has been less dramatic. In fact, governmental policies are lifting fewer individuals out of poverty compared to a decade ago. Overall, however, without the increased social spending that occurred beginning in the 1960s, millions more individuals would be living below the poverty line today. (1)

The success of the War on Poverty among the nonelderly population has been muted during the 1980s by a dramatic social trend in this country: the growing number of single-parent families. In 1960, 9 percent of all children lived with only one parent at any point in time; today that number has skyrocketed to 24 percent. It is now estimated that as many as 7 out of 10 white children, and 9 out of 10 black children, born in 1980 will spend some time in a single-parent family.

Female-headed families with children are more likely to be poor than other families with children. In 1989, for example, 44 percent of single-parent families were poor, compared with 8 percent of male-present families. It is estimated that individuals in families headed by an unmarried person accounted for 51 percent of the total increase in the number of poor persons between 1979 and 1989.

Another factor that has propped up poverty rates in this country is the performance of the economy. We've experienced recessions beginning in 1979, 1982, and 1990 that have resulted in high unemployment rates. High unemployment yields lower incomes and greater rates of poverty. In fact, it is generally agreed that the

just-released poverty data for 1990 look bad in part due to the current recession.

Furthermore, all the evidence shows that income growth has been stagnant, if not declining, for those at the bottom of the income distribution over the past decade and a half. In the early 1980s, President Reagan promised America that a rising tide would lift all boats. Yet, despite 7 and a half years of sustained economic growth during the 1980s, young families with children in the bottom two quintiles in 1989 had average real incomes 13 percent lower than their counterparts of 1979.

The lower return to work for many Americans is evidenced by data which show that the poverty rate among American families with significant work effort has increased. For example, 15.2 percent of female-headed families with significant work effort were poor in 1989, compared to 11.1 percent in 1979. Similarly, 5.0 percent of married-couple families with significant work were poor in 1989, compared with 4.1 percent in 1979.

Married-couple families with children, which are often not eligible for means-tested programs and tend to rely on earnings to escape poverty, were particularly hard hit by the performance of the economy during the 1980s. Individuals in this family type accounted for 25 percent of the total increase in the number of poor persons between 1979 and 1989.

If we highlight any policy failure today, we should highlight the failure of supply-side economics and its trickle-down theories to boost economic growth, to raise incomes for working Americans at the bottom as well as the top, to create jobs, and to reduce deficits.

Congress is moving in new directions to provide assistance to the poor, with a particular emphasis on the growing number of individuals in working-poor families and single-parent families with children. The broad goals are to reward work and to promote parental responsibility. And we get there by focusing our efforts outside the welfare system, a system with which most Americans -- recipients as well as taxpayers -- find fault.

One of the most important non-welfare initiatives to pass into law in recent years is a major expansion of the earned income tax credit. In the budget reconciliation bill for fiscal year 1991, Congress recognized the growing problem of the working poor, and

expanded significantly this refundable credit that supplements the earnings of low-income families with children. By 1994, all working families with children earning less than \$24,000 will be eligible for at least some benefits. Families earning between \$8,000 and \$13,000 will be eligible for a benefit of up to \$2,400. With the EITC expansions, working-poor families will have more support in choosing work over welfare, and welfare families will have more incentive to enter the labor force.

Congress has worked also on proposals specifically designed to help welfare recipients become self-sufficient. The current welfare system assaults many values that Americans hold dear. Most importantly, it historically has provided very little incentive or assistance for recipients to work. While a significant minority of families leave the Aid to Families with Dependent Children (AFDC) program due to earnings, the most common route out of AFDC is by way of a change in family structure, including a marriage or the youngest child leaving the home. The reasons for this are simple: most recipients receive little if any support from a noncustodial parent, and must work full-time, year-round at a very decent wage in order to make it without welfare.

In 1988, Congress enacted the JOBS program as part of a major welfare reform bill. The program is designed to address barriers to work and help welfare recipients become self-sufficient. We must muster the will at the Federal and State levels to carry out the promises of this legislation.

The JOBS program is a reality in part because of experimental research performed during the 1980s which yielded promising results. Work and training programs for welfare recipients were found to be cost-effective, and to yield modest but significant increases in employment and earnings for a segment of the welfare population.

Thus, today the AFDC program offers more than "eligibility technicians" who calculate benefit levels and disburse checks. States are operating JOBS programs with work, education and training activities, and providing supportive services such as child care, that will increase the skills and employment prospects of welfare recipients. The programs are targeted at those recipients most likely to remain on welfare for long periods.

In addition, the welfare reform bill includes important transitional assistance for welfare recipients who leave welfare to work. A lack of child care or health care assistance can make it extremely difficult for a recipient family to leave welfare. Quality child care is expensive, and many jobs, unlike welfare, come with no or limited health care benefits. Today, an AFDC family is guaranteed a year of medicaid benefits and subsidized child care assistance if it is able to leave welfare through work.

Changes made to our Nation's child support enforcement system represent an important component to anti-poverty strategies. In 1989, there were 10 million women living with children apart from a natural father. Only 58 percent of these families had child support awards in place, only 37 percent of these families received any award, and only 26 percent of these families received the full amount of their award. Without income support from the father, women with limited earnings potential have little chance of making it on their own without welfare. Yet many in our society lay the blame for welfare and the responsibility for earnings on one party -- the custodial parent.

While less heralded, changes made to the child support enforcement system represent a second foundation of the welfare reform bill of 1988. These changes will help families currently on welfare and families that will be at risk in the future. Under the changes, States receive an enhanced Federal match for the cost of genetic tests to determine paternity and must meet Federal paternity standards. Judges and other officials are required to use State-developed guidelines to set child support award amounts, and for AFDC cases, awards must be reviewed and adjusted every three years. In addition, States must automatically withhold child support payments from the wages of a noncustodial parent unless there is good cause not to do so.

These child support program changes will go far to improve the sorry record of child support in our country. I will soon introduce child support legislation that will move us even closer to ensuring parental responsibility and rewarding work. The legislation will have two major components. The first set of proposals will enhance the establishment and enforcement of child support awards. The second will provide an assured child support benefit to children at any income level when the noncustodial parent fails to

pay what he owes, and an improved collection system to ensure that he pays if he can.

The potential benefits of this approach are many. It holds fathers as well as mothers responsible for the support of their children. Paternity establishment would increase, because only those children whose paternity is known could receive an assured benefit when the father failed to pay. Furthermore, welfare receipt would decline. Families who fail to receive private child support would have an income base they don't now have that could make work much more attractive than welfare.

As you may know, many Members of Congress recently have introduced additional legislation designed to provide income support outside the welfare system to families with children. At the beginning of this session of Congress, Senator Al Gore and I introduced one such bill -- the Working Family Tax Relief Act. The bill eases the tax burden for 35 million American families with children by replacing the personal exemption with a refundable, child tax credit. The credit, unlike the personal exemption, provides equal benefits to families at all income levels. Overall, the bill cuts taxes for working families with children with incomes between \$10,000 and \$75,000 by more than \$20 billion per year. Federal taxes would fall 8.1 percent for a four-person family with income between \$35,000 and \$50,000. The work incentive effects of the proposal parallel those of the EITC expansions: it would support the work effort of those in the labor force, and make work a more viable alternative for welfare recipients.

Finally, I'd like to mention the importance of health insurance legislation in any scheme that seeks to reward work. Recently Congressman Clay Shaw and I wrote an op-ed piece that we hope will appear in the Washington Post over the next few days. The piece chronicles the major improvements we've made in supporting the work efforts of low-income and welfare families, and provides detailed information about the financial situation of a particular family that left welfare to work at \$12,000 per year. The example shows that even taking into account the earned income tax credit and other program improvements, a lack of permanent health insurance coverage can more than eliminate the financial difference between welfare and work for a family.

(1) Isabel Sawhill, "Poverty and the Underclass," Challenge to Leadership, Urban Institute Press, 1988.

REPRESENTATIVE SOLARZ. Thank you very much for a very thoughtful, constructive, and precise testimony.

I have a number of questions that I would like to ask you, Tom.

I have served on the Foreign Affairs Committee for 17 years now. One of our main responsibilities during that period of time was figuring out how to preserve the peace and win the cold war.

Although we ultimately succeeded in that endeavor, you have been on the Ways and Means Committee for many years now, and it strikes me that most of the antipoverty strategies suggested by Secretary Kemp and yourself fall within the jurisdiction of your Committee.

Listening to you and listening to him and reflecting on this, there is something that puzzles me, and I would like to begin by asking you this: What prevents, in your view, the adoption of a comprehensive antipoverty strategy which would include elements that are particularly desired by the Republicans, on the one hand, and other elements particularly desired by Democrats, on the other?

For example, as I listened to him, it strikes me that a comprehensive strategy would include, among other things, tax incentives to facilitate economic growth; child allowances to help bring children out of poverty, which is one of the most serious dimensions of the poverty problem; welfare reforms to create incentives for people to leave welfare, and to make it easier for them to do so, as well as increase spending on education and training programs which would give people the skills with which to make their own way in our economy.

Obviously some elements of this would be much more attractive to a Jack Kemp and a George Bush. Others would be more attractive to a Tom Downey and a Steve Solarz, but what has prevented a kind of coming together in the establishment of a bipartisan coalition in support of an approach like this?

REPRESENTATIVE DOWNEY. Being \$3.8 trillion in debt and having a \$420 billion annual deficit are the principal stumbling blocks, because all of the strategies that you suggest, I agree there is broad bipartisan support for.

As you correctly point out, some of us would be more interested in other elements of this, but certainly reasonable people could agree on compromising.

The question is, it has to be paid for.

I think that Jack's testimony is a great ode to growth, and I think you politely but firmly pointed out that no one disagrees that we should grow.

The question is. How?

I would submit to you that you could make a good argument that if we decided to do all of these things and just increase the size of the deficit, (a) I do not know that the political support would be there for that, but (b) conceivably you would wind up in the short term providing some limited benefits, but so expanding the size of the deficit as to really undermine what you initially set out to do.

I mean, I feel an enormous role reversal here, in a way. I remember Jack. I served with him on the Budget Committee in the golden age of

the Reagan Administration in its first year when he said, "We Republicans no longer worship at the alter of a balanced budget."

Well, I am afraid that their new-found religion of spending and borrowing has really hurt our ability to do other things.

REPRESENTATIVE SOLARZ. Right.

One of his magic elixirs seems to be a dramatic reduction in the capital gains tax and the elimination of capital gains tax, I think, on the first \$50,000 in so-called "Enterprise Zones." He also said that there should be no capital gains after you have held property or investment for more than three years.

Could you, based on your experience in Ways and Means, comment on the extent to which these suggestions would, in fact, facilitate the kind of economic growth that he is talking about?

REPRESENTATIVE DOWNEY. I do not think there is any evidence to suggest they would facilitate the level of growth that you asked him about, up to 4 percent of real growth. I mean, that would mirror the growth of the 1950s and 1960s when we had a much different economy and a much different world.

REPRESENTATIVE SOLARZ. Right.

REPRESENTATIVE DOWNEY. Let me try and start, if I can, just with your admonition of trying to be reasonable and not partisan.

Aside from the fact that the distribution of benefits for a capital gains cut of the size that he is talking about would manifest themselves in upper-income individuals, putting that aside, since many people say, well, I am prepared to live with that if it provides growth—

REPRESENTATIVE SOLARZ. Yes. I have to say, just speaking for myself, if I could be convinced that this would facilitate the kind of economic growth that would generate millions of jobs for people in low- and middle-income brackets, I would say that that is a price worth paying.

REPRESENTATIVE DOWNEY. Surely.

REPRESENTATIVE SOLARZ. But that is the key question.

REPRESENTATIVE DOWNEY. That is the key question, and the answer is that it would not.

Even in the Administration, I think it is their own budget projection, or OMB's, about how much increased growth we would get from a reduction of this sort, indicating that you just would not get the sort of growth that would compensate for (a) the tax reduction, and (b) provide you additional revenue.

In a way, it is a little like the original Kemp-Roth proposal. It was supposed to create incentives for savings, working, and investment, and not give us a deficit. Unfortunately, that proved not to be the case.

Having said that, I would say that if you were going to do a capital gains reduction—and I suspect politically that next year one will happen if we try to do other things—what will occur is that you will try and remove those elements of capital gains that have nothing to do with job growth and creation—people who own collectibles, antiques, furniture,

paintings, and that sort—and try and limit your capital gains focus to those elements that do create jobs.

REPRESENTATIVE SOLARZ. Do you think it would help to create jobs if you removed the capital gains tax for investments held more than three years?

REPRESENTATIVE DOWNEY. Among other strategies, I think it would be a good idea. It would not be my first choice.

My first choice would be to try and correct some of the gross inequities that we see manifesting themselves across income scales by doing Gore-Downey; that, I would do first.

REPRESENTATIVE SOLARZ. I want to get to that in a minute, but I gather your view would be that, just in its own terms, removing the capital gains tax for items held after three years would be desirable, or not?

REPRESENTATIVE DOWNEY. Well, it is desirable if it is a focused reduction on assets such as stocks and bonds—one that we could argue about—but again, reasonable people could maybe work a definition of what is job-creating. Yes, it would not be in my mind as desirable as providing the R&D tax credit or a new investment tax credit.

If I were going to spend money, I would rather reinstitute the investment tax credit as opposed to a capital gains break of any sort.

REPRESENTATIVE SOLARZ. And what about his suggestion about eliminating the capital gains tax in Enterprise Zones?

REPRESENTATIVE DOWNEY. With all due respect, I think that is preposterous.

I think the idea that people are going to invest in the inner city as a result of a break they may gain on capital gains is, I find, based on very thin and, for the most part, conjectural analysis.

REPRESENTATIVE DOWNEY. Well, suppose, if it is true that nobody would take advantage of it, what is lost by that?

REPRESENTATIVE DOWNEY. Our governor has instituted Enterprise Zones across the state. With all due respect to his candidacy, which I frankly and devoutly hope will come about, I think that that the evidence on our Enterprise Zones on a state level has scant evidence to suggest that on a national level that it would make much sense.

REPRESENTATIVE SOLARZ. Would setting them up do any harm?

REPRESENTATIVE DOWNEY. Probably not. The question is, what is your overall goal?

If reduction of poverty is your overall goal, understand that poverty in the inner city is a small percentage of the poverty nationwide.

So, simply focusing on what may be an enormous sum of resources on one aspect of poverty, I mean, with all due respect, I would be hard-pressed to tell the people in Brentwood, and Central Islip, and other places in the suburbs of New York, well, we are going to invest a lot of money in the inner city, but we have no real hope that it will make much difference in terms of poverty.

I think that there are political dimensions to this as well that frankly do not pass the realistic test.

REPRESENTATIVE SOLARZ. Now, in terms of your proposal that you submitted with Senator Gore, you said this would result in a transfer of income to families with children of \$20 billion?

REPRESENTATIVE DOWNEY. Yes.

REPRESENTATIVE SOLARZ. How is that paid for?

REPRESENTATIVE DOWNEY. It is paid for by an increase in taxes on those people at the top.

We do it in several ways. We increase the top rate to 35 percent—

REPRESENTATIVE SOLARZ. From what?

REPRESENTATIVE DOWNEY. From 31 percent. And then by changing the alternative minimum tax and having a surcharge on those individuals earning over \$250,000, we raise the necessary money to redistribute it back to the middle.

REPRESENTATIVE SOLARZ. Have you calculated what the impact of that proposal would be on the poverty rate in the country, in general, and on the poverty rate on children, in particular?

REPRESENTATIVE DOWNEY. I think we did.

I think we found it to be a 1 or 2 percent reduction in poverty directly because, of course, what you are doing is transferring money through the refundable portion of it to those people who are most in need.

I will correct the "1 percent or 2 percent" for the record when I go back and check, but there is a definite diminution in poverty as a result of it.

REPRESENTATIVE SOLARZ. And what about the impact on the poverty rate of children?

REPRESENTATIVE DOWNEY. Since it is focused on families with children, it has its most dramatic impact on children and on poor children.

REPRESENTATIVE SOLARZ. Could you get us that for the record?

REPRESENTATIVE DOWNEY. Certainly.

REPRESENTATIVE SOLARZ. If it is 1 or 2 percent of the poverty rate as a whole, it is obviously much higher for children, presumably.

REPRESENTATIVE DOWNEY. We will find that out if we do not already have that information.

[The following information was subsequently supplied for the record:]

According to a summary of the Working Family Tax Relief Act of 1991— supplied to the Committee by Mr. Downey—

"the bill removes 600,000 families (2.5 million individuals) out of poverty on an after-tax income basis (when income is defined to also include cash benefits, food stamps, and housing benefits)."

REPRESENTATIVE DOWNEY. I would tell you politically, Mr. Chairman, that taking poor children out of poverty, while it is something you and I devoutly wish to see happen, is unfortunately not one of the riveting concerns of this Congress or of the American people.

The benefits that go to middle-income people is the reason why Gore-Downey has a chance of passing.

REPRESENTATIVE SOLARZ. Right. I gather that one of the lessons that we learned in the 1970s and 1980s was that, while Social Security benefits went all the way up and kept pace with inflation, AFDC payments to the really poorest of the poor did not keep pace with inflation.

REPRESENTATIVE DOWNEY. Mr. Chairman, if you will flip over the chart that I gave you—"The State of the Child"—governmental policy most graphically demonstrates that point.

In 1972, AFDC and food stamps, again adjusted for inflation in real dollars, was \$10,163. In 1991, again adjusting for inflation, those benefits amount to \$7,471, a 26.5 percent decrease in benefits.

REPRESENTATIVE SOLARZ. Does this not constitute a pretty compelling argument against the concept of means-testing programs?

Because what it seems to suggest is that while in theory it makes a lot of sense to provide benefits only to those who are truly in need, since those who are truly in need have limited political clout and influence, in fact, when you means-test programs, those programs lose out in the competition for funds to programs that benefit those who are not in need, but who have more political clout.

So, if you want to help the truly needy in an approach along the lines of the ones embodied in your proposal with Senator Gore, which benefits not just the needy, but the middle class as well, it is more likely to end up helping the needy more than a strictly means-tested program, which could not muster the political support necessary to enact or sustain it?

REPRESENTATIVE DOWNEY. The answer is, we need to do both. We need to have universal and means-tested programs.

The chart further indicates that food stamps, for instance, while it did not grow very dramatically, did increase. It is a targeted program.

As you pointed out in your earlier opening questions to Secretary Kemp, Head Start, which is also a means-tested program, is an enormously valuable antipoverty tool.

But there are approaches that need to be universal.

REPRESENTATIVE SOLARZ. Well, tell me. Food stamps is under the jurisdiction of Ways and Means—

REPRESENTATIVE DOWNEY. No, it is under the jurisdiction of the Agriculture Committee.

REPRESENTATIVE SOLARZ. Ah! Maybe we should move AFDC out of Ways and Means and over to Agriculture.

[Laughter.]

REPRESENTATIVE DOWNEY. Or move food stamps over to us. That is what I would prefer.

[Laughter.]

REPRESENTATIVE SOLARZ. Why do you think food stamps went up, but AFDC went down between 1970 and 1990?

REPRESENTATIVE DOWNEY. My conjecture—and it is only that—is that food stamps, of course, is solely a national program; whereas, AFDC is a combination of federal and state financing.

The formula for AFDC is the square of the state per capita income divided by the square of the national per capita income multiplied by .48.
[Laughter.]

REPRESENTATIVE DOWNEY. It is the same as the Medicaid formula, so it varies depending upon state—and there are also standards of need and other things like that that determine levels of benefits for AFDC.

So, I would say that one is a national program and one is a federal program, and therein lies the essential differences between the two.

REPRESENTATIVE SOLARZ. Secretary Kemp suggested that the earned income tax credit should be expanded so that there would be no tax up to 180 percent of the poverty level. What is your feeling about that?

REPRESENTATIVE DOWNEY. I think that is an excellent idea. It is also not an Administration proposal.

[Laughter.]

REPRESENTATIVE SOLARZ. Right now, what is the level at which, under the earned income tax credit, there is no tax? Up to what level?

REPRESENTATIVE DOWNEY. \$20,000.

REPRESENTATIVE SOLARZ. No, up to what percent of the poverty level? He said it should be raised to 180 percent.

REPRESENTATIVE DOWNEY. We will look it up, Steve. I don't know offhand.

REPRESENTATIVE DOWNEY. Can we go through some of the other things that he said?

REPRESENTATIVE SOLARZ. Sure. By all means.

[Laughter.]

REPRESENTATIVE DOWNEY. Owning property. He made an interesting point about assets for the poor.

This is also not an Administration proposal because the only area that they have jurisdiction over, in regard to assets for the poor, is for AFDC eligibility, where limits are in place for the value of automobiles. That standard of \$1,500 has not changed for 10 years. They could change that tomorrow if they wanted to increase that one asset.

The idea of assets of up to \$10,000, which he testified to, would cause states like Mississippi, Alabama, Louisiana, and the poorest states to make large percentages of their population, who are currently not eligible, eligible for AFDC.

It would be the single most dramatic expansion of the AFDC caseload that anyone could possibly envision.

REPRESENTATIVE SOLARZ. Would you therefore oppose it?

REPRESENTATIVE DOWNEY. I would prefer, if we are going to spend huge sums on AFDC, to improve the jobs program, and to improve those

elements of welfare that encourage people to work and that give them the skills to get them out of poverty.

REPRESENTATIVE SOLARZ. Well, what do you do about the problem that he mentioned about this woman who was on welfare and saved up some money because she hoped to start a business, or do something, and then she was indicted and fined for fraud because you are not permitted if you are on welfare to have these assets.

He makes the argument that we are building an incentive for people not to accumulate.

REPRESENTATIVE DOWNEY. With all due respect to Secretary Kemp's testimony and this idea of government by anecdote—

[Laughter.]

REPRESENTATIVE DOWNEY. —where you take the one person who has been singled out, and say, "Isn't this reprehensible that this in fact occurred?" And, of course, it is. And then say, "So, to solve this problem, I am now going to allow all welfare recipients to have enormous assets and change the program dramatically?"

He is right when he said that welfare needs to change. If I can take one minute of your time, I would explain how I would change it.

I would do all of the things that I mentioned to you. First of all, keep the income-maintenance universal programs, which you and I like, so that a woman who is dependent will have every incentive at every step of her potential work career to continue to work.

