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May 21

Document No. _____ CA

THE WHITE HOUSE OFFICE OF CABINET AFFAIRS
STAFFING MEMORANDUM

Date: May 17, 1990 **Due by:** _____

Subject: Domestic Policy Council meeting Monday, May 21, 1990 at 10:00 AM in the Roosevelt Room for Principals only.

From: Kenneth P. Yale
Executive Secretary, Domestic Policy Council

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☑	☐
Agriculture	☑	☐
Commerce	☐	☐
Defense	☐	☐
Education	☑	☐
Energy	☑	☐
HHS	☑	☐
HUD	☑	☐
Interior	☑	☐
Justice	☑	☐
Labor	☑	☐
OMB	☑	☐
State	☐	☐
Transportation	☐	☐
Treasury	☐	☐
USTR	☐	☐
Veterans	☑	☐

	Action	FYI
CIA	☐	☐
CEA	☑	☐
CEQ	☐	☐
EPA	☑	☐
GSA	☐	☐
NASA	☐	☐
National Science Foundation	☐	☐
ONDCP	☐	☐
OPM	☐	☐
OSTP	☑	☐
SBA	☐	☐
UN	☐	☐
Cicconi *(For WH Staffing)*	☑	☐
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_____	☐	☐
_____	☐	☐

COMMENTS: The Domestic Policy Council meeting that had been scheduled for today has been rescheduled for Monday, May 21, 1990 from 10:00 to 11:00 AM in the Roosevelt Room. Papers were distributed to you on the 11th. Please inform Mary Tsivgoulis (456-2564) by C.O.B. Friday, May 18, as to whether or not you plan to attend this meeting.

THE WHITE HOUSE

WASHINGTON

May 17, 1990

MEMORANDUM FOR THE DOMESTIC POLICY COUNCIL

FROM: KENNETH P. YALE
Executive Secretary

SUBJECT: Meeting of the Domestic Policy Council, Monday, May 21, 1990 at 10:00 A.M. in the Roosevelt Room

The Domestic Policy Council meeting that had been scheduled for Thursday, May 17, has been rescheduled for Monday, May 21, 1990 from 10:00 to 11:00 A.M. in the Roosevelt Room. The subject of this meeting, **for principals only**, is the Administration's Low Income Opportunity Strategy. Richard Schmalensee, Member, Council of Economic Advisers, will make a presentation.

Materials for the meeting were previously distributed to you on Friday, May 11. **It should be noted that these papers are sensitive in nature and should be treated as close hold documents. Please refrain from making any additional copies.**

Please inform Mary Tsivgoulis (456-2564) by C.O.B. Friday, May 18, as to whether or not you plan to attend this meeting.

Attachment

THE WHITE HOUSE

WASHINGTON

DOMESTIC POLICY COUNCIL

Monday, May 21, 1990

10:00 A.M.

Roosevelt Room

AGENDA

1. Low Income Opportunity Strategy

Document No._____ CA

THE WHITE HOUSE OFFICE OF CABINET AFFAIRS
STAFFING MEMORANDUM

Date: May 11, 1990 **Due by:**_____

Subject: Domestic Policy Council Meeting Thursday, May 17, 1990 at 2:00 PM in the Roosevelt Room for Principals Only.

From: Kenneth P. Yale
Executive Secretary, Domestic Policy Council

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☑	☐
Agriculture	☑	☐
Commerce	☐	☐
Defense	☐	☐
Education	☑	☐
Energy	☑	☐
HHS	☑	☐
HUD	☑	☐
Interior	☑	☐
Justice	☑	☐
Labor	☑	☐
OMB	☑	☐
State	☐	☐
Transportation	☐	☐
Treasury	☐	☐
USTR	☐	☐
Veterans	☑	☐

	Action	FYI
CIA	☐	☐
CEA	☑	☐
CEQ	☐	☐
EPA	☑	☐
GSA	☐	☐
NASA	☐	☐
National Science Foundation	☐	☐
ONDCP	☐	☐
OPM	☐	☐
OSTP	☑	☐
SBA	☐	☐
UN	☐	☐
Cicconi *(For WH Staffing)*	☑	☐
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COMMENTS: The Domestic Policy Council will meet on Thursday, May 17, 1990 from 2:00 to 3:00 PM in the Roosevelt Room to discuss the Low Income Opportunity Strategy. Attached are (1) an agenda, (2) a background & options paper entitled "A Low Income Opportunity Strategy", and (3) a comprehensive set of detailed background papers. Please note that these documents are sensitive in nature and should be treated as close hold documents. Please refrain from making additional copies. Please inform Honor Willson (456-2800) by COB Tuesday, May 15, as to whether or not you plan to attend this meeting.

THE WHITE HOUSE

WASHINGTON

May 11, 1990

MEMORANDUM FOR THE DOMESTIC POLICY COUNCIL

FROM: KENNETH P. YALE
Executive Secretary

SUBJECT: Meeting of the Domestic Policy Council, Thursday, May 17, 1990 at 2:00 P.M. in the Roosevelt Room

The Domestic Policy Council will hold a meeting **for principals only**, on Thursday, May 17, 1990 from 2:00 to 3:00 P.M. in the Roosevelt Room. The subject of this meeting is the Administration's Low Income Opportunity Strategy. Richard Schmalensee, Member, Council of Economic Advisers, will make a presentation.

The DPC directed the Low Income Opportunity Board to develop a comprehensive low income opportunity strategy for the Administration. It is expected that Thursday's discussion will be the first of a series of meetings to steer the course for that strategy.

Attached for your review prior to the meeting is a discussion paper entitled, A Low-Income Opportunity Strategy. Also attached for your use is a comprehensive set of detailed background papers on key poverty issues (Appendix C: Background Papers), in case you would like to have additional information on certain subjects. **It should be noted that these papers are sensitive in nature and should be treated as close hold documents. Please refrain from making any additional copies.**

Please inform Honor Willson (456-2800) by C.O.B. Tuesday, May 15, as to whether or not you plan to attend this meeting.

Attachments

DOMESTIC POLICY COUNCIL

Thursday, May 17, 1990

2:00 P.M.

Roosevelt Room

AGENDA

1. Low Income Opportunity Strategy

CLOSE HOLD

A LOW-INCOME OPPORTUNITY STRATEGY

In November, 1989, the Domestic Policy Council (DPC) asked the Low Income Opportunity Board (LIOB) to write a comprehensive, long-term anti-poverty strategy for the Administration that would serve as an "intellectual roadmap" through the universe of anti-poverty options. The LIOB was instructed to avoid programmatic detail, but not bold thinking, in developing a strategy to guide future policy decisions.

This paper presents the first stage of such a strategy. It begins with a description of what an effective anti