The *sine qua non* of that is health insurance. That must underlie everything that you think or do because no mother with poor children is going to give up her Medicaid card to go to work at McDonald's, especially if she has a child that is intermittently sick.

So, the first thing that we are talking about is health insurance for everyone, period.

REPRESENTATIVE SOLARZ. That is the only way to solve that problem?

REPRESENTATIVE DOWNEY. In my view, it is the first step. Then, I would like to layer several other steps on, if I could.

REPRESENTATIVE SOLARZ. Well, let me just ask you on that point. I strongly support comprehensive national health insurance, and I suspect you do also.

REPRESENTATIVE DOWNEY. I do.

REPRESENTATIVE SOLARZ. But just looking at the problem that you have mentioned about the woman on welfare who has a disincentive to get a job that might pay her a little bit more than her welfare payments, because if she gets that job she is no longer eligible for Medicaid and she has no insurance—

REPRESENTATIVE DOWNEY. And in some jurisdictions, she is no longer eligible for AFDC.

REPRESENTATIVE SOLARZ. —it would obviously be desirable if we could get a health insurance plan that covered everybody.

But supposing that there was not sufficient political support for that, or it was impossible. What about the idea of an arrangement in which

someone who was on welfare, who gets a job that takes them off of welfare, nevertheless, would retain for a period of time the health benefits that they had when they were on welfare so that we remove that particular disincentive?

That would create an anomaly because, I suppose, it would mean that the hypothetical woman that you mentioned, earning, say, \$9,000 a year, would have Medicaid benefits; whereas, the woman next to her who had not been on welfare in the first place would not have them, and that might be unacceptable to some people.

How do you deal with that conundrum?

REPRESENTATIVE DOWNEY. Let me go back to one of the questions about ... before I answer that. In 1991, the tax threshold, as a percentage of poverty for the earned income tax credit, was 126.2 percent.

REPRESENTATIVE SOLARZ. So, he is saying raise it to 180, roughly by 54 percent.

REPRESENTATIVE DOWNEY. Right. Which is not, as far as I can tell, part of the Bush Administration plan.

REPRESENTATIVE SOLARZ. Right.

REPRESENTATIVE DOWNEY. But if it were, it would be something that we should all support. I certainly could. The question would be, where are you going to get the money to do that?

REPRESENTATIVE SOLARZ. How much would that cost? Do we know?

REPRESENTATIVE DOWNEY. When we passed \$15 billion in increased EITC in 1990, I am guessing, but this would be several billions of dollars each year. Probably much more than that. Probably three or four—I am guessing here—billion dollars more a year to do that.

Steve, in the absence of having a universal health insurance plan, you can fix part of these problems around the edges. If I can explain what I mean, I can answer your question and deal with the anecdote in the way that I think it should be dealt with rather than attempting to answer it.

The first thing that you want to do is to understand the disincentives in welfare today to work, to get married, or to do anything. Every time you try to move forward, you lose something. So, you want to eliminate those disincentives.

The earned income tax credit does part of that. Most importantly is the idea of an assured child-support payment. I would like to dwell on this for a second.

Why should the mother who is caring for these children be both the mother and the father? In no other industrialized country do we expect a woman to do so much, not only to rear the child, but to earn all the money for the family.

So, what I would do, and what I am about to do, and I hope that I will have the support of you and others, is to say. Look, we first want to establish the paternity of this child. We are going to have a much more rigorous and ambitious way of doing that.

REPRESENTATIVE SOLARZ. Did we not do that in the last welfare reform?

Representative Downey. We did a lot of that in the 1988 Welfare Reform Act.

REPRESENTATIVE SOLARZ. So, what would you change?

REPRESENTATIVE DOWNEY. Well, I would provide many more incentives than we already do to the states, although we provide elaborate incentives to the states in a public education program for those women who are having children to say. We establish paternity here in the hospital, and you are now eligible for \$2,500 a year once you have the establishment of paternity and an order of support in your hand.

If you do that, then the need for welfare in many states will be obviated. You will be giving more money to this woman than she is currently getting from welfare.

If she has two children in the states of Mississippi, Arkansas, any state in the South, with an assured child-support assurance payment, she will be getting more than she would get from welfare.

REPRESENTATIVE SOLARZ. Right. And how do you deal with the argument that I am sure some people would make that this constitutes an incentive for these unmarried mothers to have more children?

REPRESENTATIVE DOWNEY. It will not be an incentive for the fathers, and that is the next step that I want to take here because we will be going after them. That is the other—

REPRESENTATIVE SOLARZ. What do you mean by "going after them?"

REPRESENTATIVE DOWNEY. Well, under my proposal, this would be done through the Internal Revenue Service. This would be my way of paying for it. First of all, dad's paternity is established before she gets the check or before she gets the award, number one.

Number two, dad then owes the Federal government X amount of dollars for the rest of his natural life until he pays it.

REPRESENTATIVE SOLARZ. To the Federal government, or to the mother?

REPRESENTATIVE DOWNEY. No, no. We will assume. The national government is assuming the obligation if the father does not make the payments voluntarily. So, in that instance, he then has a bill due and owing to the national government for this amount of money.

Now, let me divide that universe into three categories. There are those creeps who could easily afford to pay this, but for one reason or another do not. So, the fear of God Almighty should be put in them.

REPRESENTATIVE SOLARZ. Right.

REPRESENTATIVE DOWNEY. And we have the way to do that.

REPRESENTATIVE SOLARZ. Right. But I assume most of these illegitimate children are not being fathered by bankers in an afternoon dalliance somewhere during their lunch hour.

[Laughter.]

REPRESENTATIVE DOWNEY. No, sir. But there are billions in uncollected child-support payments that are being fathered by men who are easily able to pay and who should, and we will get it from them.

REPRESENTATIVE SOLARZ. Right—

REPRESENTATIVE DOWNEY. Let me finish because it is very important. Experts inform us that between 70 and 90 percent of the children on welfare have fathers with earnings, and these earnings average around \$14,000 to \$15,000 a year.

REPRESENTATIVE SOLARZ. That is very useful to know.

REPRESENTATIVE DOWNEY. Yet, less than 15 percent of AFDC mothers receive a child-support payment.

REPRESENTATIVE SOLARZ. That is a dynamite number.

REPRESENTATIVE DOWNEY. So, there are these people out there with money, and we are going to get it from them. But we are not going to let the mother spend her time trafficking between court, her work, and attempting to raise the child.

REPRESENTATIVE SOLARZ. We give her the money, and then we collect it from the father.

REPRESENTATIVE DOWNEY. That is correct.

REPRESENTATIVE SOLARZ. What are your penalties for noncompliance? Are we going to have debtor's prison?

REPRESENTATIVE DOWNEY. No, no debtor's prison. That is, as you know, unconstitutional, and for good reason.

[Laughter.]

What we would do to these gentlemen, who were able to work and were unable to make payments, is that there would have to be some sort of component like a Job Corps or something else for those who simply do not come forward.

The experience has been with judges in family court that nothing focuses the mind like a potential prison service, or being brought into a position where your freedom is circumscribed.

REPRESENTATIVE SOLARZ. How much would these fathers be obligated to pay? For example, your child allowance comes to \$2,500 a year, you said. How much—

REPRESENTATIVE DOWNEY. Well, that has yet to be determined, but they would be obligated for the full amount.

REPRESENTATIVE SOLARZ. Each year?

REPRESENTATIVE DOWNEY. Yes. Now, this is not a new welfare program. This is a method of putting in the hands of the mother money so that she can support these children, and through part- or full-time work, still earn enough, along with Gore-Downey, to be able to support her children without being on welfare.

REPRESENTATIVE SOLARZ. Is this proposal part of Gore-Downey? Or is it a supplement?

REPRESENTATIVE DOWNEY. This is separate from Gore-Downey.

So, if I can just recap, you do child support assurance that the mother has a floor, a basis of income that is outside the welfare system, which I think the majority of Americans will support.

Second, you give an expanded earned income tax credit, and then do an adjustment for family size. The more she works, the more she keeps.

Then, you do Gore-Downey, which only further enhances that, and you have enough money outside the welfare system to (a) not be poor, and (b) to support your children.

REPRESENTATIVE SOLARZ. And where would you get the money to pay for the increase in the earned income tax credit? Of course, Gore-Downey, you pay for by—

REPRESENTATIVE DOWNEY. Gore-Downey is both an expansion of the earned income tax credit and a refundable \$800 credit. That comes from the area that we discussed before. It comes from people who have earned the most and had their taxes reduced over the last few years.

REPRESENTATIVE SOLARZ. Let me just ask you a few more questions. This has been very, very useful.

What did you think of Secretary Kemp's proposals to privatize much of the public housing stock?

REPRESENTATIVE DOWNEY. I find that very interesting as long as we have plans in place to increase the stock of public housing. I mean, it seems to me that a lot of this housing—certainly homeless housing—should be transitional—housing that you move in when your luck is really bad, and then you move out. For example, the HELP program that you have in your borough of Brooklyn, which is really the first step for homeless people to get out into apartments.

If you start selling off the entire stock of public housing, you lose some of this flow that I think is essential to house people.

REPRESENTATIVE SOLARZ. It was not clear to me in Secretary Kemp's program how poor people who would otherwise move into this public housing would be able to afford buying the apartments of the people to whom the facilities now belong.

REPRESENTATIVE DOWNEY. That is also left unclear. But I think the point here is—and in fairness to him, I wish he were here to defend this—the idea is that, yes, the homesteading idea is a good one as long as you increase the stock at the rate that you are replacing it with people moving into it, because there is a crying need, as you know, in the city for low-income and affordable housing in both the cities and the suburbs.

Secretary Kemp also made another statement about unemployment compensation being paid in a lump sum. This is an astonishing idea because it presupposes that you know how long you are going to be unemployed, which is often something you do not know.

[Laughter.]

In fact, it is something you rarely know. The idea of unemployment compensation is to temporarily tide you over until your next job. It is not a seed capital for new enterprise.

What I find most intriguing about this idea of business enterprise—and I richly support the idea of entrepreneurship in all the rest of this—this is again an idea which, in the abstract, sounds wonderful until you go speak to some unemployed carpenter or businessman for whom a lump sum unemployment benefit, even if you could know how long they were going to be unemployed, would not be enough to start a business.

We had a hard enough time getting extended benefits passed by this Administration. I find the idea of paying lump-sum benefits a truly interesting one.

REPRESENTATIVE SOLARZ. Well, I want to thank you very much for making an extremely constructive contribution to our deliberations.

When are you planning to introduce your welfare reform bill?

REPRESENTATIVE DOWNEY. Well, you have other witnesses, but the other aspect which I did not mention is I would give the conservatives their due. I think that people spend too much time on welfare, and I would make it temporary in duration—two, three years—but at the end of that two or three years, I would have a public jobs component to it.

REPRESENTATIVE SOLARZ. Well, except that you would acknowledge, I am sure, that there are some people on welfare who are physically incapable of working?

REPRESENTATIVE DOWNEY. Absolutely. And for those people, I would not keep them in the AFDC program. We would either put them on disability, or SSI, or something that puts them in a place that we know.

We have seen that with the jobs program. There are people out there who are not going to work who have kids. We can talk until we are blue in the face about how they should. They are either physically or mentally impaired in a way that we are simply not going to get them to work.

Rather than spend a lot of time and effort worrying about them—a small percentage of the total, I might add—put them in another category. Make welfare temporary. Provide jobs at the end of it. Provide a mechanism for income support for people so that they will want to work and can continue to work. That will solve the problem of poverty in this country.

REPRESENTATIVE SOLARZ. Now, one final question, which I asked before, but I do not recall that you answered it—and if you did so, my memory fails me—but I raised the question about the extent to which a child allowance of \$2,500 per child might not constitute an incentive for women to have children that some might say would be counterproductive?

REPRESENTATIVE DOWNEY. Well, again that assumes that the guys, after this program is in place, are not being vigorously dealt with so that there is no downside to their fathering additional children, and being fingered, in a way, as potential fathers.

I mean, there is a significant downside for the first time. My favorite example of this was in Bill Moyers' wonderful program on Newark, New Jersey. They interviewed some father of five separate children. He said, well, I am just oversexed.

Well, when we get our plan in place, he is going to pay a very heavy price for being oversexed. My sense is that the word will spread across the land that there is a consequence for fathering children that is not there now. That would be the disincentive that there would be.

REPRESENTATIVE SOLARZ. That is the disincentive for the father. What about for the mother?

REPRESENTATIVE DOWNEY. Well, I guess you can make the case, although I would not, that there are plenty of disincentives already for having children that you cannot care for. I would also point not to anecdotal evidence but to the vast majority of the evidence that suggests that even among mothers on welfare today there are only 2.3 children per AFDC household.

REPRESENTATIVE SOLARZ. Right.

REPRESENTATIVE DOWNEY. So, I just do not believe it is a real problem.

REPRESENTATIVE SOLARZ. If your staff could, if you have it, get us some estimate as to the impact on the poverty rate among children at large of the family allowance plan. This would be most helpful.

REPRESENTATIVE DOWNEY. I should have known that, and we will find that for you.

REPRESENTATIVE SOLARZ. Thank you very much. It was good to have you.

REPRESENTATIVE DOWNEY. Thank you.

REPRESENTATIVE SOLARZ. I would like to welcome our next two witnesses. I assume you were here for the prior jousting and presentations, and we are delighted you could join us.

Why do we not hear first from Dr. Butler, and then from Mr. Greenstein.

**STATEMENT OF STUART BUTLER, DIRECTOR
DOMESTIC AND ECONOMIC POLICY,
THE HERITAGE FOUNDATION**

DR. BUTLER. Thank you very much indeed, Mr. Chairman.

I applaud the Committee both for its perseverance and also, in particular, for holding these hearings. It is good to see at least one branch of the Federal government actually considering the notion of a major attack against poverty in this country. One certainly can appreciate Secretary Kemp's frustration as one of the few in the Administration really pushing in this direction.

As a conservative, I must say I feel the same kind of frustration. I think much of the disturbing trend that we have seen in recent years—and, in particular, the poison of David Duke in the south—is a direct result of the vacuum in terms of discussion of welfare issues within the Administration or, at least, within the White House.

I also would make the point that, both on the left and on the right of the political spectrum, there has been a good deal of discussion and agreement in recent years that has led to a number of very major reforms in the system and agreements on such issues as the earned income tax credit.

I found myself agreeing with a good deal of what Congressman Downey had to say, although I would give a slightly different spin to it.

I say all that because I think that we do have an enormous opportunity to bring about fundamental, positive reforms in the welfare system that

would have a wide measure of agreement, were the agreements outside of the Congress and the White House to be reproduced within.

It seems to me that if we look at what the shape of this agreement should be, and what the broad theme should be for the 1990s, we could look back at the experience of the War on Poverty over the last 25 to 30 years. A number of lessons do stand out, and there are a number of areas of action that should be taken.

I want to just emphasize three areas that I feel to be the most important, but this is by no means the exclusive list.

First, I feel that we must encourage more decentralization of the process of policy making for the individual states through greater waiver authority to those states.

Almost all the major proposals that are being discussed before Congress started first at the state level, whether employment training or support payments. All these kinds of proposals by and large came from the states first.

We need to encourage more such experimentation to aid the process of developing good policy. We frankly do not know the answers. We may have good instincts about what the answers are in many areas, but, liberal or conservative, we have to confess that we do not know the exact answer.

Therefore, more experimentation is necessary, whether it be based on training programs or on the kinds of things that are going on in Wisconsin. There needs to be action to encourage this experimentation.

The Administration, in particular, needs to be much more aggressive, as do future Administrations, in encouraging states to offer proposals for experimentation. Secretary Kemp, perhaps, has not been as aggressive in that area as he has in many other areas of looking at the conservative War on Poverty.

I think Congress also should take action to give much greater opportunity for the various programs that are currently structured in such a way that there are severe limits on the ability to grant waivers on their consolidation and restructuring; there must be much greater authority given to the Administration's agencies to grant waivers, to allow much more aggressive kinds of experimentation to take place.

I would emphasize that this is not a return to a 1950s states' rights. It would be subject to the overwrite of the Executive Branch and the Congress, but it would encourage much greater experimentation of fundamental reform of the welfare system at the state level first, where we should be trying these ideas before testing everything at the national level.

REPRESENTATIVE SOLARZ. What prevents the states from doing that now?

DR. BUTLER. Well, I cannot give you precise details, but there are various restrictions on the ability of state agencies to grant waivers across particular programs, such as food stamps, AFDC, housing programs, and so on.

In other words, if a state puts forward a proposal that really would involve a very significant change in the way you try to help low-income

people move forward, there are often many severe restrictions on how money can be transferred between programs. That is what I am referring to.

There is, I must admit, a significant amount of waiver authority already available under the Social Security Act and the Jobs Program. I am arguing only that Congress ought to consider widening that authority to allow even more innovative proposals.

REPRESENTATIVE SOLARZ. Can you give me an example, just so I can understand it, of an "innovative proposal" where a state was precluded from trying because there was no waiver authority?

DR. BUTLER. I cannot give you precise examples, but if you look at the problems related to the homeless, and if you take into account the way the Social Security and the SSI program, in particular, are designed, or if you look at AFDC, food stamps, or the housing program, you will find that it is often very difficult for a state or city to put together a comprehensive program to deal with the homeless. In trying to take into account the mental illness situation, or trying to allow the homeless to obtain food stamps and housing, there are often a lot of frustrations for local governments because of the demarcation between particular programs. It is that kind of example that we hear about.

The second broad point I wanted to make is that we must change programs.

I think there is now broad agreement, even if minor differences remain, that some policies have encouraged what one might call "behavioral poverty"—changes in the composition of the poor population.

As we all know, there is a big expansion of female heads of families, as opposed to those with two-parent families. There is a reduction in work among the poor. There are enormous disincentives to leave welfare and obtain a job.

A number of steps must be taken to correct that, and I just want to list very quickly several steps on which I agree with Congressman Downey.

One step is indeed to look at state waivers as a method to encourage more experimentation of the kind that we have seen in Wisconsin and other states. That experimentation may or may not be successful, but at least it should be tried and be examined carefully.

As for tightening up of support payments, I think some of the things that Congressman Downey suggested ought to be tried at the state level as a way of seeing whether they work before we apply them to the entire country.

I would agree also with an expansion of the earned income tax credit. I think the steps in that direction in previous years were very important and were jointly supported by conservatives and liberals. We need to see more movement in that direction.

Specifically, The Heritage Foundation and others have supported the idea of applying a new credit for children. We have a proposal, as do others.

There are differences, we agree, in the design of the policies. But there is a common agreement that we need to use a credit system to enable those families that choose to work and to also have children to see a decisive increase in their income level by working rather than being on welfare.

Related also to this point, I would completely agree with Congressman Downey and yourself that one of the key elements of looking at the transition to work and getting off welfare is health reform.

As you may know, The Heritage Foundation has a major proposal for a change in the tax treatment of health care, designed to give a refundable credit for health-care purchases to low-income people and to change the nature of the tax exclusion for company-based plans.

We agree with the broad argument that, until you fundamentally change the health care system, you will have a major obstacle that makes it extremely difficult, particularly for a mother with children, to make a rational decision to join the work force unless there is a prospect of being able to gain health insurance.

One other area in terms of this focus on work and intact families, where I would disagree with Congressman Downey, is on the whole area of Enterprise Zones and, in particular, capital-gains relief within those areas.

It seems to me that if we have a situation, as we would do, with granting capital-gains relief for new investments in very depressed areas, there is not a cost if people choose not to invest. You are not giving up capital gains taxes.

If the investment is successful, then you will have achieved something.

So, it seems to me that there is nothing to lose with trying this approach.

If Congressman Downey is correct and this policy will not make any difference, then we will all apologize, but we have not lost anything.

REPRESENTATIVE SOLARZ. How exactly does the proposal work? That was not clear to me.

DR. BUTLER. There are variants of the basic proposal, but the idea is that essentially new investments in an Enterprise Zone area, either from the outside or by proprietors of businesses, would have in the Administration's proposal complete capital gains' relief.

There could be a ceiling on that. There are variants that we and others suggested, but the idea is that you encourage people to build up assets within the Enterprise Zones.

REPRESENTATIVE SOLARZ. Does that mean, if you set up a business for \$10,000, you would still have to pay business and income taxes on the profits?

DR. BUTLER. Yes.

REPRESENTATIVE SOLARZ. And the real estate tax. But, presumably, if you sold the business, then you would have—

DR. BUTLER. You would recoup; right.

REPRESENTATIVE SOLARZ. —you would not have to pay a capital gains tax on the profits from the sale of the business itself?

DR. BUTLER. That is correct, under Secretary Kemp's proposal.

As I said, there are variants. One can see the possible dangers of artificial businesses being created, and money being run through Zones and so forth, so there are ways to limit that.

But the basic idea is that if someone struggles to try and start a business and makes it successful in the South Bronx, or somewhere like that, they ought to be rewarded, and people ought to be rewarded who try to put their money behind such people.

REPRESENTATIVE SOLARZ. Do you think there ought to be a cap on the capital gains' exclusion? Or should it be total?

DR. BUTLER. I personally have suggested that there should be a cap.

Suppose, for example, you were to apply the same cap that applies to personal real estate, whatever amount would make it equivalent. If we do it for homeowners, it seems to me, it is not unreasonable to say, give that same amount of capital gains relief to somebody who tries to set up a business or puts their money behind somebody setting up a business.

REPRESENTATIVE SOLARZ. But one of the problems I have with that, the capital gains tax now is, what, 28 percent?

DR. BUTLER. Yes.

REPRESENTATIVE SOLARZ. If somebody could somehow scrounge together \$10,000 and start a business, they obviously hope that the business is going to be successful.

Let us assume they are hopeful that in ten years the value of the business will go up by a factor of 10; it will be worth \$100,000. Even with the current capital gains, if they sell that business, they are still making \$72,000.

I mean, it is hard for me to believe that somebody who can scrape together the \$10,000 and wants to start a business, who thinks the business will go up by 10 times in value over 10 years, is going to refrain from doing it, because at the end of the 10 years, if he sells the business, he will have to pay \$28,000 in taxes rather than zero in taxes.

He still has the \$72,000 profit. In fact, if you could guarantee him that in 10 years the value would go up by a factor of 10, a person would probably do a little jig, invite you in, break out the champagne, and celebrate, and maybe offer you some equity in it.

DR. BUTLER. Well, the fact is that if there were such guarantees, then indeed that would exactly be the result. The fact is that there is always a risk associated with this.

I would just answer the point particularly in two ways. One is just to say that, first of all, in Enterprise Zones, we are not talking only about the capital gains aspect.

You mentioned property taxes. One of the ideas of the Enterprise Zone is that it should be in partnership with the city and the state, and the city and state should take steps to reduce the operation expense of the

business, such as instituting one-stop permitting, such as reducing property taxes.

So, we are talking about a compendium of items designed to keep operating costs lower in high-risk areas and to make the potential rewards higher.

The other thing I would point out is that the proprietor may or may not be the only one involved in that enterprise. We may be talking and should be talking also about outside investors in those areas.

So, we are also attuned to their considerations. That is one reason for putting a cap on the amount, that we are not looking for massive amounts to be made.

REPRESENTATIVE SOLARZ. I guess your real answer would be that it may not have much to do with the decision to make the investment itself, but it may have a lot to do with the location of the investment.

DR. BUTLER. That is correct.

REPRESENTATIVE SOLARZ. In other words, the investor is more likely to put it in the inner city area if the investor concludes that, if it works out, they will not have to pay a capital gains; whereas, if they have to pay the same capital gains in the inner city area as in a suburban area, they might prefer the suburban area for obvious reasons.

DR. BUTLER. That is certainly correct, and particularly if you like outside investors in the business.

There is an explicit desire to try and guide investments into these areas to achieve the purposes of trying to deal with poverty.

There is no question about that.

REPRESENTATIVE SOLARZ. How much longer is your statement?

DR. BUTLER. I just wanted to make one other point.

REPRESENTATIVE SOLARZ. Then, I want to get to Mr. Greenstein.

DR. BUTLER. I realize the hearings have gone on for some time.

REPRESENTATIVE SOLARZ. But this has been very helpful, and I appreciate it.

DR. BUTLER. The third broad point I want to make is to say that I agree with the broad notion that one of the important approaches that we have to apply much more seriously in the area of antipoverty programs is the notion of what is loosely called "empowerment."

I agree with the broad thrust of the notion in the 1960s that said, if you give people greater control over their lives and their circumstances, they will behave differently, and they will behave in a constructive way.

I feel that my criticism against the period of the 1960s is that it was generally assumed that we were talking about political empowerment in those areas.

Today, we are talking about economic tools for empowerment, and whether it be tenant management, or school choice, or vouchers for day care, these are all ways in which you can give the poor in this country greater control over their assets and over their lives.

I think there is absolutely overwhelming evidence that when you do that people begin to change the way they look at the time horizons, whether they choose work or welfare, and so forth.

It requires, I think, not so much the Administration but the Congress to support much more these kinds of approaches.

Secretary Kemp complained about the Congress's elimination of much of the funding of his programs.

I think the resistance to school choice in Congress is an example of resisting what should be a major element of welfare reform in the 1990s, to give the poor greater control of economic means.

REPRESENTATIVE SOLARZ. What does "empowerment" entail, aside from giving people in public housing the opportunity to buy their apartments, and parents the right to choose which school to send their children to?

DR. BUTLER. Those are the two major ones.

REPRESENTATIVE SOLARZ. I am not diminishing them. I just want to know what else.

DR. BUTLER. The basic thrust is to try and, as far as possible, to allow the poor to have a voice in the decisions that are made over their lives.

REPRESENTATIVE SOLARZ. I understand that, but I am asking you to give me—

DR. BUTLER. Another example might be contracting directly with neighborhood organizations in poor areas to deliver basic social services, such as day care. This would involve other steps: to reduce the various licensing requirements, for example, for people to provide certain services in poor neighborhoods.

I am not saying that it is the panacea, but I am saying it is one element of a strategy that involves policy decentralization to try to give people the ability to control their lives and to make working much more productive and remunerative than being on welfare.

REPRESENTATIVE SOLARZ. Let me just ask you a question.

How do you feel about full funding for Head Start and Chapter 1? How would you compare that to a choice for parents in determining which schools their kids go to?

DR. BUTLER. I am torn in a way, to be frank, about Head Start. I am not convinced that the evidence is as overwhelming as I think you and others believe. I am certainly not against that approach, if it is successful, but I think the long-term benefits of Head Start are unclear.

But as I said, I am in favor of experimentation and going forward.

The key thing about Head Start, which I think is important, is that it is an attempt to build within a community the active involvement of the parents and local people, the kind of environment and assistance needed to move forward.

I think it is similar in its concept to ideas like tenant management of public housing and so on. These ideas all have similarities.

They are basically saying: "Let us deal with people in the community." Let us give them an opportunity to determine their future and to decide what services they need."

In that sense, I would agree with it.

REPRESENTATIVE SOLARZ. I might be much more comfortable with the concept of choice if it supplemented full-funding programs like Head Start and Chapter 1, but I have got——

DR. BUTLER. If that was the compromise, then I would have no disagreement with that. If that was the compromise.

But I think that one without the other is only half of what you need to do, and arguably not even that.

[The prepared statement of Dr. Butler follows:]

PREPARED STATEMENT OF STUART M. BUTLER

I appreciate the opportunity to testify before the members of the Joint Economic Committee on the important topic of welfare reform.

In my comments today, I would like to share with you the findings of more than ten years of state experimentation and scholarly work, and to suggest the lessons and guiding principles for action that flow from these findings. Adopting these principles, I should caution you, will not produce overnight success. But it will lead to steady progress in reducing the welfare rolls and improving the effectiveness of welfare policies.

The experience to date points to six lessons about making welfare policy:

1) Our efforts to decrease material poverty have tended to increase behavioral poverty.

The amount we as a nation have spent trying to alleviate poverty is truly staggering. Since the mid-1970s, total welfare spending at all levels of government, including the value of in-kind benefits that routinely are excluded from the official Census Bureau statistics on poverty, has averaged approximately 3.5 percent of the nation's gross national product. Governments at all levels in 1988 spent \$184.2 billion on welfare payments, or \$5,531 for each person in the U.S. officially classified as poor.

Despite this, the official poverty rate has remained virtually the same since the launching of the Great Society programs in 1965. During the 1950s and early 1960s, the poverty rate had been falling sharply.

Our failure to achieve significant reductions in the poverty rate despite this level of spending is perplexing enough. But the impact of this heavy spending appears to have reinforced, or actually caused, trends that have led to what has sometimes been referred to as a "culture of poverty," in which material poverty is made deeper and more persistent because of behavioral changes by the poor.

One clear example of this is the reduction of work effort related to welfare benefits. The past 25 years have seen a dramatic reduction in work effort among poorer Americans. There is convincing evidence that this directly related to welfare benefits. During the late 1960s and early 1970s, social scientists at the Office of Economic Opportunity (OEO) undertook a series of controlled experiments to examine the effect of welfare benefits on the poor. This study, known as the Seattle/Deaver Income Maintenance Experiment, or "SIME/DIME," is the largest and most comprehensive such analysis ever undertaken in this country.

The SIME/DIME experiment found that every one dollar of extra welfare given to low income individuals reduced labor and earnings by 0.80 dollars. The impact was most pronounced among young unmarried males, with the number of hours worked declining by 43 percent. This

pattern found in the SIMB/DIME experiment can be seen in the changing structure of the welfare population. In the mid 1950s, nearly one third of poor households were headed by adults who worked full time throughout the year. With greater welfare available today, only 16.4 percent of poor families are headed by an adult working full time. Thirty years ago the problem facing the working poor was low wages; today the problems is these adults don't work.

Even more distressing has been that the expansion of the welfare state has coincided with the collapse of the family in low income households. In 1959, some 28 percent of poor families were headed by women. Today that figure is a staggering 52 percent. Among black households, the illegitimacy rate in 1965 was bad enough at 25 percent, but today it is 65 percent – in other words, almost 2/3 of all black Americans born today are born into a non-family.

While there are several factors behind these alarming trends, the effect of the incentives in the welfare system is the most pronounced. The welfare system today penalizes marriage and penalizes work. To men struggling to make ends meet to support a family on low earnings, the welfare system simply says, in effect, "If you want your kids to be better off, abandon them to the welfare system." And to the young woman who becomes pregnant, the welfare system provides just as terse a message, "Don't work and don't marry an employed man."

This sorry history of anti-poverty programs breeding poverty suggests two steps that should be taken by any state trying to reform its welfare system.

The first is that welfare programs should be re-designed to insist on a two-way obligation. For 25 years the welfare system has been corrupted by the notion that while society is obliged to help the poor, the poor have no corresponding responsibility to use that assistance to improve their condition. This quarter century dominated by a one-way obligation is in stark contrast to the long tradition of public and private assistance being conditional on real efforts by the poor to improve their situation. This has meant that being on welfare can often be the result of an economic calculation by beneficiaries, rather than always a last resort. That calculation has been as destructive for those sucked into welfare as it has been costly to the taxpayer.

The notion of a two-way obligation, by contrast, leads to the idea that welfare should be linked to a requirement to work. While there should be some exceptions to that rule, such as in the case with women with pre-school children, the insistence that welfare requires work or a good-faith effort to obtain work should be a basic element of all major welfare programs, including housing assistance as well as Aid for Families with Independent Children and other benefit programs.

The second implication is that welfare assistance should be explicitly pro-family rather than anti-family. This in turn suggests several things states and the federal government should consider. One would be to encourage states to copy Wisconsin's proposed experiment to reward welfare mothers who marry. It is not yet clear exactly how best to do that, but the aim should be consciously to make the welfare system encourage rather than discourage marriage. Similarly, beefing up child support payments to discourage fathers from abandoning their families to the

state also makes great sense. And requiring teen-age mothers to stay in the family home rather than setting up in their own apartment -- which tends to mean long-term welfare dependency -- should be a top priority. As I will mention later, one way to spur such efforts by the states would be to encourage and permit greater use of waivers by states.

Furthermore, Congress should change the federal tax policy to encourage work rather than welfare dependency. The recent expansion of the earned income tax credit (EITC) has helped. This refundable tax credit improves the earnings of low-skilled workers, and so makes work a little more attractive compared with welfare. Further expansions of the EITC would give an additional incentive to work. The adjustment of the EITC for family size was helpful. But, I believe the EITC should be further modified to have a higher value for two-parent working families than for single parents. This makes sense first because a two parent family has greater economic needs than a single-parent family with the same number of children. Second, providing a higher EITC for married couples would encourage marriage and in a modest but important way would counteract the huge disincentives to marriage which exist in the current welfare system.

A proposal for health care reform by The Heritage Foundation also would help encourage individuals to leave welfare and join the work force. Under this plan, the current tax exclusion for company plans would be replaced by a refundable tax credit for individual purchases of health insurance and out-of-pocket medical expenses. This means that a low-income worker in a firm currently not providing health benefits would obtain government help to buy a basic health care plan. This would remove one of the major disincentives for welfare families to rejoin the work force, namely the loss of Medicaid benefits.

2) States and the federal government need to think more clearly about work requirements and training.

While the idea of linking welfare benefits to work -- or workfare -- could now be considered the orthodox view among liberals as well as among conservatives, there are many misunderstandings about what constitutes a good work/training requirement. As the Family Support Act indicates, many liberals have adopted the rhetoric of work requirements and yet flinch from actually placing those requirements into effect. The Act seems on the surface to be quite a strong inducement for welfare recipients to join the work force, but there are so many exemptions in the fine print that very few, if any, individuals will be prodded into the work force. For the most part, the "requirements" simply are additional benefits and training for those who wish to improve their skills rather than taking a job with their existing skills. To be sure, the Act will increase employment, but the majority of the people getting jobs will be middle class service providers in the education and training industry.

Our experience with education and training suggests a number of guidelines for meaningful work requirements.

First, states should not focus on volunteers, as the new federal law requires them to do and as Massachusetts did under its Employment/Training program (ET). The assumption behind the emphasis on volunteers is that the great majority of people on welfare would accept a job if only they had sufficient skills. Yet the overwhelming evidence suggests that motivation is the problem, particularly the lack of motivation because of the design of the welfare system itself. Thus focusing on volunteers and providing them with general programs to improve their skills generally does little to encourage those resistant to work to take a job. Indeed, those who might have otherwise left the welfare system for work often are induced to remain in the welfare system to receive free training. Thus a real requirement to take a job is crucial to a successful work program.

Second, New York University professor Lawrence Mead's exhaustive analysis of work programs suggests that work experience, intensive education and training, job search programs, and other approaches have roughly the same level of effectiveness in getting welfare beneficiaries into employment. The long-term earnings pattern of those enrolled in the intensive, enhancement programs also is about the same as former welfare recipients who do not benefit from these programs before taking a job. But job search and work experience programs are less expensive to operate than education and training programs. Thus for a given amount of money, job search and work experience will move more people out of welfare dependence than will training.

These observations suggest that states should focus on simple programs to increase the number of welfare recipients actually engaged in work experience or actual employment. In particular, the hours of participation required in a program should be increased to near full-time employment, perhaps thirty hours a week. Today, a participation period of ten hours is common. Moreover, the percentage of individuals on the welfare caseload who are required to participate in job search and work experience should be substantially increased.

3) Understand the incentive system by measuring the real benefit levels.

One of the biggest problems facing state and federal lawmakers in the debate over welfare is that the actual benefit levels available to individual households are rarely known by officials. When liberals argue for raising basic AFDC benefits, they tend to imply this is the only benefit received by the household. Yet there are about 75 federal means-tested programs, including often generous housing benefits, as well as food stamps, Medicaid, Head Start, energy assistance, and the Job Corps. In addition, states have a variety of programs, ranging from general assistance to medical, housing, and educational programs that supplement the federal assistance. Yet the Census Bureau ignores virtually all these in-kind programs in computing the income of those on welfare. In fact, of the \$184 billion in total welfare spending, the Census counts only \$27 billion as income for poor persons.

Thus government officials are, in most instances, flying blind. For example, we have little knowledge about the degree to which AFDC families participate in other programs such as WIC, low income energy assistance and subsidized housing. We don't know how many programs AFDC families participate in or what the average combined benefits package is. But

the recipients do! They know the effective value of free housing, or free medical care, and they make decisions whether to work or to remain on welfare on the basis of how these benefits compare with the cash income they would receive in employment. In many instances, families would be giving up as much as \$20,000 in tax-free income in cash and in-kind benefits if the adults left welfare and took a job. It is not hard to imagine why many households decide that welfare is more attractive, even if their basic AFDC alone is much less than they could obtain by working.

It is crucial for federal and state officials to compute the real benefit values available to individuals on the welfare rolls. Only then can they make sensible policy decisions to assure that those who really need help get sufficient assistance, while those who are able to work are not discouraged from doing so by perverse incentives.

While the government is undertaking this necessary task of measurement, it is vital that it resist the current pressure to raise AFDC benefits. As I mentioned, there is a strong tendency among proponents of higher basic benefits to disaggregate programs. They point to the benefits of just one or two programs, such as AFDC, and then imply that this is all a household receives and that it is pitifully small. But the programs they identify usually are only the tip of the iceberg. It is foolish to talk about expanding welfare spending without knowing the cost of the total package of benefits currently received by the average AFDC family. To do so would cause even greater incentives for families to choose welfare over work and for fathers to abandon their families.

4) The federal government must recognize the importance of empowerment.

There is increasing interest in Washington these days in a new term -- empowerment. There are several threads to this idea. The first is that individuals tend to have a better idea of their own self-interests than any bureaucrat does. Thus giving people the means to run their own lives leads to better results than some bureaucrat trying to micromanage every decision of the poor. The second theme is that the very act of "helping" families by making every decision for them often turns them into passive individuals who become totally dependent on the government for their basic well being. This sense of utter dependency and inability to control events is perhaps the most pernicious aspect of long-term welfare dependency. The third theme, related to this, is that insisting individuals take responsibility for their own lives -- be it with financial help to do so -- actually changes their behavior in a positive way.

We have seen an example of these powerful effects in the movement for tenant management of public housing. Once tenants are permitted to run their own projects, and make decisions over everyday aspects of their life in the project, their behavior changes and so does the neighborhood. In tenant-management projects, rent collections rise, administrative costs decline, and the quality of life in the projects noticeably improves. Not only that, in tenant-managed projects welfare dependency declines, teen-age pregnancy declines, and fathers return to their families. This happens because in these projects there is both an opportunity to control

one's life and an insistence by tenant leaders that each household lives up to some very clear responsibilities.

We see a similar pattern in education in the rise of demands for choice in education. When once passive parents, who just accepted poor education for their children, are given the opportunity to make choices, they take the initiative. We saw this in the East Harlem School District, where results improved dramatically once parents were able to make decisions over which school their children could attend. We see it even more dramatically today in Milwaukee, where a voucher program for inner city children to attend private schools has led to demands by parents for a real shake up in the public school system. When individuals can make choices, they demand change and improvement.

State and federal policy makers need to examine the record of empowerment strategies. If they do so, they will recognize quickly that it is far better to provide individuals with direct assistance and the opportunity to make decisions than to fund service organizations to provide in-kind assistance to families. It is also cheaper.

State policy makers also should appreciate that with Jack Kemp at the U.S. Department of Housing and Urban Development, and Lamar Alexander at Education, there are very strong proponents of empowerment at the federal level. Indeed, Jack Kemp now chairs up a cabinet task force on empowerment, and is willing and able to work with states to launch empowerment strategies at the state level. The great opportunity is available to any state wishing to try empowerment strategies to break the cycle of dependency.

In turn, Congress should be encouraging empowerment rather than thwarting it. Recently Congress decided to deny funds for Secretary Kemp's bold initiative to foster homeownership among the poor. That was a tragic mistake and a slap in the face for poor Americans trying to lift themselves out of dependency. If Congress guts the school choice portions of the America 2000 plan, that will be a second body blow to poor people trying to take greater control over their own lives.

5) The federal government should expand the waiver process to allow states to try new approaches.

In keeping with the recognition that much innovation comes from the states, the federal government makes it possible, through exemption to federal rules, for states to try bold ideas. There are four ways in which this can be done.

The first is through the provisions of the Family Support Act. This gives states the chance to design programs to help individuals leave welfare by acquiring new skills. Unfortunately, the waivers available through these provisions not only are limited in encouraging work programs, but in many cases the condition for receipt of federal funds is to avoid simple but effective strategies in favor of high cost skills-enhancement approaches. As I mentioned

earlier, the latter approach is rarely as effective as simpler work requirements and is far more expensive.

The second method of obtaining waivers is through Section 1115 of the Social Security Act. Although many state officials are only dimly aware of this provision, it provides far greater discretion for state innovation than is available under the Family Support Act. More important, it permits very major changes in the AFDC program, allowing states to build in various work requirements and other obligations for the recipients of welfare.

There are a number of waiver requests that states should consider under this section. One would be to introduce tough workfare requirements, including the requirement that some AFDC recipients must work full time as a condition of benefits. Another would be to limit the availability of AFDC to no more than six years (basically the time required for a newborn to reach an age of full time schooling). The fact is if somebody is on AFDC for ten or fifteen years, the program has ceased to be temporary assistance and has become a way of life. Another experiment that could be conducted under the Social Security Act waivers would be some version of Wisconsin's Learnfare Program. In other words, receipt of benefits could be tied to the insistence that the children of a welfare household stay in school and avail themselves of an opportunity to break the cycle of welfare dependency by obtaining a good basic education. In addition, some version of "wedfare" could be introduced, as Wisconsin is trying to do. This would provide incentives for broken families to become reunited, or for single mothers to marry without an immediate and significant reduction in benefits. The strategy would be to encourage mothers on welfare to make the transition to becoming a traditional family with a working father.

Third, the opportunity for waivers is still available under the approach first developed during the Reagan Administration. Under Reagan, a body known as the Inter-Agency Low-Income Opportunity Board was established to simplify the process of obtaining multiple waivers from different agencies. Essentially, a governor could come to the Board with a broad proposal for welfare reform which necessitated several waivers from different departments. The Board, comprised of senior officials from every federal agency involved in anti-poverty programs, then would evaluate the proposal. If it agreed to it the Board would issue directives to each agency to grant the necessary waivers. Thus it was a form of one-stop shopping for waivers. This Board helped to launch several major welfare reforms in the 1980s, including those in Wisconsin. Today that Board has been remodeled and now is in the form of the Empowerment Task Force chaired by Jack Kemp. State officials considering welfare reforms should develop an overall strategy and present it to Kemp's task force. This would permit the approval of waivers in all the agencies concerned, and so would make very innovative reform possible.

The federal government needs to change its laws to broaden waiver authority in programs such as Food Stamps giving states greater opportunity to experiment with new approaches to welfare, subject to federal approval. The fact is that none of us can say with confidence that we have the answer to poverty. We should be fostering more experiments to find the answer.

6) There must be rigorous scientific evaluation and controlled experiments.

As any scientist will tell you, experiments are only helpful under two conditions. The first is that there must be careful measurement of the results. The second is that these results must be compared with a control group not subject to the changes made. Only in this way can the impact of reforms actually be assessed.

Unfortunately, it is quite common for states as well as the federal government to hail the success of a welfare innovations without accurately measuring its impact. This was the case in Governor Dukakis's once celebrated ET program. Dukakis claimed tremendous successes for the program. He was able to do so because he permitted no systematic evaluation of ET. Indeed, attempts to evaluate it met fierce resistance from state officials, who for years denied scholars the most basic information. When eventually the program was systematically analyzed by the Pioneer Institute, a state-based research group in Boston, it was found to be a costly sham.

It is important that other states do not repeat this "know-nothing" approach, either intentionally or unintentionally. Careful analysis and measurement, and comparisons with controlled groups of individuals not subject to a reform, is necessary for any state to feel confident that the apparent success of an innovation is real.

The federal Food and Drug Administration insists that all new drugs be shown to be safe and effective. I would suggest that state and federal officials apply the same rule the welfare system. By experimenting on a small scale, an approach should be shown to be "safe," meaning that it does not have damaging side effects such as increased dependency, high illegitimacy rates, and broken families - the side effects of today's welfare system. It should also be shown to be "effective," meaning that a comparison with a control group shows that the reform actually does lead to an improvement and does so at a cost that is acceptable given the benefits. If states were to use this FDA rule in welfare reform, their efforts to experiment would lead to even better results and more usable lessons for other states.



The welfare system in America is a mess. It is an expensive mess. And it is a mess that is hurting many families rather than helping them. Fundamental reform is needed. This requires a continuation and expansion of the healthy debate now taking place among welfare experts on both ends of the political spectrum. But these experts can only point to lessons that seem to emerge from previous experience and they can only propose reforms. Moreover, experts with exactly the same credentials can differ markedly on their interpretation of previous experience and on their suggestions for reform. That is why state experimentation is so important. It is only by trying out proposals in good scientific fashion that good policy can be developed. That is why lawmakers in Washington should resist the temptation to try to solve the welfare problem by instituting grandiose new schemes that operate across the nation. To be sure, federal lawmakers need to address the basic incentives in the tax and benefit systems that discourage work and intact families, and foster dependency and broken families. But when it comes to the subtleties of the welfare system, and to designing detailed strategies that relate to the real conditions of families in particular neighborhoods, they should learn to take a back seat. They should provide information to states on what seems to work and what does not. Then they should remove the red tape of federal rules and give states the widest possible latitude to embark on radical reform.

REPRESENTATIVE SOLARZ. Right.

Mr. Greenstein, thank you for your patience.

**STATEMENT OF ROBERT GREENSTEIN, DIRECTOR
CENTER ON BUDGET AND POLICY PRIORITIES**

MR. GREENSTEIN. Thank you, Mr. Chairman.

I would like to start with just a few observations concerning current poverty trends and where we are heading.

As you know, since your last hearing on this, the poverty data for 1990 came out and, as you mentioned, poverty went up.

In 1989, which was the peak year of that long economic recovery you referred to, we still had a higher poverty rate than in any year of the 1970s, including the deepest recession era of the 1970s.

In 1990, when the recession started, poverty went up by more than 2 million people.

Yet, between 1989 and 1990, the national unemployment rate went up from only 5.3 to 5.5 percent.

In 1991, when the average unemployment rate is expected to be about 6.7 percent, we are expecting a very large further increase in poverty, and not an increase that will simply disappear when the recession ends.

The Administration's own forecasts are that it will take until 1995 before the unemployment rate gets back to what it was in 1990, a year in which we had 2 million more people in poverty than in 1989, which, in turn, was higher than in the worst recession years of the 1970s.

As you know, when the unemployment rate at some point in the mid-1990s gets back to where it was before this recession started, the poverty rate probably will not be back to where it was at that point because we will probably have further revisions in wages, more cuts in benefit programs, more female head of families, and so forth.

Just to mention one of those trends that Secretary Kemp referred to in David Broder's article about state and local governments being strapped, AFDC benefit levels, which are set by state, have now eroded to such a degree that AFDC and food stamp benefits, combined in the average state for a mother with several children and no other income, are back down to the level of AFDC benefits alone in 1960 before even the food stamp program was created.

Now, what do we do about this?

A couple of thoughts about this question of the economy.

As you noted earlier, economic growth alone does not do it. On the other hand, economic growth is certainly important.

When we look at why economic growth did not bring poverty down more in the 1980s, I think this Committee—I think, perhaps, at one of your earlier hearings, you heard from Rebecca Black from Northwestern on how the erosion in wages in the 1980s undercut the increase in work.

I would just say parenthetically that Stuart Butler made a reference to the large reduction in work effort among the poor. This is often repeated, but I think when you look carefully at the evidence, it is also greatly overstated.

In the 1980s, work went up more among the poor than it did during the recovery of the 1960s, but poverty responded less because wages eroded.

So, we need economic growth that is also the kind of economic growth that lifts wages over the long run. We need more productivity in the economy.

We really need two basic things. We need a much lower deficit so that we have more room for private investment, and we need more public investment in things ranging from infrastructure to education and training, to early intervention programs that work, to health care and R&D.

Now, I bring that up here, because how can you simultaneously have more public investment in things that will strengthen the economy and productivity, and bring the deficit down at the same time?

The only major source of money I see out there is the defense savings that we are likely to get in the years ahead. So, I mention this because I want to sound a warning.

There are a number of proposals coming up on Capital Hill that takes chunks of those defense savings and uses them to finance tax cuts instead. I think, if you do that, most of the ideas talked about in this hearing will never happen. You all have the resources for it.

We can finance children's tax credits and middle-class tax cuts through other changes in the tax code—raising the taxes at the top, closing more loopholes—but if we start stealing the defense savings for that, you will find that we still have a large deficit, and we do not have the money to do the things we are talking about today.

REPRESENTATIVE SOLARZ. I also say, it remains to be seen how significant this so-called "peace dividend" will be. Leaving aside the extent to which it may already have been spent five times over.

We do have a budget agreement which provides for a reduction in defense spending, in real terms, by about 25 percent over the next five years, which, as I understand it, is supposed to bring a level of defense spending down to about 3.5 percent of GNP by that time.

Now, that agreement was achieved before the collapse of the Soviet Union, so presumably there is an opportunity for some additional savings. But I have an uneasy feeling, and I do not think anybody has really done a serious analysis yet of what that additional increment in defense reductions would be.

But assuming it is compatible with the kind of foreign policy that I think most Americans would want to support, which means that we are not going to abandon all of our allies around the world, and withdraw all American forces to the United States, and go back to the kind of defense

establishment that we had in 1939 and 1940, but the actual monies to be saved when you look at the budget as a whole may not be as great as a lot of people think.

I hope I am wrong. It is one of the answers that I am trying to get.

MR. GREENSTEIN. I agree with you, but you are making my case for me, I think.

REPRESENTATIVE SOLARZ. I was not necessarily arguing against you.

MR. GREENSTEIN. But the point I want to underscore is that we do not know how large they will be. And if we already start taking them and using them for tax cuts, you not only lessen the chance of doing the things talked about today, but as you know, under the Budget Agreement, unless you get defense savings significantly larger than those in the Bush budget in 1994 and 1995, you have to do large reductions in domestic discretionary in 1994 and 1995, which are likely to further squeeze state and locals into slow increases in Chapter 1, Head Start, Job Corps, and whatever.

So, I must say that I am alarmed by the discussion here on the Hill. Before we even know how large the defense savings will be, and we have a \$350 billion deficit, I am alarmed by the discussion of taking some of the defense savings and turning them into tax cuts.

REPRESENTATIVE SOLARZ. By the way, on the macroeconomic question, how do you answer the argument that, given the size of the deficit, we cannot afford to significantly increase it in terms of the longer range health of the economy?

MR. GREENSTEIN. That we cannot afford to increase the deficit?

REPRESENTATIVE SOLARZ. Right.

MR. GREENSTEIN. I agree with that.

REPRESENTATIVE SOLARZ. You do?

MR. GREENSTEIN. I think we need to reduce significantly the deficit.

REPRESENTATIVE SOLARZ. Well, so, if that is your position, that would pretty much preclude funding many of these initiatives unless alternative sources of funding can be achieved that do not result in a net increase in the deficit.

MR. GREENSTEIN. That is correct. And that is why my feeling is that we need not erode the revenue base; we need to fix it internally where there are problems.

I think that we have discussed capital gains and Enterprise Zones this morning. There are dangers with them if they do not work. One of the dangers is that they could lose significant amounts of money—particularly in the case of capital gains—and increase the deficit.

Capital gains can also result in more tax sheltering and more misallocation of the capital that is there; thereby, reducing the value of the capital stock.

There is a relationship between differential rates and sheltering. But I do think that we have to look at both, hopefully, more significant reductions in defense and in pruning back less effective, less needed domestic programs to make room for some of these initiatives.

Among the things that I would particularly focus on, as you heard here this morning, are efforts to make work pay more for people in lower paying jobs.

We do have significant problems with wage erosion. Between 1979 and 1989, the poverty rate among families with children, where the head of the family works, went up about 25 percent.

We do need, I think, to both simplify and expand the earned income credit. I would argue, based on new research indicating that the disemployment impacts of the minimum wage are really quite small, that we need to restore somewhat more of the purchasing power of the minimum wage that has been lost over the last ten years.

I am not talking about raising it sky-high, but to simply get closer to the purchasing power that we had in the 1970s and 1960s.

We need health care for families with workers. We have a child-care tax credit today that is not refundable and provides the overwhelming bulk of its tax-credit benefits to upper-middle and upper-income people and shuts out the very people——

REPRESENTATIVE SOLARZ. Where are you going to get all the money for this? These sound like imminently reasonable ideas, and I am quite attracted to them, but if you take the position that you are opposed to an increase in the size of the deficit, between the earned increase revenue loss with an increased earned income tax credit, between the increased expenditures for child allowances, between—you did not mention it, but I am sure you would include full funding for Head Start and Chapter 1—between the health insurance for the children of working families, I do not know what the total is, but it must come to billions and billions of dollars.

MR. GREENSTEIN. My total is actually very modest compared to Secretary Kemp's. I found myself wondering the same question that you were asking, as I listened to him, because he had capital gains and many other things in, as well.

I think the money has to come from several places. I think, first, there is a new book that I would recommend by William Kaufman and John Steinbrenner of the Brookings Institution about potential defense trends, consistent with national security over a ten-year period, that suggests that we may well be able to get significantly larger savings than those——

REPRESENTATIVE SOLARZ. What is their bottom line?

MR. GREENSTEIN. They have several different options, depending obviously on developments in the world. This is over a ten-year period, but if I remember correctly, depending on events in the world, they end up by the tenth year, down in real terms, anywhere from one-third to one-half from the current level. The Cheney plan goes down about one-sixth. So, there would be a significant difference there.

In addition to that, the children's tax credits, as the Downey-Gore bill shows, can be financed through a more progressive tax structure——

REPRESENTATIVE SOLARZ. Right.

MR. GREENSTEIN. ——that raises rates some at the top.

I also think that the child-support enforcement ideas that Congressman Downey talked about are very important. It may be that we should do a large-scale demonstration project first, but the hope would be, which we need to find out more about, that by being much tougher on absent fathers that we could collect enough additional money from absent fathers to defray a significant portion of the cost of having a child assurance payment that he talked about.

That is obviously something we need to check into further.

REPRESENTATIVE SOLARZ. What do you think—

MR. GREENSTEIN. I was just going to say also on the health care area, which is an important area, I very much disagree with those who think the only issue is access or broader coverage. I was going to say later, if we do not get a handle on health-care costs, we also might as well close up shop on everything else that we have talked about here this morning.

If we do not, two things will occur. One is that health-care costs will so overwhelm governmental budgets that other efforts will increasingly be squeezed. Second, employers will continually have to cut wages more as the portion of their gross receipts going to health-care premiums rises.

So, I think that that is an area where we need to find ways hopefully to restrain the growth of health-care costs while expanding access.

REPRESENTATIVE SOLARZ. Do you think there is a way to deal with this problem other than through a comprehensive health-insurance plan?

Could you conceive of one that would provide health insurance for the children of people who were moving out of poverty?

MR. GREENSTEIN. I am not an expert in the health-insurance area. There are a number of plans out there now, from single-payer to pay-or-play; Stuart Butler and Heritage have a plan.

I really do not feel that I have the level of knowledge to say, here is my proposal in health care, but I would want to emphasize that I think both the access area and the cost containment area are essential and that we really cannot do access without strong cost—

REPRESENTATIVE SOLARZ. What do you think of Secretary Kemp and Dr. Butler's idea of an Enterprise Zone?

MR. GREENSTEIN. I found it interesting that Stuart mentioned that he was concerned about the evidence on Head Start. The evidence on Head Start is far stronger than the evidence on Enterprise Zones.

Secretary Kemp, in his statement, referred to evidence from the state level on the success of Enterprise Zones. In fact, a careful, dispassionate, nonideological study by the Urban Institute reported that careful evaluations of state Enterprise Zone programs have found no evidence that these incentives contributed to employment or investment growth in designated areas.

The Urban Institute said that Enterprise Zones are costly. They estimated the Secretary's plan would reach no more than 1.5 percent of the poor people in the United States. They raised questions of targeting problems, and they concluded that the evaluation suggests that most, if not all, of the value of the tax credits claimed in state Enterprise Zones

represent windfalls for the people investing there, not benefits for the poor residents.

Now, having said that, the question you raised was, well, if they don't work, do they do any harm?

The harm they do if they do not work is that they erode the revenue base. They use up money.

I have been told by friends of mine in the Administration that a year or two ago Secretary Kemp had a choice in dealing with OMB; that he could push for his Enterprise Zone proposal, or he could push for another proposal he had submitted for more vouchers and certificates for tenant-based assistance for low-income households, but they would not give him the money for both, and he pushed for the Enterprise Zones.

Well, if that story is true, I think he made the wrong choice. I think we greatly need more voucher certificates. The affordable housing shortage is growing.

In the Urban Institute study, they recommend that the money proposed in the Administration's proposed Enterprise Zones would be better spent expanding the Job Corps and Head Start.

Now, the bottom line is that none of us really know what these Enterprise Zone proposals would do. I would be happy, in the spirit of Stuart Butler's recommendation for demonstration projects, to demonstrate. But you do not need 50 of them at a revenue loss of several billion dollars over the next five years to demonstrate. You can demonstrate them with maybe five of them, or seven or eight of them.

REPRESENTATIVE SOLARZ. I agree.

MR. GREENSTEIN. Once we put them in those 50 places, whether they work or not, you will never get rid of them.

REPRESENTATIVE SOLARZ. If you had to name your, say, three top priorities for dealing with poverty in the United States in legislative initiatives, what would they be?

MR. GREENSTEIN. I think they would probably be in three broad areas.

One would be the refundable children's tax credits. The second would be the child-support enforcement and insurance system. And a third might be fully funding of these important early intervention programs like Head Start and WIC—I put Job Corps in there too—and child immunizations.

REPRESENTATIVE SOLARZ. And what would be your three top priorities, Dr. Butler?

DR. BUTLER. I think we could agree to some extent that a chief priority would be to change the tax treatment for children. We do not support a fully refundable tax credit, but we certainly do support a tax credit.

I also agree that beefing up the child-support system would be absolutely important, not just in terms of its potential effect, but to send a message.

The third is that I would argue, however, for much more aggressive approaches to granting waiver authorities and encouraging experimentation.

REPRESENTATIVE SOLARZ. So, if those are your three priorities, and those are your three priorities—

MR. GREENSTEIN. I think I left out health care. I am not sure which I might replace that with.

DR. BUTLER. Well, I would have included that under the child area. The whole credit approach that we suggest is very much in line with the earned income tax credit or child credit approach. It is designed to work around that.

REPRESENTATIVE SOLARZ. Do you have any problems with Dr. Butler's suggestion that more flexibility be given to the states to be able to experiment with innovative approaches?

MR. GREENSTEIN. I would make two comments.

First, in my view, I think Stuart has overstated the importance of that. In a number of the areas where we are talking the earned income credit, the earned income credit did not start at the state level; it started at the federal level. A lot of the child-support work involving interstate enforcement would have to be done at the federal level.

Full funding of things like Head Start is federal.

With that in mind, I think that more experimentation at the state level is to be desired, so long as it is not a cover for an attempt to block grant and dismantle basic benefit programs for poor children and families that we now have.

In the latter part of the Reagan Administration, there were waiver requests. But when you looked at their structure carefully, they would have taken programs that are benefit entitlements, and would have had the effect of block granting them, and would have run the risk that, in years in which the economy performed less well than expected and more people qualified, the people would have been turned away, or benefits would have had to have been cut across the board.

We do not think of block granting and limiting Social Security, or something of that sort. So, I think that there needs to be adequate protection to make sure that there are—and I know this is not the case with Stuart—but there have been some conservatives for whom the state waiver idea has been a cover to begin to dismantle federal entitlements.

REPRESENTATIVE SOLARZ. And, Dr. Butler, how do you respond to Mr. Greenstein's argument that the way to fund these refundable tax credits and greater child allowances is through a combination of increased taxes on the wealthiest, as well as savings from defense?

DR. BUTLER. Well, I disagree with the idea of saying that we fund that by, as I think Mr. Greenstein said, dealing with the erosion of the revenue base and fixing it internally.

I think we have to bear in mind that whatever steps we take in the tax area they are going to have profound effects on the course of the economy. I happen to be one of those who feels that the broad tax cuts in the 1980s were a fundamental cause of the massive expansion that we had during that period.

They may have had other effects that we could argue about, but I think that if we begin to start saying we must raise taxes again that could well precipitate an even longer recession than we are now in.

I would draw your attention, however, to some of the alternatives. I think the issue of spending the peace dividend is a very questionable one, not because I am a big stockholder in defense stocks, but because I think prudence suggests that we see the outcome of what is going on in Eastern Europe before we start making too many decisions in that area.

But I would draw your attention to the fact that Senator Bradley has put forward a tax credit approach, and he has identified very specific areas of spending reduction, including defense, but also with very specific programs in the domestic area.

I am not sure that we actually need a super conductor/super collider. I think that money might be wisely spent elsewhere.

I share Secretary Kemp's frustration that Congress decides to fund a Space Station rather than to experiment, at least, with some of his approaches for low-income public housing residences.

I think there are enormous amounts within the domestic spending area that primarily benefit the nonpoor that we ought to be focusing on. I think we should do that rather than raise taxes—because raising taxes will cause a long line of people here in Congress asking for more middle-class benefits to outweigh their increase in taxation.

MR. GREENSTEIN. Could I make a comment? Perhaps, I did not clearly state my views, but I think what Stuart just criticized is something of a strawman in a couple of ways.

Certainly, I did not suggest raising taxes in a recession.

Second, I do not think I suggested raising taxes at all. I suggested paying for tax cuts on some people like families with children in the middle and lower income levels with higher taxes at the top, given the people at the top—

REPRESENTATIVE SOLARZ. Excuse me one second. That is basically Gore-Downey.

MR. GREENSTEIN. That is correct.

REPRESENTATIVE SOLARZ. Do you have a problem with Gore-Downey, Dr. Butler?

DR. BUTLER. I just think that it is unwise to focus on raising taxes.

REPRESENTATIVE SOLARZ. But what—

DR. BUTLER. The problem has been a simultaneous expansion of taxation and spending over the last two or three years, and I think the Budget Agreement just led to another surge of both. Now, is the time for broad macroeconomic reasons to rein both in.

REPRESENTATIVE SOLARZ. As I understand Gore-Downey, they are proposing to make \$20 billion in various kinds of tax credits and child allowances available. They pay for that through an increase on taxes for the wealthy.

If you want to avoid that, can you tell me where else we can get the \$20 billion?

DR. BUTLER. Well, I have suggested some of the ones that Senator Bradley put forward.

REPRESENTATIVE SOLARZ. How much do they come to?

DR. BUTLER. The purely domestic cuts that Senator Bradley put forward would raise almost \$40 billion over five years. He adds in another \$80 billion in defense cuts.

We have produced a paper, which I would be happy to make available to you, which lays out a much wider range of domestic spending cuts to make up for these kinds of numbers that would allow us to fund a credit system that would amount in the fifth year to \$60 billion.

There is a lot of argument as to what should and should not be included, and there are a lot of political issues associated with it. But I am just trying to make the argument that if we are going to see an economic expansion in the 1990s, and if we are going to see a general improvement, we must not raise taxes.

REPRESENTATIVE SOLARZ. Mr. Greenstein, what do you think about that point that it would be better to fund the benefits in Gore-Downey by cuts in domestic programs and, to some extent, defense, than by increasing taxes on the wealthy?

MR. GREENSTEIN. I could not disagree more. I have looked very carefully at the Bradley plan, and I think that I would concur with virtually every cut proposed in it, including virtually every domestic cut proposed.

That does not mean that the wise use of those resources are to fund the tax bill. We do not need further reduction in the revenue base. We take in a smaller proportion of GNP in revenues than most of our competitors, including those that are outdistancing us and that have far lower poverty rates than we do.

We need the savings from defense and the savings from domestic cuts of lower priority programs, such as Senator Bradley has proposed.

REPRESENTATIVE SOLARZ. But suppose——

MR. GREENSTEIN. We need it for deficit reduction——

REPRESENTATIVE SOLARZ. Right.

MR. GREENSTEIN. ——and we need it for things like Head Start and the Job Corps.

REPRESENTATIVE SOLARZ. Well, you may be right in an ideal world, but supposing politically the only way you could get these benefits for the poor was to get the money through the kind of cuts that Senator Bradley is suggesting, or some combination of the cuts that Mr. Bradley and Dr. Butler are suggesting. Supposing that was the alternative as a practical political matter. The votes were not there for the kind of tax increases on the wealthy envisioned by Gore-Downey, but you could muster enough votes for the benefits contained in Gore-Downey if you paid for it through the kind of cuts in domestic spending envisioned by Messrs. Butler and Bradley? What would you say then?

MR. GREENSTEIN. I do not think that you can answer that question without two additional pieces of information. You would need to know,

if you did that, what the consequences would be under the budget agreement in 1994 and 1995 for other areas of domestic discretionary programs. You would need to know what the consequences would be for the deficit. If the consequences were adverse for other high-priority discretionary programs of importance to the—

REPRESENTATIVE SOLARZ. But why would they be ... let us assume that we are talking about something that would be revenue neutral.

MR. GREENSTEIN. It is not revenue neutral, though. You are reducing revenue, and you are paying for it by reducing spending.

REPRESENTATIVE SOLARZ. Right.

MR. GREENSTEIN. The point I want to emphasize is that CBO has reported that under the Budget Agreement you would have to reduce defense expenditures, defense appropriations, by \$25 billion in 1994 and \$43 billion in 1995—that is below the 1993 defense cap—just in order to avoid aggregate reductions in domestic discretionary spending.

Now, to be sure, there are some domestic discretionary areas that we should cut, such as Senator Bradley has outlined. But as you and others have said, there are other areas of need there, whether it is in health services, or Head Start, or Job Corps, or Chapter 1, or a number of others.

Therefore, if you use up a lot of the potential defense and domestic discretionary savings on financing a tax cut in 1992, this would probably lead you to some excruciating cuts in 1994 and 1995.

And I would say that if I did not have any further information I would vote against that approach right now. I think it is irresponsible to run the risk of leaving the deficit this high and to neglect public investment in areas from education to infrastructure in order to give a tax cut. I am against that.

REPRESENTATIVE SOLARZ. I am talking about the benefits in Gore-Downey, which, as I understand it, is an increase in child allowances and also an increase in refundable tax credits for families with children. That is a tax cut.

MR. GREENSTEIN. Right.

REPRESENTATIVE SOLARZ. Well, in effect, they are both forms of tax cuts, I suppose.

MR. GREENSTEIN. The earned income credit piece is quite small. The bulk of Gore-Downey, like 95 percent of it, is in the refundable children's tax package.

REPRESENTATIVE SOLARZ. Right. And you are saying that you would not be willing to pay for that with cuts in other domestic and defense spending.

MR. GREENSTEIN. I would, if it were not for two things. If there were no other consequences under the Budget Agreement, in terms of the deficit and other areas of very high need.

Much as I would like to provide these tax credits, I think a first priority has to be to expand private investment through a reduced deficit and to expand public investment in areas ranging from Head Start education and training to infrastructure and other key areas.

Therefore, I think that it is irresponsible to proceed with a tax cut, no matter whom it benefits, that is not paid for within the tax base.

REPRESENTATIVE SOLARZ. Dr. Butler?

DR. BUTLER. Well, I would just remind Mr. Greenstein and yourself, Mr. Chairman, of the predictions of CBO and the negotiators for the Budget Agreement last year. If they were correct in their analysis of the outcome of raising taxes, we should be having a declining deficit and we should be having a boisterous economy, neither of which is happening.

So, as to the idea that somehow reducing taxes and reducing spending is going to lead to an economic cataclysm, I just could not disagree further with Mr. Greenstein.

I would also point out that if you try to fund a tax credit for children "internally," as he puts it, in the tax system, and you are simultaneously trying to increase private investment, I find it hard to understand how we are going to be raising taxes on middle- and upper income people to pay for a tax credit of the size we're discussing without discouraging private investment. I do not understand how this will encourage private investment.

MR. GREENSTEIN. I am talking about a tax cut for middle-income families, not a tax increase. I really wish that this tendency, when you are proposing to restore some of the taxes lost to the very wealthy—this unfortunate tendency—to characterize it as if you are going after the middle class, when the facts are otherwise, should really cease, I think. It inhibits the debate.

I do not understand why raising tax rates at the top to a lower level than they were during the boom periods of the 1950s and 1960s, still having rates in the 1930s, not the 1940s, not the 1950s, not the 1960s, would undercut the economy.

Again, we are getting beyond the debate on poverty here, but I just think it is very important. I think we are all being very short-sighted when we do not look at the long-term investment.

REPRESENTATIVE SOLARZ. Well, Dr. Butler, what is wrong with an increase in the top rate from 31 to 35 if it funds a child allowance which helps millions of middle and lower middle-income and poor families in the country?

Why should that be such a drag on the economy if, as Mr. Greenstein says, even with such an increase, people will still be paying 50 percent of what they were paying a decade ago?

DR. BUTLER. Well, there are other taxes today besides just income tax. You have to look at Social Security taxes. You have to look at state taxes. You have to look at basically what is the total after-tax income of people.

The second point I want to make is that there are now innumerable studies—Mr. Greenstein gave a long string of adjectives to describe the Urban Institute, worthy of perhaps Secretary Kemp—but there were many, many more studies looking at the differences among countries' tax rates, both increases in tax rates and declines in tax rates. These studies show

overwhelmingly that when you raise marginal rates of taxation, you see a slowing down of the economy, and that is the issue.

We are talking about a dynamic effect. It may well be that back in the 1950s, because of other factors, people were inclined to take greater risks in the economy. They saw the future in a rather rosier way than we do today. There are all kinds of reasons why people make the decision to risk their money. But when you raise their taxes in a period where there has been economic stagnation, the evidence is overwhelming that you tend to get a slowdown in the economy and a reduction in investment.

I would warn you very much against taking that step.

MR. GREENSTEIN. No one is talking about raising the overall revenue take from the public during a period of downturn.

The international studies show, in countries like Germany and other competitors, revenue constitutes a larger percentage of GNP than it does here.

REPRESENTATIVE SOLARZ. You do not deny that, do you?

DR. BUTLER. In certain countries that is true. But if you look at the historical studies, and if you look at the transitions that have occurred and the changes in the economy, it is very clear that reduction in marginal rates—and I am emphasizing rates—is key.

There are many countries with a higher tax take, but the rate issue is what is so crucial. And Secretary Kemp would say just as strongly, or even more vigorously than I do, that there is a big difference between average tax take and marginal tax rates. That is what we are talking about here.

REPRESENTATIVE SOLARZ. Why do you—

MR. GREENSTEIN. Most of our competitors have higher marginal rates at the top than we do.

DR. BUTLER. And most of them do not do as well as we have done over the last ten years or so.

REPRESENTATIVE SOLARZ. Well, we have two more witnesses.

Mr. Greenstein, did you have anything to add, because I interrupted you in the middle of your testimony.

MR. GREENSTEIN. Well, I know you have more witnesses, and I have taken a great deal of time, or this panel has taken a lot of time.

I would just emphasize again, I think, the importance of policies that reward people who work. And above everything else, I think the importance of leadership on this score. We have, I think, too much rhetoric and too little real leadership in action.

REPRESENTATIVE SOLARZ. Well, I will tell you one conclusion that I came to after listening to the two of you and Mr. Downey and Mr. Kemp, reflecting on what some of the previous witnesses have said, and that is that there are clearly some areas of agreement with respect to how to deal with the problem of poverty in America that ought to enable us to move forward in ways that will incrementally affect the problem.

But in terms of any really significant reduction in poverty, it seems to me that the only hope lies in the establishment of a broadly based

coalition which can only be achieved if both sides are willing to compromise.

That means a willingness on both sides to go along with some of the pet proposals of the other side which, left to their own devices, they would not be willing to accept, but which in the interests of getting the other side to agree to their pet proposals, they would be willing to go along with. Unless that willingness exists on both sides, we will continue to be afflicted by a kind of political and policy paralysis, except at the margin where there is some convergence.

Would you both agree with that analysis?

MR. GREENSTEIN. Mr. Chairman, I think not only do we agree with it, but as Stuart mentioned, we have actually worked together on some issues, such as the earned income credit. We have done that on some issues because I think we are both frustrated at the lack of action that otherwise occurs.

REPRESENTATIVE SOLARZ. And let me ask you, finally, very briefly, do you think, based on your work in this field, based on your contact with policymakers on both sides of the aisle and the ideological divide, do you think it is possible to achieve such a broadly based coalition with the right kind of leadership? Or is it basically in your view hopeless?

DR. BUTLER. If I can speak to that, I think it is quite possible.

I would also argue, if the White House were to take a leadership position in trying to bring together that coalition, we would have a lot of action very quickly. But the fact is that the White House has not done so.

It is frustrated that even its own Cabinet Secretary is trying to move in that direction.

REPRESENTATIVE SOLARZ. Well, perhaps, this Committee could play a catalytic role in that effort.

I wonder if I could ask the two of you, because you both are considered very knowledgeable spokesmen for different ideological perspectives on how to deal with the problem of poverty, would it be an imposition if I could ask each of you to submit to the Committee a very brief paper about what you might consider to be a reasonable omnibus package of proposals, designed to have a significant impact on the problem of poverty that, in your view, could conceivably be acceptable to both sides?

If you would like, we will keep it confidential because I do not want to embarrass you with your own constituents, but what I would ideally like to be able to do here, and maybe it cannot be done, but I would hope that Congressman Arney and I could come up with a joint report which, given the fact that we represent different perspectives on this, might carry some weight if we could agree, which would embody a series of recommendations that could be acceptable to both sides.

I think, if we could get your papers—it does not have to be long; it could be one page.

We do not need long policy justifications. You are both intimately familiar with what the other side is suggesting? You obviously know what you have suggested.

Put something together with the elements of your proposals that you think the other side can go for, and the elements of the other side's proposals that you could go for if they could accept the things that you are putting in your proposal, and then we will see how much of an overlap there is and how significant that is.

Then, maybe we can put in a little footnote that gives you folks appropriate credit for being the intellectual authors of the great compromise.

Not since Henry Clay preserved——

[Laughter.]

REPRESENTATIVE SOLARZ. ——the peace and the Union for a decade or so will there have been such a suggestion, but I think that might be a useful way to proceed.

Then, if the two of us could reach agreement, perhaps that might stimulate the White House and some of the key people in Congress to move on this.

I certainly think that without Presidential leadership we will go nowhere. But if we can demonstrate that a broad coalition is possible, it might induce the President to move.

MR. GREENSTEIN. Mr. Chairman, I would certainly be happy to do that.

I agree in significant part with Stuart that there is some possibility there, but I think the biggest stumbling block is the revenue question.

I disagree with Secretary Kemp.

There are no free lunches, and, therefore, tough choices have to be made. And I here very much agree with Stuart in the area where the question of White House leadership is, the most important being that you have to make tough choices on resources.

I was cheered to hear Stuart talk about housing investment versus the space station.

Up until now, the White House's priorities have not involved the new investment here. And until there is a bipartisan agreement that this is one of the priorities, for whatever limited funds we have, it will be hard to work out.

REPRESENTATIVE SOLARZ. I assume both of you agree that whatever package we come up with should be revenue-neutral, in the sense that it should not result in an increase in the deficit.

If that is the case, it would be helpful if, in the paper that you present us, you could indicate how you would like to see it funded. Because that ultimately may become the key problem that has to be overcome in order to do this.

There might be a lot of agreement about various initiatives that are worth doing, but the agreement might break down when it came to how to fund them.

So, if you could be as specific as possible on that, realistically, when do you think you might get us something?

DR. BUTLER. When can we solve the deficit? Maybe we can have ten days for that.

[Laughter.]

I am going to be out of town for the rest of the week, but maybe we can have it by the end of next week.

MR. GREENSTEIN. I actually have difficulty even within ten days. I have a series of other deadlines.

REPRESENTATIVE SOLARZ. Two weeks?

MR. GREENSTEIN. Let me go back and get in touch with your staff, and we will work it out.

REPRESENTATIVE SOLARZ. Okay. Good.

DR. BUTLER. We will do it faster than the White House will.

[Laughter.]

REPRESENTATIVE SOLARZ. Well, thank you both very much.

We have two final witnesses who can come up to the witness table. I want to thank you both for coming.

I apologize for your having to sit around and wait. I hope you at least found it interesting and possibly useful.

Let me encourage you both, in the interests of time, to summarize your testimony. It will be included in the record. If you could perhaps give us just one or two major examples of what you have been able to accomplish, or what you think can be accomplished, that would be very helpful.

To conclude this hearing, our two witnesses are Linda Wilcox of Coastal Enterprises, Incorporated; and also Stella Horton of the Education, Training and Enterprise Center.

Ms. Wilcox, do you want to begin, and then Ms. Horton?

**STATEMENT OF LINDA WILCOX
DIRECTOR OF ADMINISTRATION,
COASTAL ENTERPRISES, INCORPORATED**

MS. WILCOX. Yes. Thank you, Mr. Chairman.

I am the Director of Administration at Coastal Enterprises, Incorporated, in Wiscasset, Maine.

CEI is one of more than 2,000 nonprofit community development corporations that does economic and housing development, benefitting low-income families.

CEI is in the business of raising public and private funds, and then using those funds to generate economic activity in Maine communities, activity that will directly benefit low-income families.

We loan and invest money in small Maine businesses that agree to target a portion of jobs created to low-income people.

We loan startup and expansion money to self-employed people and other very small business owners, many of whom themselves are low-income.

We target our financial assistance to natural resource industries, small manufacturers, child-care providers, women business owners, recipients of public assistance, and people with disabilities.

We finance and develop affordable housing.

What makes us different from conventional lending institutions, and what we believe has led to our success, is that our services go far beyond financial assistance.

We offer our borrowers a range of services from business counseling to accessing public job subsidies to consultation on operating programs.

Maine is a very poor State.

The bright spot in our economy, however, is the small business sector.

Fully 80 percent of Maine's businesses have fewer than ten employees and 60 percent have fewer than five, and it is the fastest growing sector in our economy.

It is the small business sector that CEI programs target to create economic opportunities for poor people.

We have a small staff. We operate statewide. We have three loan officers and seven program specialists who provide the technical assistance to our clients.

We have an asset base of \$12 million, of which \$11 million is available for loan and investing, and the interest from our loans contributes to our operating budget.

Since its inception, CEI has financed 203 of Maine's small businesses through loans and investments, totalling \$10.4 million.

The economic significance of this activity goes far beyond our own financing, however.

We have been able to leverage over \$45 million in additional funds from banks and other private institutions. So, we have been directly responsible for injecting over \$55 million into the Maine economy.

Our ability to attract bank participation in deals that they would not do on their own is particularly critical at a time when Maine is facing a serious credit crunch.

When we talked recently with bankers about the importance of CEI's role, one said that CEI makes him more comfortable with deals.

We do higher risk lending than banks. We have an excellent track record. In the last eight years, we have lost only 4.8 percent of the money that we have loaned out.

In large part, this is due to careful deal screening and the quality of technical assistance provided to our borrowers. But we would not be doing our job if we simply loaned money to small businesses.

Every deal we do must provide benefits to low-income families. Over 2,800 jobs have been created or retained, and 200 business have been financed, and one-third of the jobs have been filled with low-income people.

Our funding comes from a variety of public and private sources. Our major supporters are the U.S. Department of Health and Human Services,

Office of Community Services; the Farmers Home Administration; and private foundations, including the Ford Foundation.

I want, if I may, to describe briefly our major programs.

We operate a development fund for job-generating businesses that provide decent wages, benefits, and career ladders.

To receive the financing, the business must agree to target a significant percentage of the jobs created to low-income people.

We have a member of our staff who works closely with the businesses and with the job training agencies in our communities to make a match between the clients that are being trained for JTPA and ASPIRE, which is our Jobs Program.

So, a real effort is made to fill the jobs created with our financing with the very low-income people.

In the last year alone, 50 of the businesses that we have financed through this program have had 492 job openings.

One-fourth of the jobs were filled by low-income people and half of those were receiving on-the-job training, meaning that they were a part of the public job-training system.

The average entry-level wage was \$6.54 an hour and included company-paid health insurance, a very critical factor.

We also fund very small businesses. Our Enterprise Development Fund finances businesses that are employing less than 50 people.

To be eligible for the financing, again, the owner must either be low-income or be willing to hire low-income people.

One hundred thirty businesses have received an average of \$10,000 of CEI financing. Over half of these very small businesses are owned by women. These loans have helped retain or create 436 jobs, and over half of them were filled by low-income people.

Recognizing that the quality of child care is a necessity for working mothers, we began a national demonstration to finance child-care programs.

Since then, 45 child-care centers and family day-care homes have received loans or grants through CEI financing. We have created nearly 1,500 child-care slots, again, with a significant proportion available to low-income families.

In addition to the financing, each provider has received on-site, one-on-one counseling on creating quality child-care programs from our child-care specialists.

In my written testimony, I have gone on to make suggestions as to what the Federal government can do to enhance the kinds of things that we are doing at CEI.

We are a very small program and certainly are running in a demonstration mode.

I think we have demonstrated a success, and we would appreciate your considering our track record.

Thank you.

[The prepared statement of Ms. Wilcox follows:]

PREPARED STATEMENT OF LINDA A. WILCOX

Senator Sarbanes, Congressman Hamilton, members of the Joint Economic Committee. My name is Linda Wilcox and I am the Director of Administration at Coastal Enterprises, Inc. in Wiscasset, Maine. CEI is one of more than 2,000 private nonprofit community development corporations in this country engaged in economic and housing development to benefit low-income families. I am pleased to be here this morning to bring the perspective of a rural community development practitioner to your hearings on poverty. In my testimony, I will do three things: first, profile the Maine economy; second, describe CEI programs; and third, suggest actions Congress can take to strengthen the impact organizations like ours can have on reducing poverty, particularly in rural areas.

CEI is in the business of raising public and private funds and then using those funds to generate economic activity in Maine communities -- activity that will directly benefit low-income families. We loan and invest money in small Maine businesses that agree to target a portion of jobs created to low-income people. We loan start-up and expansion money to self-employed people and other very small business owners many of whom are themselves low income. We target our financial assistance to natural resource industries, small manufacturers, child care providers, women business owners, recipients of public assistance and people with disabilities. We finance and develop affordable housing. What makes us different from conventional lending institutions -- and what, we believe, has led to our success -- is that our services go far beyond financial assistance. We offer our borrowers a range of support services from business counseling to accessing public job training subsidies to consultation on operating child care programs.

The Maine Economy

With a population of 1.2 million, Maine is a largely rural, poor state. Over half of our population lives in communities of under 2500 people, twice the national percentage. Portland, our largest city, has only 65,000 people. Since 1983, 84 plants have shut down, many of them traditional, natural resource-based industries manufacturing shoes and textiles located in rural areas. The short-lived economic boom of the '80s fueled by real estate development has been replaced with a devastating bust. In July of 1988 the statewide unemployment rate was 2.9 percent; last July it had risen to 7.2 percent. Maine is one of only nine states qualifying for the maximum 20 weeks of extended unemployment benefits under the new law enacted last week. Between the first and second quarters of this year, our personal income actually fell placing us 50th in the nation on this economic yardstick. Growth in state government during the boom years and recent declines in income and sales tax revenues have resulted in large budget deficits and in wrenching cuts in government services, particularly those for poor people.

During the 1980's the cost of housing rose dramatically, putting home ownership out of the reach of two-thirds of Maine families. We have the oldest housing stock of any state in the nation: 40 percent of Maine homes was built before 1940. And over 10 percent of the population is at risk of homelessness or is living in extreme substandard conditions.

Our traditional industries -- pulp and paper and shipbuilding -- and the jobs for Maine people they create are threatened. Paper companies are being sold and resold to international conglomerates and Bath Iron Works, our single largest private employer, is facing dramatic downsizing if it cannot convert to non-military production.

However, a bright spot in Maine's economy is the small business sector. Fully 80 percent of Maine businesses have fewer than 10 employees and 60 percent have fewer than five. And it is the fastest growing sector in Maine's economy. Between 1982 and 1986, the number of businesses with one to four employees

grew by 45 percent. The largest decline occurred among firms with more than 1000 employees. It is this small business sector that CEI programs target to create economic opportunities for low-income people.

Coastal Enterprises, Inc.

CEI began operation 14 years ago in rural midcoast Maine. Today we operate statewide but concentrate our activities in the midcoast and southern part of the state. Our 18 member staff includes three loan officers and seven program specialists who provide technical assistance to our clients. We have an asset base of \$12 million, of which \$11 million is loan and investment capital. Interest income from loans contributes to our operating budget.

Since its inception, CEI has financed 203 businesses with loans, investments or guarantees totaling \$10.4 million. The economic significance of this activity goes far beyond our own financing, however. We have been able to leverage over \$45 million in additional funds from banks and other private institutions. So we have been directly responsible for injecting over \$55 million dollars into the Maine economy. Our ability to attract bank participation in deals that they would not do on their own is particularly critical at a time when Maine is facing a serious credit crunch. When we talked recently with bankers about the importance of CEI's role, they said they looked to CEI to "make them more comfortable with deals." While we will do higher risk deals we have an excellent track record. In the last eight years, we have lost only 4.8 percent of the money we have loaned out. In large part, this is due to careful deal screening and the quality of the technical assistance available to our borrowers.

But we would not be doing our job if we simply loaned money to small businesses. Every deal we do must provide benefits to low-income people. Over 2800 jobs have been created or retained in the 200 plus businesses we have financed and one-third of the jobs has been filled with low-income people.

Our funding comes from a variety of public and private sources including the U.S. Department of Health and Human Services' Office of Community Services, the Farmers Home Administration, the Maine Department of Human Services, the Ford Foundation, the Lily Endowment, other foundations and religious institutions. Local businesses and banks have also made contributions.

I will now describe each of our major development programs and give a specific example of how financing resulted, or will result, in economic opportunities for poor Maine families.

Natural Resources: Historically, natural resources have been the backbone of the Maine economy. CEI has provided development capital to ten fishing-related ventures along the Maine coast involving fuel, ice, berthing, processing, and marketing. Over 300 fishing vessels with 800 captains and crew benefit from the services developed through CEI financing. These enterprises have generated employment for 435 people.

CEI loaned \$315,000 to developers of the The Fish Exchange in Portland. This fresh fish, open display auction, is the first in the nation using European marketing techniques. The Exchange employs 35 people and handles over 20 million pounds of fish annually. Up to 40 fishing vessels regularly land their product at the Exchange. It has improved in-state marketing opportunities for Maine fishermen and has rewarded them for the quality of their product.

The Development Fund: WE also operate a development fund for job-generating businesses that offer progressive wage structures, benefits and career ladders. Types of businesses include manufacturing, value-added processing and social services. CEI financing is in the range of \$50,000 to \$150,000 with the median deal being \$100,000. To receive financing, the business must agree to target a significant percentage of the jobs created to low-income people. A CEI program specialist, the developer of low-income benefits, works with the business

to identify the jobs to be created, the skills needed to do the jobs, the training opportunities for low-income people, and the specific low-income group or groups the business would like to target. She then communicates this information to local public job training agencies such as JTPA, ASPIRE (Maine's JOBS program for AFDC recipients), Vocational Rehabilitation, and Displaced Homemakers. She arranges a site visit for job training personnel so they can learn first hand about the jobs. The value to the company is that referrals from these agencies often come with on-the-job training subsidies and targeted jobs tax credits.

CEI has financed 50 businesses through the Development Fund. These businesses are projected to create 1,400 jobs of which 722 are targeted to low-income people. Nearly 300 low-income clients have received on-the-job training. In this last year alone, these 50 businesses have had 492 job openings. One-fourth of the jobs were filled by low-income people and half of those are receiving on-the-job training. The average entry level wage was \$6.54 an hour and included company-paid health insurance.

An example of a Development Fund project targeted to jobs for AFDC recipients is a company located in a southern Maine community. Long dependent on disappearing textile jobs, this community of 20,000, has an unemployment rate of 9.6 percent. A manufacturer of felt industrial and commercial products, the company is seeking to diversify its customer base. Its largest customer is a supplier to the United States Army. CEI has received \$330,000 from the Office of Community Services to help finance a \$1 million expansion and diversification plan for the company. This financing will save 16 jobs and create an additional 40 jobs over the next year. A customized pre-apprenticeship program is being designed for 20 new employees of whom 10 will be AFDC recipients. The pre-apprenticeship program will teach trainees the basic math and use of tools the milling and fabrication of felt require. The program is being operated by Women Unlimited, an innovative training program that prepares women for nontraditional occupations. The ASPIRE program will pay for child care and transportation while participants are in training. Once the trainees are hired, they will receive ASPIRE subsidized on-the-job training and will have the option of enrolling in a state-registered apprenticeship program. Jobs will start at \$6.50 an hour and at the end of the first three months will increase to \$8.50. The company provides 100 percent of health coverage for the employee and her family. CEI's Child Care Specialist is working with the company and a local child care center to arrange second shift child care for trainees. The combination of training, wage levels, benefit structure, and career ladder make these jobs ideal for single parent, AFDC recipients. Only the four-way collaboration of CEI, the company, ASPIRE and Women Unlimited can make this ideal a reality.

The Enterprise Development Fund: CEI also funds very small businesses or microenterprises. The Enterprise Development Fund finances businesses employing fewer than 15 people requiring capital of less than \$50,000. In a Maine survey, 80 percent of businesses started with less than \$50,000. To be eligible for financing, the owner must be low income or be willing to hire low-income people. One hundred thirty businesses have received an average of \$10,000 in CEI financing with 38 percent receiving less than \$6,000. Over half of the businesses are owned by women. These very small loans have helped retain or create 436 jobs with over half of them filled by low-income people.

Louise, a single parent with four children lives in the central Maine town of Athens, population 897. When she first came to CEI for a loan, she was growing herbs from which she made herbal teas, medicines, and body care products. She was eking out a living from Food Stamps and by selling her products at a stand at the end of her road and in local stores. She was interested in expanding her business so she could provide more opportunities for her growing children. She borrowed \$5400 from CEI with which she was able to build an inventory of

professionally printed labels and catalogs, bottles, olive oil which she uses as a base for some of her products, and a used car which she needed to market her products to stores throughout the state. In addition to the loan, she received business counseling from a CEI program specialist and participated in a monitoring program run by Maine's Women's Business Development Corporation. With this combination of assistance, she has more than doubled her family income in one and one-half years. She is current on her CEI debt, has obtained a more sophisticated understanding of when to borrow for what purpose (she decided not to purchase a rototiller because she could not handle the debt), and the number of stores carrying her products and her direct mailing list is growing. She has since obtained another loan from the Women's World Banking. With a very small expansion loan from CEI, she has been able to use her skills as a gardener and herbalist to create a decent living for herself and her children.

The Child Care Development Project: Recognizing that quality child care is a necessity for working mothers, CEI began a national demonstration project three years ago to finance child care providers. Since then 45 child care centers and family day care homes have received loans or grants to start up or expand programs. Nearly 1500 child care slots have been created or improved, one-third of which have been targeted to low-income families. Over 300 jobs have also been created or retained. In addition to financing, each provider has received on-site one-on-one counseling from CEI's child care specialist on creating quality child care programs. And many providers have attended workshops on child development and business management. CEI's business counselors have also been available to child care providers.

Sally, a former single parent AFDC recipient was living with her husband and son in a trailer three miles outside the village of Wiscasset, population 3,000. She was augmenting the family income by caring for five children. When the furnace in the trailer failed, she came to CEI for a \$1500 loan to purchase a new one. This low-income family had a spotty credit history and received help from a CEI business counselor in cleaning it up. Sally was soon able to pay back the CEI loan with the profits from her child care business. When electrical wiring in a bathroom wall caused a small fire, the local fire inspector told Sally and husband that the trailer was no longer safe. Sally came back to CEI with plans to build a new building, half for the family to live in and half to house her child care program. CEI loaned her \$40,000 with which she was able to obtain an additional \$60,000 loan from a local bank. The increased space allowed her to expand to 12 children and hire a helper. Sally and her husband have become increasingly sophisticated about financing. Within five months of receiving the second CEI loan, Sally paid it back in full by refinancing through another bank. Sally has become so successful and in demand that she and her husband have built another building on the trailer foundation buying materials as money became available and putting the structure up themselves. Sally now has a total of 24 children, of whom eight come from low-income families. She employs three assistants, one of whom is low income. Last year her child care business generated \$27,000.

The Housing Program: CEI's latest venture is its affordable housing program. We loan money for the construction and improvement of housing for low and moderate income families, our housing specialist provides technical assistance to predominantly nonprofit housing developers, and we are developing our own low-income and special needs housing projects. I will describe one of those projects.

Ward Brook, CEI's first construction project, will be the first affordable housing subdivision in the town of Wiscasset. It includes six single family homes for low and moderate income families and nine rental units for very low income single parent families. A social services coordinator will help tenants acquire education, health services and parenting skills. In addition, CEI's low-income benefits specialist will assist tenants in finding jobs and training; our child care program

specialist will help them find good child care. Local church mission committees are being organized to provide additional services. Ward Brook will afford AFDC recipients an opportunity unique in Maine not only to obtain decent housing but to access the other supports necessary for escaping welfare dependency.

Suggestions for Strengthening Community Development

So what do we need from the federal government to strengthen community development particularly in rural areas? I suggest three things: increased financial support, a reduction in regulatory obstacles to employment that public assistance recipients face, and streamlining of the housing development process.

Financial Support: The Federal Government needs to get into not out of the business of community development if states and localities are to have a major impact on reducing poverty. The Office of Community Services' Discretionary Grant Program and the Farmers Home Administration's loan programs are excellent community development models but their resources are meager. Another good example is the recently enacted Small Business Economic Opportunity Enhancement Act that will provide a modest \$48 million in loans and grants through the SBA to fund 55 demonstration projects over the next two years. These projects, intended to finance very small businesses, will make loans up to \$25,000 with an average loan of \$10,000. Each of these programs is critical to the survival of community-based economic development organizations but they are a drop in the bucket compared to the enormous need for business investment capital, particularly during this serious banking crisis.

To empower these community development organizations to achieve their potential, we ask your support for S.1859, the National Community Economic Partnership Act. Sponsored by Senator Kennedy, this legislation would make \$250 million available to some of the more than 2,000 community development corporations like CEI throughout the country to expand economic opportunities in low-income communities and to build on the success of community based economic development strategies. If community development organizations are going to achieve long-term stability, they need a large enough capital base to support their operation. The funding level in this legislation will go a long way to insure this stability.

When creating loan fund programs for community economic development, we also urge Congress to include funding for technical assistance and training. We are pleased to report that both the SBA Microloan Demonstration Program and the National Community Economic Partnership Act contain such funding. It is our experience at CEI that the more economically disadvantaged the client, the more she or he is going to need a variety of assistance in addition to financing to succeed in a business venture. Two of our current projects, a targeted employment and self-employment demonstration for AFDC recipients and a self-employment demonstration for refugees, have sizable -- and costly-- participant training and technical assistance components in addition to business loans. But we are convinced that this level of support is necessary for very low-income people to succeed in moving toward economic self-sufficiency.

Employment Incentives: My second suggestion is the creation of employment incentives for public assistance recipients. One of the greatest frustrations facing community development practitioners is the array of federal regulations that restrict AFDC entrepreneurial activity. Current restrictions on income and assets make it very difficult for AFDC recipients to support their children and at the same time start a small business.

Therefore, we urge your support of H.R. 3450 and S. 1860, bills that would amend title IV of the Social Security Act to increase business limits from \$1,000 to \$10,000 and to count as earned income only the net profits of small businesses. These bills would also ensure that state AFDC program caseworkers inform

recipients that they can be self-employed and encourage participation in self-employment programs.

Congress could also amend the Job Training Partnership Act and the Family Support Act to create incentives for deliverers of JTPA and JOBS services to coordinate with community economic developers. They receive public funds to train low-income clients. Community economic developers receive public funds to create jobs for low-income people. Finding appropriate clients from Maine's two major low-income job training programs to fill jobs created through CEI financing and obtaining funds for on-the-job training and support services has proved difficult. The value of creating a performance standard that would reward deliverers for referring clients to and supporting them in jobs created with community economic development funds should be investigated.

Affordable Housing Financing: My final suggestion concerns the financing of affordable housing. The most glaring problem in affordable housing construction is the huge gap between the need for such housing and available resources. Only two federal programs escaped the 80 percent cut in federal housing construction assistance of the last decade: the Farmers Home Administration 515 program and the HUD 202 program. Both are woefully inadequate. There is a two year wait for Farmers Home money to build multi-family housing in rural areas. Funding is available from HUD for only 50 units in all of northern New England. And this housing is restricted to very low income families, handicapped people and the elderly. Passage of the National Affordable Housing Act is only a first step toward restoring the role of the federal government in housing development and assistance.

At this time, Congress needs to extend the Low Income Housing Tax Credit which, more than any other federal program, has provided the incentive within the private sector to invest in the creation of low-income rental housing. Obviously, the affordable housing crisis in this country will not be solved until public funds again become available to leverage private sources.

In conclusion, it is obvious that given the economic climate and the burgeoning deficit this is not the time to be looking for large infusions of federal funds. But it is a time for carefully formulated demonstration programs built on what we have learned so far about economic empowerment. Community economic development is an investment that will pay for itself many times over in improved living conditions through the expansion of opportunities for our most disadvantaged families. Our experience in Maine shows that employers are more than willing to hire low-income people. Low-income people are able to succeed in self-employment and often go on to hire additional employees. There is a critical role for the federal government in this partnership. We urge your participation.

Thank you for this opportunity to describe CEI's programs. I would be happy to answer any questions you might have.

REPRESENTATIVE SOLARZ. Thank you.

Let me just ask you right now, where do you get your capital from?

MS. WILCOX. Our capital comes from our public and private funding sources.

There are discretionary grants through the Office of Community Services in HHS. That is a major source of our capital.

The Ford Foundation also has given us two very significant loans. The Farmers Home Administration also has loaned us money.

REPRESENTATIVE SOLARZ. What is the total capital you have gotten?

MS. WILCOX. \$11 million.

REPRESENTATIVE SOLARZ. And how many low-income jobs has your lending generated?

MS. WILCOX. Over 1,200.

REPRESENTATIVE SOLARZ. And what does that come to per job? Have you figured it out?

MS. WILCOX. I can tell you in a moment, Congressman.

[Pause.]

REPRESENTATIVE SOLARZ. You said you generated 1,200 jobs? 1,200 low-income jobs?

MS. WILCOX. We have created 2,853 jobs, of which about 900 have been for low-income people.

REPRESENTATIVE SOLARZ. They were low-income before they had the job?

MS. WILCOX. Yes.

REPRESENTATIVE SOLARZ. Now, presumably they are not.

MS. WILCOX. Hopefully, they are no longer low-income.

REPRESENTATIVE SOLARZ. You had 900 low-income people, and how much was your total capital?

MS. WILCOX. The CEI financing was \$10 million for these jobs.

REPRESENTATIVE SOLARZ. So, that comes to how much?

MS. WILCOX. The cost per job was \$3,641 for all of the jobs. For the low-income jobs, it was \$11,000.

REPRESENTATIVE SOLARZ. Per job?

MS. WILCOX. Yes.

REPRESENTATIVE SOLARZ. And these are loans you expect to have repaid?

MS. WILCOX. Yes.

REPRESENTATIVE SOLARZ. And what is the average income of the people in these jobs, the low-income people who got the 900 jobs for the low-income. Now, that they have a job, what are they making?

MS. WILCOX. The entry-level figure that I gave for our development fund activities was over \$6 an hour.

REPRESENTATIVE SOLARZ. Okay, Dr. Horton?

DR. HORTON. Thank you.

REPRESENTATIVE SOLARZ. Thank you for your patience.

**STATEMENT OF DR. STELLA JEAN HORTON
EDUCATIONAL TRAINING AND ENTERPRISE CENTER
CAMDEN, NEW JERSEY**

Dr. Horton. Certainly. I do have a 2:00 o'clock train to catch, so I will definitely be brief.

[Laughter.]

But I certainly want to say thank you for providing me this opportunity to come to you today.

I am a practitioner, so, therefore, that which I speak is that which I have experienced.

I am also presenting on behalf of Mr. Aaron Bocage and Mr. George Waters, who are Senior Partners in the firm EDTEC, Educational Training and Enterprise Center.

Much of what I shall share with you today has been extrapolated from two articles that were written by Mr. Bocage and Mr. Waters on how to, in fact, teach applied economics, but specifically to address poor youth in this country.

The two articles were entitled "Creating Opportunities for Youth." One was included in *Revitalizing our Cities. New Approaches to Solving Urban Problems*, and there was a foreword by Congressman Kemp in that particular article.

The second article was "Entrepreneurship Training for Youth" that was published in *Commentary*, which is a journal put out by the National Council on Urban Economic Development.

First of all, I should say that EDTEC is a minority-owned firm located in Camden, New Jersey, which has been identified as the second poorest city in this country, and EDTEC officially emanated in 1985 after having worked with at-risk youth at the juvenile resource center.

Mr. Bocage and Mr. Waters decided that they were going to go beyond working with and providing educational counseling to at-risk youth, but, in fact, developing jobs.

Currently, I serve as the Executive Director of the Juvenile Resource Center and also with Mr. Bocage and Mr. Waters. We have been working together now for more than 12 years.

I would like to also say that what has occurred with EDTEC has resulted in the publication of a series of workbooks entitled *New Entrepreneurs*, which is written at about a 4th grade level, and actually gives a hands-on, nuts and bolts approach to how do you in fact create your own business as a youth in America.

These 12 units have aided in teaching poor youth how to become entrepreneurs.

I must also say that we started, as I indicated, many years ago to work with—

REPRESENTATIVE SOLARZ. Ms. Horton, can I just interrupt you for a minute and ask a question?

DR. HORTON. Sure.

REPRESENTATIVE SOLARZ. This may be naive, but "entrepreneurship" implies a kind of full-time activity. If you are a youth, presumably you are in school.

DR. HORTON. Right.

REPRESENTATIVE SOLARZ. How do you go to school and be an entrepreneur? Or by "youth," do you mean people who are already graduated from high school?

DR. HORTON. No, we are not. I am talking specifically about 14-, 15-, 16-, 17-year olds.

While the concept of entrepreneurship may imply full-time employment, that which we advocate does not focus on a full-time job.

What we suggest is that youth actually learn the concepts within a curriculum in regular school, or through a summer-designed program that we operate in Camden.

REPRESENTATIVE SOLARZ. Well, when you talk about entrepreneurship, are you talking about ... you know, when I was young, we would deliver newspapers, or we would set up a lemonade stand and sell lemonade, or I think once I tried to sell magazines somewhere.

Are you talking about setting up businesses?

DR. HORTON. That is similar, but we are talking about setting up businesses.

Let me share with you some of the types of businesses that our youth currently operate.

REPRESENTATIVE SOLARZ. Sure.

DR. HORTON. We have youth that operate baking businesses.

As a matter of fact, I personally this summer worked with seven young ladies who were 13-, 14-, and 15-year olds. They baked home-made products and sold those products.

REPRESENTATIVE SOLARZ. You mean like cookies?

DR. HORTON. Cookies, home-made cakes, home-made pies, brownies, cupcakes—

REPRESENTATIVE SOLARZ. Tell them to write to me.

DR. HORTON. —and they did a complete marketing strategy in which they were able to solicit orders from residents as well as business people for birthday cakes and other office parties, and things of that nature.

REPRESENTATIVE SOLARZ. Tell them to put me on their list.

[Laughter.]

DR. HORTON. I certainly will do that, Congressman.

REPRESENTATIVE SOLARZ. I have a sweet tooth.

DR. HORTON. Now, other kinds of businesses would involve doing small home-repair businesses.

We had a group of 11 youths this summer, under the supervision of a certified carpenter who did small jobs within the community, to help repair homeowners homes as well as other businesses within the Camden area.

REPRESENTATIVE SOLARZ. And the examples you gave, these are throughout the year? Or just in the summer?

DR. HORTON. These are businesses that primarily become started in the summer, and some of those businesses are carried throughout the year.

Also, I should say that we are suggesting that young people learn the concepts of the importance of entrepreneurship, just as it is important to learn the basic concepts of reading and writing.

Now, there are some children in the United States who, at the breakfast table each morning, hear their parents discuss business concepts and ideas, but young poor children are not often privy to that kind of dialogue.

So, what we are suggesting is that within school curriculums, within JTPA, there should be a focus on helping young people to understand that they in fact can have a piece of the so-called "American Dream."

Because whether we want to admit it or not, Congressman, many of our poor urban youth have embraced the concept of entrepreneurship in terms of drug selling, rather than taking the concept of entrepreneurship and applying that in those areas which can be, first of all, beneficial to them, and also the community.

REPRESENTATIVE SOLARZ. Yes.

DR. HORTON. So, while we are saying entrepreneurship concepts may be taught with school systems, we are also saying to teach it to young people early enough so that at the age of 19, 20, 21, 22, the concepts are there, and they can apply them.

REPRESENTATIVE SOLARZ. I think that sounds exciting and very interesting, and I commend you.

Let me ask you a question which has puzzled me for some time.

You may not necessarily be the best person to ask it of, but it is something that I have wondered about, and given your experience, you may have some thoughts on it.

I come from New York City.

I am struck by the extent to which so many of the people in the Korean American community have gone into the green grocer business.

All over the city, you see these green grocer shops that these people have set up, and almost invariably they make them look much nicer than whatever preceded them, and it looks actually quite attractive.

I gather they work very, very hard, but they seem to make a good living at it.

I gather, however, that it has generated a certain amount of tension in some of the minority communities, because people who live in those communities, see individuals who do not live in the community come in and set up a business and seem to do reasonably well, and that, I gather, generates some resentments.

I know in Brooklyn, where I come from, there were some incidents that were quite tragic. But what I do not understand is, to the extent that it seems possible to make a decent living, even in poor neighborhoods, by setting up these shops, these green grocers, why more people from those communities themselves do not do this kind of thing.

DR. HORTON. Well, based upon my experience—

REPRESENTATIVE SOLARZ. There is nothing to prevent them.

DR. HORTON. Well, based upon my experience, we have to take a real serious look at how the dollar turns around within certain communities.

What I mean by that is that within the African-American community the dollar does not stay within 24 hours.

Usually that dollar comes in, with the exception of being used at the local barbershop or at the local beauty shop, and that dollar goes out of the community. Consider, now, the dollar within the Asian community, or the dollar within the Jewish community.

That dollar turns over sometimes 10, 12 times before it exits that particular community.

So, what I am suggesting is that within certain communities there has to be a significant refocusing on how that dollar is maintained and used within a particular community.

I think it is very applicable within my own community, the African-American community. So, I would suggest that the challenge would be to look at why the dollar does not stay within the community.

Now, in responding to your question again, it cannot be overlooked that within the African-American communities the opportunity to acquire dollars to invest in businesses are also limited.

REPRESENTATIVE SOLARZ. Well, let me say here, I have not made a systematic study of it, but I suspect what you have just mentioned is a critical factor. Because I know, just from my study of some of the other communities that have succeeded, it is the availability to internal sources of credit that makes a tremendous difference.

But here, it seems to me, that it might make sense for people in the African-American community to emulate the ways in which other ethnic communities have succeeded in generating internal credit.

Like, for example, the Koreans, I gather, they establish a club, and everybody contributes a certain amount of money each month or week to the club, and then each month a different member of the club gets what everybody else has contributed, and then can use that as an investment to open up a business or something. So, eventually everybody gets around to getting enough money to open up a business.

The Japanese used to have this. Maybe they still do, I do not know.

I know that in my district we have a very successful Syrian community—Syrian-Jewish community, actually—and they have been fabulously successful, but their success can be traced back to the turn of the century when they had a few generous and farsighted people in the community who were willing to provide credit to others who wanted to start a business, and that is how they got started. If they had gone to a bank, they would never have gotten it.

If these Koreans, who want to open up grocery stores, wanted to go to a bank, they probably would never get it. But they can go to people within their community who make the credit available to them. Has anything like that been tried?

DR. HORTON. Well, it has been demonstrated and tried in various communities.

Now, the degree to how successful they have been, I certainly have not and cannot at this time share an empirical data that would support that.

But what I would point out, especially piggybacking on what you have just stated, you see within certain communities the concepts are firmly planted. There is a knowledge of basic economic concepts.

There is information already at the youth's hand, as well as the elder's, of how do you, in fact, establish good business principles; or, how do you, in fact, establish a good business.

Within the African-American community, and often within the Hispanic community, there is a void of that information. That information does not exist.

REPRESENTATIVE SOLARZ. So, how do you—

DR. HORTON. What I am suggesting is exactly what I am proposing. That within the educational curriculum, that within summer JTPA employment programs, there be classroom training that says this is exactly how you establish a small business. This is how you market your business.

Take a look at someone like Famous Amos who started with—Did the world need another chocolate chip cookie? I do not think so.

REPRESENTATIVE SOLARZ. But I—

[Laughter.]

DR. HORTON. But what happened? Famous Amos, through his marketing strategies and techniques, was able to become a multimillionaire.

Did the world need another Cabbage Patch doll? No, it did not.

But as a result of marketing strategies, as a result of so many other business practices, those individuals were able to become multimillionaires.

So, what I am suggesting and what I am offering is this, very simply: The New Entrepreneur Curriculum with topics such as "Opportunities All Around You: How Do You Actually Identify Opportunities within Your Community?"—just to mention a few.

What are the types of business formations?

Many of our children are not even aware that there are basically three types of business formations in this country.

How do you comply with governments laws and regulations.

REPRESENTATIVE SOLARZ. What are those?

[Laughter.]

DR. HORTON. There is sole proprietorship; there is the partnership; and—

REPRESENTATIVE SOLARZ. And the corporation.

DR. HORTON. —the corporation.

So, sharing this information with our young people in a very easy-to-read curriculum that has been developed will give that information that has been void in the past, and will ultimately impact the poverty level within this country.

REPRESENTATIVE SOLARZ. Have you had any success in getting this adopted in the curriculum?

DR. HORTON. Most definitely. As a matter of fact, I served on the Camden City Board of Education for seven-and-a-half years and was instrumental in seeing that within all the middle schools, and starting within the high schools, the curriculum has in fact been taught now going into the third year.

REPRESENTATIVE SOLARZ. And does it seem to have had an impact?

DR. HORTON. It has had an impact.

We are working currently with over 40 youths who have their own small businesses. And during the summer—this summer—we worked with over 60 young people that developed their own small businesses in Camden.

REPRESENTATIVE SOLARZ. Well, I applaud you. I think that is very constructive.

Where do you get your funding from?

DR. HORTON. From various sources. One of our sources of funding, of course, is through the School District.

We also go out for private as well as public dollars.

But may I summarize by sharing—I see that you are anxious to go, Congressman—

REPRESENTATIVE SOLARZ. I do not want you to miss your train.

DR. HORTON. —may I summarize by making three points.

I am not going to miss it.

But let me just share with you three suggestions, in terms of how we can, in fact, make this work.

First of all, I recommend that all poor children in this country be exposed to the entrepreneurial thinking and training.

If we can provide a welfare check, a Medicaid card, and food stamps, then it would stand to reason that we should in fact be able to provide training on how to get out of these free programs. One suggestion.

A second suggestion is this. That we make regulatory changes that support self-help among the poor.

One example that is currently under consideration is proposed Rule FR-2586, which provides a mechanism for and encourages public housing authorities to contract with resident-owned businesses.

I think Mr. Kemp alluded to that this morning.

Third, we should include self-employment training as a priority area of training and work-related education in the Job Training Partnership Act legislation.

We should establish an Office of Youth Entrepreneurship within the Departments of Labor, Departments of Health and Human Services, or Commerce, to focus attention on this area.

Finally, we should establish a one-percent-for-self-reliance policy. That is, we should require that 1 percent of the appropriations for HHS, Labor, commerce, HUD, and Education be set aside specifically for programs that teach self-reliance and support self-employment.

Again, Congressman, I thank you for allowing me this opportunity, and I certainly stand ready for any additional inquiries that you may pose at this time.

REPRESENTATIVE SOLARZ. Have there been any other areas around the country that have programs similar to yours?

DR. HORTON. Yes. We have worked in over 12 different states in the country, including New York in Rochester.

We demonstrated a project there.

REPRESENTATIVE SOLARZ. Are you the only ones who are doing this?

DR. HORTON. We are the only ones who are doing it at the level that we are currently moving, but there are a couple of other programs that are embracing the idea of youth entrepreneurship.

[The prepared statement of Dr. Horton follows:]

PREPARED STATEMENT OF STELLA JEAN HORTON

I appreciate the opportunity to testify before the Joint Committee on Economic Development. I have submitted copies of the full testimony for the record. Much of the full testimony is taken from two articles that we wrote to explain our commitment to teaching "Applied Economics" to poor youth in this country. The first is an article entitled 'Creating Opportunities For Youth', was included in "Revitalizing our Cities, New Approaches to Solving Urban Problems, with a foreword by then Congressman Kemp." The second article, Entrepreneurship Training For Youth, was published in Commentary, the journal of the National Council on Urban Economic Development.

First of all I would like to thank Committee members and staff for inviting a practitioner to these proceedings. Usually we are not included in hearings of this nature. These forums are usually limited to researchers and theoreticians.

EDTEC is a minority firm founded in 1985 to bring together some of the best minds available to specifically address the issues minority youth in poverty. Over the past seven years EDTEC has gained significant national recognition for its innovative Youth Entrepreneurship Programs. This effort has included starting five businesses using chronic juvenile offenders as both employees and managers, developing a complete 12 unit curriculum called **NEW ENTREPRENEURS** to teach poor youth about self employment,

training several hundred youth and adults in self employment strategies, and publishing the MARKET STREET JOURNAL , a newsletter that highlights young entrepreneurs.

Aaron Bocage and George Waters, founders of the Education, Training and Enterprise Center. (EDTEC) became involved with youth many years ago when they were college students working at a settlement house in South Philadelphia. Since that time, the staff of EDTEC worked with "regular" teenagers, high risk youth, special education students, gangs and emotionally disturbed young people. And during the twenty years in the field we have consistently seen one barrier block the path of progress for the young disadvantaged. That barrier has been the inability of our major systems (schools, church, government, etc) to successfully involve them in the economic mainstream of our society.

There are thousands of young people growing up in our country who have never actually worked or earned an honest dollar in their life. You don't need to be a Phd in sociology to understand the problems that ensue to youth and their families when they never experience the world of work in our society.

However, I didn't come here from Camden NJ this morning to simply identify problems associated with young people and work. I am here to offer some of what we have learned over the years in our entrepreneurial efforts

with young people and to offer some specific program suggestions for dealing with the issue of providing more jobs and work opportunities for young people.

The first thing I would like to suggest is that policy makers seek ways to encourage entrepreneurship among non profit community based groups.

In 1977, we founded and directed the Juvenile Resource Center (JRC), a non profit youth agency that works with Juvenile Offenders in Camden, New Jersey. Camden is one of the poorest cities in the nation with youth unemployment consistently at over forty percent. The JRC was designed to work primarily with youth in the areas of education, counseling, job training, and employment. With the Camden economy at rock bottom and youth unemployment skyrocketing, we decided we had to also attempt to address job creation strategies.

In 1981, we started our first youth operated business, the Lunchbox. The lunchbox was a downtown sandwich shop. We started the business to create real jobs and real work for young people in our community. Our goal was to begin to break the cycle of dependency that exist in many families.

For a first year investment of \$25,000, the lunchbox trained 16 youth in all aspects of food service and restaurant work, paid them \$21,000 in wages, hired one adult camden resident, pumped \$50,000 into the local economy by using city based vendors.

Our experience with the lunchbox led us to start several other ventures. We opened Little Bo Pizza, a sit down pizzeria restaurant; new ventures management, a real estate management company that owns and operates the agency's main facility; the plant company, a commercial greenhouse; and perfect pastries, a commercial bakery. For the purpose of this discussion, the economic details of each venture are less important than the broad picture. Through the businesses that were created in this very small non profit youth agency, 66 youth were involved in work training, 28 youth were employed and 10 adults were employed. Thus, we would like to think that a total of 104 families in camden were a little more self sufficient

because someone in their household was involved in the real world of work.

We learned several important lessons from these first ventures. First we learned that young people were hungry for the chance to be a part of a real

business. The key word here is real business. When we first started the Lunchbox, we ran the business like a social service organization. We were not bottom line oriented, we were too accepting of problem behavior, our standards for the youth employees were too lax. As a result the youth did not respect or respond to the "program". When we became a real business with a real bottom line food service manager, the young people responded dramatically. (For details of the exciting progress that followed, see the articles attached as appendices to this testimony). Once the young people gained respect for the business, their attitudes and behaviors improved tremendously. When we set high standards and demanded that they meet them and rewarded them when they did, they knew this was a real business and they wanted more of it.

**THIS MAY BE THE SINGLE MOST IMPORTANT LESSON THAT WE
LEARNED FROM OUR EARLY EXPERIMENTS WITH YOUTH**

ENTREPRENEURSHIP -- THAT POOR PEOPLE ARE TIRED OF PROGRAMS BUT ARE HUNGRY FOR AND EXCITED ABOUT THE CHANCE TO BE PART OF THE AMERICAN ECONOMY.

Second, we learned that we needed to go to the next logical step in training these young people. Some of our young students challenged us directly. They said that they appreciated what we had to offer them in terms of education and job search assistance, etc. but that we had not taught them how to make money if they didn't want to work at McDonalds. They told us that others in the community had offered to teach them how to make money (drug dealers).

They clearly preferred to make honest money but no one, not teachers, family, counselors, programs, ministers, businessmen, no one had offered to teach them how to make money honestly. Now, if we intend to win this "war on drugs", we had better start throwing some punches. And one of the most effective punches we can throw is the offer of alternatives to the drug

economy. We now felt we had to develop ways to teach them how to be real entrepreneurs themselves-- how to start their own small business.

We suggest that as policy makers you look to encourage more opportunities to create jobs, youth enterprises and work experiences at the local level by utilizing non profit youth agencies, churches, civic associations and schools as economic developers, business mentors and customers.

Our suggestion is that we (adults) must begin to systematically teach youth how to create work for themselves. One of the things we often forget, and many poor kids never learn, is that one can participate in the world of work without having a job. Many young people are blessed in this country and learn about business, self reliance, and entrepreneurship everyday over the breakfast and dinner tables. But there many others who are not so blessed. For these kids we have to teach them what we all grew up taking for granted before there were summer jobs programs, "If you can't find a job, then make a job."

To help teach these lessons to young people, we have developed a curriculum which actually teaches kids how to start their own neighborhood

business. The curriculum is called NEW ENTREPRENEURS. I have a few brochures about the program I would like to share.

We teach youth how to create a small business in their own neighborhood with little or no resources. The curriculum is a series of 12 well illustrated workbooks written on about the 4th grade level. It is a soups to nuts guide for the young entrepreneur, and it is designed to make poor youth believe that they can try and succeed. One

section, called "easy in and easy out - youth business ideas for all neighborhoods, should be owned by every youth in America. It is appropriate for youth who live on farms as well as young people who grow up in urban housing projects. New Entrepreneurs teaches kids how to deal with the issue of work the old fashioned way.

In addition to training youth directly and training others who want to start programs in their communities, EDTEC staff now spends much of its time trying to convince policy makers of the importance of this approach. We do not believe this is the answer to poverty in America, but we do believe that it is at least a small part of the answer.

To summarize our suggestions:

- 1) We recommend that all poor children in this country be exposed to entrepreneurial thinking and training. If we can provide a welfare check, a medicaid card, and food stamps, then we should be able to provide training on how to get free of these programs.
- 2) Make regulatory changes that support self help among poor. One example currently under consideration is Proposed Rule FR 2586 which provides a mechanism for and encourages Public Housing Authorities to contract with resident owned businesses.
- 3) Include Self Employment training as a priority area of training and work related education in the Job Training partnership Act legislation.
- 4) Establish An Office Of Youth Entrepreneurship within Labor, HHS, or Commerce to focus attention on this area of endeavor.
- 5) ESTABLISH THE 1 % FOR SELF RELIANCE POLICY , that is, require that 1 % of the appropriations for HHS, LABOR, Commerce, HUD, and Education be set aside specifically for programs that teach self reliance and support self employment.

APPENDIX A
RELATED ARTICLES

ECONOMIC DEVELOPMENT

COMMENTARY

Volume 14/Number 1/Spring 1990

IN THIS ISSUE

ENTREPRENEURSHIP TRAINING FOR YOUTH

By Aaron A. Bocage and George E. Waters

This article tracks the authors' experiments with youth enterprise, their own growing understanding of the importance of "Applied Economics" education for poor youth in America, and its relationship to overall urban economic development.

In most areas of the country, the "experts" seeking to initiate economic growth in poor cities, either totally ignore youth, or include young people in their proposed solutions as second or third phase priorities. In effect, they are saying that we just have to write-off one or two more generations of young people while we deal with the adults.

We term this approach the "default/trickle down" treatment. It says that since we don't know what to do with these young people, we'll just look the other way and hope the benefits of economic growth will find their way down to them.

There are several problems with this approach.

Aaron A. Bocage and George E. Waters are founders of the Education, Training and Enterprise Center (ETDEC) in Camden, New Jersey. Formerly, they founded and directed the Juvenile Resource Center, Inc., a non-profit corporation in Camden that sponsored entrepreneurship training and young offenders. The New Entrepreneurs program (described here) is also featured in CLED's publication entitled, A Salute to Imaginative Economic Development Programs.

Young people today are creating new generations of young people at an alarming rate. In our poor cities, the young people do not move away; they stay in the city. Trapped in our economically underdeveloped cities, they become angry destructive forces working against any revitalization effort.

The ignored 15-year-old of today who wants something better, in five years becomes the angry young adult with three kids and no future. We know all too well from past experience that if we do not include young people and try to give them a "piece of the action," they will surely find a way to tear down whatever we build.

BIG SOLUTIONS WRAPPED IN SMALL PACKAGES

Solutions to the problems of developing our inner cities don't always come wrapped in the kind of package that we expect. Economic development isn't always wrapped in the dressing of the banker and corporate executive. Inner city development often comes in a small-business wrapper and sometimes from the often ignored resources of youth and non-profit organizations. One such organization was The Juvenile Resource Center (JRC), founded by the authors in 1977 in Camden, New Jersey, one of the poorest cities in the country.

The JRC was founded to help serious juvenile offenders acquire an education, counseling, living skills, job training, and job placement. It began doing this in a city where teenage unemployment was approximately 50 per cent. Those youth who did get jobs were employed at entry level and didn't retain the jobs for very long. The center, under the authors direction, chose to focus on economics as one solution to these problems.

Venture #1: The Lunch Box

In 1981, after much discussion with JRC's board of directors, the authors decided to open a take-out

Finding a Solution to Poverty

The unemployment rate for young adults in the city of Camden, New Jersey, approaches 80 to 70 percent. During the summer months, more than 2,000 urban youth compete for 200 available jobs. Many of these participate in government-sponsored employment and training efforts that often fail to nurture the spirit of entrepreneurship. This article focuses on youth enterprise and the vitally important role it can play in turning inner city youth away from drug dealing and other illegitimate activities, as well as welfare dependency, to the satisfaction of owning and operating a successful, small business. The article especially focuses on the New Entrepreneurs program, developed by the Education, Training and Enterprise Center (ETDEC) in Camden. It is a curriculum-based entrepreneurial and economic development program designed to teach urban youth how to start and manage a small business in their own neighborhoods.

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sandwich shop to be operated by juvenile offenders. The Lunch Box opened in June 1981. We borrowed \$12,000 for equipment and used six youth offenders as employees. The planning process left much to be desired, and the first year of operation was a disaster in many ways. We can now laugh about the numerous crises that occurred. But, at the time, they spelled disaster.

Clients were found "with their hands in the till;" the freezer broke down on a weekend, and all the meats were lost; the employees' bad attitudes chased away the customers; we had to fire our social worker, cook who was more interested in counseling kids than in running the kitchen; and the health department closed us down because our rented space had rats in the basement.

All of this resulted in a first-year loss of \$25,000. Evaluated strictly as a private for-profit venture, the Lunch Box would be considered a loser based on lack of profits and probably closed down. However, from the perspective of the JRC, the venture that at first looked like a real loser was actually a tremendous bargain (see Table 1).

For an investment of \$25,000 (the cost of covering the loss), the Lunch Box trained 18 youthful offenders who received \$21,000 in wages, pumped \$50,000 into the local economy by using city-based vendors as suppliers, generated \$4,000 in sales taxes and \$4,000 in income taxes, cleaned up a corner that had been a trash filled eyesore, and attracted a new business next door. It also created goodwill with city and county officials, made new friends for the agency in the corporate community, attracted several hundred-thousand dollars in new business-related income, and attracted a fortune in free publicity.

However, the aspect of the Lunch Box that was most important to JRC was its impact on the young offenders who were its employees, and the relationship between their success and the future development of Camden. The venture was a first-rate success from that point of view. This can best be illustrated by the story of one of those youth named Juan.

Juan was a nearly illiterate, 17-year-old classic career juvenile offender, whose attitudes matched his rap sheet. He frequently said, "Lock it up or I'll steal it!" When Juan first began working at the shop he struggled for several months. He didn't seem to care about the business and his educational and personal/social skills showed little improvement. He struggled to spell out loud each item of each order—"H-A-M . . ."—as he wrote it down. His slowness, inaccuracy and terrible attitude lost many customers and much money.

Six months later, Juan had developed a totally different set of skills. He could accurately take rapid-fire phone orders while shunting orders to



Meyer Randy Primes onto the ribbon at the opening of the Lunch Box outdoor eatery.

the cook, and running the cash register. His skills and confidence grew rapidly as did his self-confidence. The next summer some new students were brought in to serve as waitresses. They had basically the same skills (or lack of them) with which Juan had started. He was appalled at their lack of skills and constantly complained that summer that the new students didn't even understand how to figure sales taxes!

Juan eventually became unhappy because he was developing his own ideas about how a business should be run. He felt we were not doing a good enough job and he decided to compete with us by opening a similar business to be financed by family in Spanish Harlem. Whether Juan ever opens his business is not important. What is important is how he attacked his problem. He was frustrated and somewhat angry. In the past he would have struck out with anger. Now, he is thinking and problem-solving like a businessman. Instead of trying to destroy something he didn't like, he chose to implement what he felt would be a more successful, legitimate venture. Juan will never be in trouble again and will probably never be dependent on welfare or other government subsidies.

In retrospect, the authors believe that what changed Juan's attitude was a change they made in the operation of the shop. The change was a decision that the operation of the shop would be a business first and social service second. This entailed the firing of the social service worker who had been directing the Lunch Box and the hiring of a professional food service worker who had zero social service background. We had discovered that once we decided that the Lunch Box would be a business, run as a business, it actually became a better service for the clients.

TABLE 1
Juvenile Resource Center Lunch Box

Area of Accountability	Bottom Line Assessment	Evidence
Profit	Negative	\$25,000 Loss
Quality service to clients	Positive	Sixteen youth trained & employed; \$21,000 paid in wages. All received the intangible benefits of being exposed to a business operation.
Ability to attract government funding	Very positive	As a direct result of our experience with Lunch Box, we received two grants for additional business start-ups. Grants totaled over \$350,000.
Access to private corporate support	Positive	More corporate support in one year following Lunch Box opening than in previous three years combined. Corporate executives can understand, relate to and get excited about the business.
Access to political power	Very positive	Everyone supports new businesses and if the business employs former troubled youth who are now getting training and paying taxes, everyone will embrace you.
Public relations	Very positive	Eight newspaper articles, five television news spots, four television talk shows.
Services to general community	Very positive	One city resident hired, sales and income taxes generated, \$50,000 of business given to local vendors, once-abandoned corner property now houses two businesses.

In other words, Juan started taking pride of ownership in the business once it really became one. We had discovered that in spite of and maybe because of our good intentions, we had been offering a government-sponsored "simulated business." Because we wanted to be "supportive to our clients," we had created a situation with low performance standards.

What Juan and the other students had shown us was that they did not want to be protected from the real world of business. Quite the opposite, they wanted to participate in a real business. They did not respond well to the "play acting" approach. They wanted a piece of a real business with high standards that they could be proud of. This may be the single most important lesson learned from the youth-operated businesses.

In most areas of the country, the "experts" seeking to initiate economic growth in poor cities, either totally ignore youth, or include young people in their proposed solutions as second or third phase priorities.

Venture #2: Little Bo Pizza:

Experiences with the Lunch Box (which broke even and eventually made a small profit and is still operating at a new location) led to several other ventures. Among them was Little Bo Pizza, a sit-down pizzeria. The pizzeria opened in a modern restaurant setting, using good equipment, well-trained employees, a good manager, and high standards. It had good cooks and provided good food at reasonable prices.

We had achieved one of our economic development goals. We created good jobs for chronically unemployed, minority inner city residents. But, this venture lost money and eventually failed.

Although the restaurant was perhaps JRC's best-run business, its location was poor. It was in a

neighborhood too poor to support it (75 percent of the neighborhood was on welfare), and too depressed to attract outside patrons.

We simply tried to do too much. We not only tried to operate a business using a difficult employee population, but we tried to singlehandedly save a very poor neighborhood. We needed high and steady cash flow to support Little Bo Pizza but the cash flow in this neighborhood, which depended largely on welfare checks, had dried up by the third week of each month.

From this experience we learned to be more hard-nosed, cautious and deliberate about setting goals for community development. Had we located Little Bo Pizza in a less depressed area, it would have survived and been successful. There would have been long-term economic improvement for the employees who were inner city residents. This is an approach that should have been considered more carefully.

We could have flowed cash back into the poor neighborhood through the paychecks of the young employees. While not affecting the area's physical stock, it would have helped the overall economic climate of the neighborhood. We also learned that there are opportunities for business development even in the most depressed communities, but these opportunities must be structured differently. Micro ventures which require small capital investment and are able to survive the fluctuations of cash flow in poor communities are most appropriate for the poorest neighborhoods.

We learned that to effect economic improvement of the poorest communities, we had to start training and preparing the residents of those communities to operate micro ventures—we had to start

training the next generation of entrepreneurs from the people who actually lived in the neighborhoods.

Venture #3: The Plant Company

The Plant Company is a commercial greenhouse operation, selling both retail and wholesale. It is an attractive and well-run operation. Although it started as a slight money loser, it has become a money maker. As an example, the young people plant several thousand poinsettias which they market and deliver for the Christmas holidays. They also plant a full variety of spring bedding plants. Work in the greenhouses is accompanied by basic classroom work for 30 youngsters per year, producing several permanent jobs.

The greenhouse took us one step closer to true entrepreneurship when some of the young people grew their own plants in a corner of the greenhouse and began marketing their own product in the community. In effect, they were no longer just employees but each student was his own manager.

The experience of these young people selling their own products again showed us that they wanted something more than just employment. They were absolutely sold on the American dream and they wanted to know how to play the economic game successfully. They were seldom able to articulate their desire to learn economics but their actions said: "Teach me about business."



James W., owner of Jimmie Hot Dog Stand, serves a customer at Youth Enterprise Day last summer.



How Entrepreneurs students visit a member in Philadelphia. As a wholesale clothing distributor, he was able to explain how to buy, mark up and resell.

Venture #4: The Canteen

The canteen was our first public/private cooperative. It is located at a county hospital complex, which has a psychiatric hospital, a nursing home and a long-term care facility. At the psychiatric hospital, the county had been running a patient/employee canteen on which they were losing \$65,000 per year. The facility was dark and dismal, the food poor and the patients were poorly treated.

The county asked if we would be interested in running the canteen in exchange for free rent and free utilities. We learned a very important lesson from this venture, where we had once again underestimated what young people could do. We were concerned that they would not be able to handle the work with psychiatric patients. They not only did very well, but were able to take over as managers. They had a good sense of how to be kind to the patients. The kids knew the patients and welcomed them by their first names. They knew and remembered what each patient liked in the way of food and toiletries.

Government Employment and Training Policy

All of our experiences with youth operated enterprises, which has included black, white and Hispanic kids in various parts of the country, has convinced us that America's youth, even in the poorest environments have both the desire to learn about economics and the ability to apply the lessons learned even at a young age.

Yet sadly, our government's employment and training policy fails many times to nurture this entrepreneurial spirit. In fact, the government employment and training efforts for poor youth often do more to

All of our experiences with youth operated enterprises, which has included black, white and Hispanic kids in various parts of the country, has convinced us that even in the poorest environments, America's youth have both the desire to learn about economics and the ability to apply the lessons learned even at a young age.

train them for welfare dependency than they do to nurture the enterprising spirit.

One prominent example of this contradiction is in the summer youth employment program funded by the U.S. Department of Labor. The major JTPA summer program is subsidized work experience in government offices and non-profit agencies. The students are assigned to work at the agencies and are paid by government check. The program ignores the private sector and the hundreds of thousands of summer jobs available for youth.

The participants are not asked if they would prefer working at a real job or if they want help looking for a real job. Placement in a private sector job is not usually even discussed. They are simply enrolled and put on the public payroll. The kids get the impression that this is the normal way to get work ... go to the government. They should be taught that this is a last resort, to be used only if you can't get a job in the private sector.

Kids are eligible for this program at age 14. Unfortunately because of child labor laws and insurance problems, there is little that these kids are allowed to do. So all too often, they sit around or do make-work jobs to get their government checks ... further dampening any spirit of enterprise. Finally, the program usually fails to reward effort or punish lack of effort. Because of all of the administrative hassles, it is simpler to make sure that everyone gets the same check amount.

We have all seen the "rake gangs," ten kids wearing summer program t-shirts, eight rakes, two brooms and a college student supervisor all walking the street in search of leaves. The first problem is that this certainly does not simulate a real job experi-

ence. The second problem is that some kids work very hard and have great attitudes, some just do enough to get by and some walk around with Walkmans on their heads, have bad attitudes and do almost no work. Yet, they all get the same check amount. The kids have learned at age 14 in their first work experience that it just doesn't seem to pay to work hard and do the right thing ... the government check will probably be there just the same. Students get paid for attendance, not for productivity.

The excited young people in the Lunch Box, the Plant Company greenhouse, and other ventures described here, are the same kind of young people who often worked (or not) with indifference on the JTPA summer work crews. The difference lies in what they were exposed to. One group was exposed to the eye opening world of free enterprise and the other to the world of government dependence.

Frustration with this system and the stark contrast between the young entrepreneurs and the summer employment program kids prompted the creation of a curriculum to teach entrepreneurship to poor youth. The curriculum is called *New Entrepreneurs* and is written on the fourth grade level. It is designed to be fun and non-threatening. With the curriculum completed, the authors approached the local PIC council and asked for a group of 14-year-old Camden youth to demonstrate the effectiveness of this new approach.

The program was a success and has been made a regular part of the summer jobs program. Additionally, the curriculum is being installed in both the high school and middle schools in Camden.

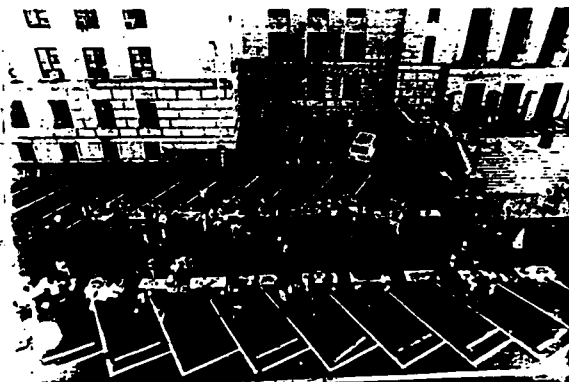
Last summer, 80 14-year-olds completed the program and 68 were involved in small businesses by the end of the summer. The types of businesses started ranged from janitorial service to hair braiding (See Table 2).

The New Entrepreneurs Program

New Entrepreneurs is a program to teach urban kids, especially minority urban kids, about business. It was created four years ago. Through *New Entrepreneurs*, young people learn that there are options to high tech employment, to unemployment, and to welfare. The program motto reflects the basic message: "If you can't find a job ... then MAKE a job!"

The program has five goals:

- 1) Teach young people in a practical, interesting way about how to start and run a small business.
- 2) Develop self-image and awareness of skills and strengths.
- 3) Expose young people to successful role models—minority small-business people. Young people sometimes seem to wear blinders. They can be surrounded by 100 unostentatious, successful people



Setting up outside Camden City Hall for Youth Enterprises Day.

who live in nice homes, operate legal businesses and make their own way in life. But these business owners don't catch the kids' attention like the gold-chain-bedecked drug pusher hanging out on the street corner, or driving a flashy car.

It is important to call the attention of our young people to the successful owners of legitimate small businesses that fill our communities. These are the role models and new heroes we want for our kids. This must be done in a purposeful, systematic way—inviting the business owners to talk to the students, getting the kids out in the community to look at legitimate successful businesses and making friends of the business owners in the community.

4) Convince young people that they can succeed within the system if they both work hard and work smart.

5) Motivate our young people and then hold their hands while they actually start a small venture.

How Does the Program Work?

The New Entrepreneurs Summer Program usually lasts seven weeks. (However, the curriculum was designed to adapt to varying periods of time when it is used in a school system during a regular school year.) It begins with an orientation for the young people and their parents. The formal classroom portion of the program lasts for two weeks. During this two-week period, the students attend classes for two hours per day and go through the New Entrepreneurs curriculum. The curriculum is a series of 12 workbooks. (See Table 3).

In addition to program staff, professionals from the local community, including lawyers, accountants and marketing experts, are used to teach the technical sections.

At the end of two weeks, the young people have explored and identified their skills, likes and dislikes, produced a business idea, made marketing decisions and completed a written business plan. They are motivated, excited and ready to go. At this point they are given a week of intensive training in the area of their business.

No matter what their business (from window washing to dried flower arranging, to silkscreening t-shirts, to small home repair) they need to know what they are doing when they go out on the street. This training helps their confidence; they begin to believe that they really can make this business work.

At this point they need practical assistance. This is where the mentors become so important. The young person meets with his/her mentor and explains the business plan. The mentor reviews the plan; makes suggestions; helps the student decide where to begin, who to call, what to ask,

TABLE 2

NEW ENTREPRENEURS PROGRAM YOUTH BUSINESSES STARTED

HOT DOG STAND	CANDY STORE	DRIED FLOWERS
HOME MADE CAKES	BABY SITTING	RETAIL BIKE SHORTS
NOVELTY SALES	T-SHIRT SALES	CUSTOM CAR CLEANING
SILK SCREENING	HAIR BRAIDING	ART PHOTOGRAPHY
MANICURE SERVICE	WINDOW CLEAN	ITALIAN ICE STAND
HOME REPAIR	JEWELRY REPAIR	FRUIT SALAD STAND

TABLE 3

NEW ENTREPRENEURS CURRICULUM 12 WORKBOOKS

UNIT 1:	ENTREPRENEUR? WHO, ME?
UNIT 2:	OPPORTUNITIES ALL AROUND YOU.
UNIT 3:	EASY IN—EASY OUT—BUSINESS IDEAS FOR ALL NEIGHBORHOODS
UNIT 4:	WHERE TO DO BUSINESS
UNIT 5:	TYPES OF BUSINESS OWNERSHIP
UNIT 6:	COMPLYING WITH GOVERNMENT REGULATIONS AND THE LAW
UNIT 7:	HOW TO SELL YOUR IDEA (MARKETING)
UNIT 8:	WHERE TO GET HELP
UNIT 9:	RECORDS AND BOOKS—DID YOU MAKE ANY MONEY?
UNIT 10:	MONEY TO GET STARTED
UNIT 11:	HOW TO MIND YOUR OWN BUSINESS (MANAGEMENT)
UNIT 12:	PLANNING UNIT—DEVELOPING YOUR OWN BUSINESS PLAN

where to go first; works on the sales pitch; gives them leads, etc. The staff then serves as technical assistance providers during the actual business start up phase. This period of business start up and operation lasts four weeks, until the end of the summer.

The Mentor Program

Mentor: a man or woman who has a knowledge of business and a willingness to share that knowledge with a young person who is hungry to learn. Ideally, the mentor is a person who owns and operates his/her own small business. But the group also includes many people who have first-hand knowledge but do not own the business.

The key to the Mentor Program lies in finding people who like young people and who are willing to share what they know about earning honest money.

Mentors are people who offer a viable and practical alternative to unemployment, welfare and illegal money.

We ask each mentor to "adopt" one business. This may mean just one young person, or possibly two or three if the business is a partnership.

Each young person who completed the two weeks of course work and who prepares a business plan will have a start-up capital fund (\$50-\$100) established for their use. To use the fund, the young entrepreneur must discuss the idea and get approval from the staff/banker and his/her mentor. This process is started by filling out a Capital Fund Request Form.

Winding up the Program

The program ends with Youth Enterprise Day. In Camden, the mayor proclaims one day at the end of the summer Youth Enterprise Day. On that day, (preceded by advance publicity) a ceremony is held outside City Hall where various dignitaries (assembly and city council members, for example) speak. The mayor reads a proclamation honoring the young entrepreneurs. Young entrepreneurs speak of their experiences. The emphasis is on the young people, their successes, their involvement with the growth of their city, and turning from doing drugs to being in business.



EDTEC
Education, Training & Enterprise Center
 309 Market Street, Suite 302
 Camden, NJ 08102
 (609) 342-8277

For Information On How You Can
 Start A Youth Entrepreneurship
 Call Or Write To EDTEC



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Why Entrepreneurship?

Over 300 unemployed summer youth have participated in the program since 1986. About 70 percent wind up starting a business during the seven-week program. Why teach entrepreneurship to youth?

1) **ATTITUDES:** The program teaches the attitudes and values shared by entrepreneurs. They include: independence, self reliance, creativity, optimism about the future, and a reluctance to be dependent on government.

2) **EDUCATION:** Entrepreneurship education supports general education by making it relevant and enjoyable. It is relevant and fun to learn math through calculating your mark up or profit margin. It is fun and relevant to learn writing skills while doing your brochure or flyer.

3) **BUSINESS:** Entrepreneurship education incubates the next generation of American small businesspeople.

4) **COMMUNITY DEVELOPMENT:** Joshua Smith, (CEO of Maxima Corp. and one of the country's leading black entrepreneurs) said recently, in speaking about the role of business in rebuilding the inner cities, that there is absolutely nothing wrong with American business today... except that there are not enough poor people and black people in it. Teaching entrepreneurship is a way to involve poor people in the rebirth of their communities. But there is no magic. We have to train people to be ready when the opportunities finally do come.

5) **PRACTICAL SKILLS:** Teaching entrepreneurship provides youth with a practical way to make money when they need it. It provides a direct alternative to illegal money-making activities.

6) **TAPS BUSINESS GOOD WILL AND TALENT:** America is literally loaded with small businessmen and women who want to do something to make things better in our cities and for poor youth. They have been asked to donate money, they have been asked to sit on boards and committees. But no one has asked them to do what they do best. This approach asks them to adopt one youth business, one or two kids, and teach them the attitudes, values and skills of entrepreneurship.



**Rep. Jack Kemp
Chairman
The Fund for an
American Renaissance**



The Fund for an American Renaissance is a non-partisan, tax-exempt research foundation as designated by the 501 (c) (3) provisions of the Internal Revenue Service Code.

The Fund is dedicated to fostering economic growth and opportunity, promoting a strong national defense and resolute foreign policy and defending traditional American values and institutions.

The work of the Fund is carried on through a varied research and publications program of books, monographs, radio, television and film projects and a speakers series.

The Fund for an American Renaissance
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**Robert L. Woodson
President
National Center for
Neighborhood Enterprise**



The National Center for Neighborhood Enterprise, a research demonstration and development organization, was founded in 1981 on the belief that communities must build on their own strengths to develop successful enterprises dealing with economic and social problems.

The Center's board of directors, program advisory committee and consultant advisors bring together individuals with diverse specialties, backgrounds and experiences. From grassroots leaders to specialists in finance, business development and economic policy, its experts share the desire to promote community self-sufficiency through support of effective neighborhood mediating structures in low-income communities.

The National Center for Neighborhood Enterprise
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REVITALIZING OUR CITIES

REVITALIZING OUR CITIES

New Approaches to Solving Urban Problems

**FOREWORD BY
CONGRESSMAN JACK KEMP**

PUBLISHED BY
THE FUND FOR AN AMERICAN RENAISSANCE
AND
THE NATIONAL CENTER FOR NEIGHBORHOOD ENTERPRISE

Creating Opportunities for Youth

Aaron A. Bocage

The co-sponsors of this conference, Congressman Jack Kemp and Mr. Robert Woodson, have included some people who are not normally heard from at these gatherings, and they have included youth as a policy issue for rebuilding our cities. This is, unfortunately, very unusual.

Most conferences of this nature, and indeed most "experts" in this area, either totally ignore youth, or include youth in their proposed solutions as second or third phase priorities. In effect, they are saying that we just have to write off one or two more generations of young people while we deal with the adults. This approach is what I refer to as the "default/trickle down" treatment. This approach says that since we don't know what to do with these young people, let's look the other way and hope like hell that the benefits of economic growth will find their way down to them.

The problems with this approach should be, and are, obvious. Young people today are creating new generations of young people at an alarming rate; young people in our poor cities do not move away—they stay in the city; and young people trapped in our poor cities become angry, destructive forces working against any revitalization effort. The ignored 15-year-old of today who wanted something better in five years becomes the angry young adult with

three kids and no future. We know all too well from past experience that if we don't include young people and try to give them "a piece of the action," they will surely find a way to tear down whatever we build.

So, if I can make one contribution to this conference, to this discussion, it would be to challenge everyone here to listen closely to the proposed solutions and to affirmatively reject any solutions that implicitly or explicitly write off another generation of youth.

Solutions to these problems don't always come wrapped in the kind of package that we expect. When we approach these problems with a pre-set mental image of what the answers will look like, we tend to ignore any answers that don't meet our images. Many people feel that the solution of unemployment in our cities will come from attracting the next GM Saturn plant or becoming the next Silicon Valley. Well, anyone who thinks that the solution will look like that in Camden, New Jersey, is sadly mistaken. Camden is not going to attract another Campbell Soup. It is extremely fortunate that it was able to retain Campbell Soup when the others left the city. The rebuilding of Camden and especially the rebuilding of Camden's youth is not going to come wrapped in a big business package. It will come in a small business wrapper and sometimes from the often ignored resources of youth and non-profit organizations, such as the one I'm involved with. I want to focus now on the very first of our efforts at business because I think it makes an important point about why this approach is a valuable one.

In 1981, after much discussion with the board of directors, the juvenile resource center decided to open a take-out sandwich shop in downtown Camden. We borrowed \$12,000 for equipment, used six CETA summer workers, and opened the doors in June of 1981.

The planning process left much to be desired. The first year of operation was a disaster in many ways. We can now laugh at the many crises that occurred—the clients with

their hands in the till; the freezer breaking down on a weekend losing all the meats; the clients' bad attitudes chasing customers away; the firing of our social worker/cook who was more interested in counselling the kids than running the kitchen; the health department closing us down because our rented space had rats in the basement; etc. Well, all of this resulted in a first year loss of \$25,000.

Now some of my economist friends on the panel and in the audience who believe in the big wrapper solutions to our cities will delight in hearing this because it would seem to support their contention that economic development and the rebuilding of our cities is best kept out of the hands of non-professionals—non-profit agencies, churches, community groups, and, certainly, youth. And from a quick, superficial look at our first year, perhaps they are correct. However, if you take the time to look beyond the wrapper, you get quite a different picture of year one at The Lunchbox.

During that first struggling year, we trained and employed 16 young offenders, paid them \$21,000 in wages, hired one adult resident of the city, generated \$4,000 in income taxes, pumped \$50,000 into the local economy through our local purchase policy, and generated \$4,000 in sales taxes. Additionally, the corner properties prior to our opening a business consisted of a vacant, delapidated building, a vacant garbage-filled lot, a vacant two-storefront building, and a parking lot. We rented one storefront for The Lunchbox. Soon after a Chinese restaurant opened in the other storefront. We cleaned one vacant lot, landscaped it and used it for outdoor eating. The corner was now attractive and livable. A dentist renovated the vacant building and it now houses his offices.

We certainly cannot claim responsibility for all of that development, but we can claim part of the credit. We were the first ones in with a vision of what that corner could be. The \$25,000 loss now begins to look like a tremendous bargain. It is an especially good investment of dollars when

compared to what \$25,000 buys through typical CETA-type training programs. From my perspective, this type of public investment is cost effective even with an annual loss of \$25,000. There is no way that the government can buy this much training, tax generation, and economic development for only \$25,000. The really exciting thing is that The Lunchbox is now breaking even. This means that all of those benefits to the community are absolutely free. This is a staggering thought when viewed as a policy issue. It raises real questions about whether we should continue to spend through the traditional pipelines or whether the taxpayers' money can be invested better through some non-traditional approaches.

In the immediate future are a second Lunchbox operation, expansion of the plant company, and the opening of a retail outlet for the plant company. Our long range goal is to create a mini-industrial complex primarily operated by and partially owned by juvenile offenders and welfare mothers.

Cities must learn to use what they have, and to leverage and recycle their financial resources

Camden is an extremely depressed city of about 85,000 residents with upwards of two-thirds of its residents on some sort of fixed income. And, in general, those who could afford to leave have done so. The city is increasingly a city of the young and the old. Camden has several major developments underway and is working very hard to develop its waterfront. This certainly seems to be a wise strategy and one that must be pursued.

Cities like Camden, however, must do more than just work on the big solutions. Big solutions by their very nature exclude most youth, and especially minority youth. If the city does \$200 million in new construction next year, that will be great, but it will mean little to the minority youth in the city, an ever-increasing proportion of the population. So the city must look for ways to develop this group or we will

have the classic tale of two cities—the society hill and the ghetto.

Every poor city in its quest for the big ticket solution ignores smaller but potent resources that it already possesses. Every poor city has potential economic development forces in the city government budget, the school board, non-profit agencies and churches.

We must come to view each of these as potential economic developers for our urban youth. Consider the impact if each church in the Camden area made a policy decision to purchase its goods, equipment, and supplies from a Camden-based minority firm; or if they committed this buying power to new youth-operated businesses. There would be a mini boom in the local economy. What would happen if each church would commit its resources and the talent pool of its membership to creating one new small business (even if it employed only one person) to be owned by a minority youth or a welfare mother? The impact would be enormous.

School boards in poor cities control a tremendous amount of money. Poor cities have to learn to leverage their scarce dollars. An example: Two years ago the school board in Camden gave its major lunch program contract to a firm in Ohio. The contract was for over \$1 million. The city's taxpayers got a dollar's worth of goods for a dollar spent. But consider the impact of keeping the money in the city, hiring welfare mothers who have good cooking skills, and who can't work full time because of kids at home, to prepare freshly-cooked hot meals for the city's school children. How many jobs could be created? How much taxes generated? How many women off welfare? How many women with self respect restored because they earn their own way? Even if this approach would increase the cost of the contract, it would still be a far better investment of scarce financial resources.

Consider the impact if each non-profit agency in Camden started a small business similar to The Lunchbox or the

plant company. They would collectively pump some \$20 million into the local economy.

The point again is that job creation will not happen automatically; it will not happen for urban youth even through major economic development. Cities must spend resources better. In order to do that we have to change the way we think about the resources that we already control.

Recommended Policy Changes

- A) Amend state purchasing regulations to allow for local purchase options in enterprise zones.
- B) Enterprise tax incentives could be improved by providing tax incentives for local subcontracting. Example: RCA is not going to move the majority of its operations back into Camden for the tax incentives offered under the enterprise zone legislation. RCA could well be encouraged to subcontract more of its work into Camden through tax incentives. This is a realistic way to gain benefit from those firms that have left the city and are not coming back.
- C) Funding programs such as CETA should have a portion of their funds committed as a venture capital loan and grant fund for new youth entrepreneurs in enterprise zones.
- D) Other national funding pipelines that support urban economic development should carry a youth involvement requirement.
- E) We need a national policy dedicating all excess resources, supplies, real estate and equipment to youth entrepreneurship projects. Today, all over this country, we have hundreds of millions of dollars of inventory wasting away in storage and costing money to warehouse. We need a young entrepreneurs policy that does two things: establish youth enterprise projects as a top priority useage; and provide this policy with the power to override the many bureaucratic roadblocks to creative use of these resources.

We have first-hand experience with these roadblocks. Two years ago we became aware of an abandoned missile base in our county. We investigated and discovered that it was surplus property, not considered valuable to the federal government, unwanted by the local government, not well maintained, an eyesore to the local community, and theoretically available to non-profit educational programs such as ours. We wanted it as a base for all of our educational and economic development programs. *Everyone* liked our plans and supported our efforts to get the property. We had tremendous bi-partisan support from the local level to the governor to the White House. The strong support included the two major departments responsible for the property—Education and GSA. In spite of this the bureaucracy won. Confusing and often contradictory relations blocked everyone's attempts to have the property turned over to us.

The point here is that we need good policy changes, but we also need to empower the policy changes to win out over destructive bureaucracies.

We Must Teach and Foster Self-Reliance

We must teach our urban youth better. Improving basic skills is certainly part of the solution, but there has been and continues to be a major gap in urban education programs. We just don't teach our youth in practical, useable ways how to participate in the economy of tomorrow.

In New Jersey, we have done a very good job of opening doors, creating opportunities, and providing incentives. Efforts such as the enterprise zones and large set-asides for women and minority firms in spending programs have opened tremendous windows of opportunity. But many of those opportunities have gone unused, and the results of these efforts have been somewhat disappointing. The reason is that we have not properly prepared enough women and minorities to take advantage of the opportunities now that they have become available.

Today in Camden you can sense some excitement about the beginning of the revival of the city. Businessmen sense that there is going to be some money made in that town in the coming five years. High school seniors in Camden should be tearing down the doors to get out and get their share. But the opposite is true. Most don't even know what an enterprise zone is or what it can mean to them. And they certainly don't know how to make it work for them.

We need to attack this problem at its source—basic education and exposure at the high school level. We have developed a curriculum called *New Entrepreneurs*, which seeks to teach young people how to identify opportunities everywhere, from the projects to the suburbs. It is our goal to have this curriculum used in every urban high school in this country.

Finally, I would like to make this point. It is not our goal, nor do we expect, to develop hundreds of thousands of new, young entrepreneurs in the next five years. It is our goal to open the eyes of hundreds of thousands of young people to what is available to them. Once their eyes are open to the opportunities, their eyes are also open to their responsibilities for themselves. And at that point they are no longer a deficit to the community, but rather become contributing assets.

REPRESENTATIVE SOLARZ. Well, I think it is a very creative and constructive idea, and we will certainly give very serious thought to your three specific recommendations.

I want to thank both of you very much for coming. You have been a useful complement to the testimony from some of the others.

It is nice to see that there are people out there on the front line trying to deal with these problems in creative ways.

I suppose that you are among the "Thousand Points of Light" that the President had in mind, to a certain extent, and certainly you have helped to illuminate the lives of the people who your programs have helped.

Just make sure that the cookie manufacturers put me on their list. I'm particularly partial to chocolate mint cookies and chocolate chip cookies, as well.

DR. HORTON. We will get the recipe.

[Laughter.]

REPRESENTATIVE SOLARZ. Thank you both, very much.

Dr. Horton. Thank you, sir.

Ms. WILCOX. Thank you.

REPRESENTATIVE SOLARZ. This hearing is concluded.

[Whereupon, at 1:50 p.m., the Committee adjourned, subject to the call of the Chair.]

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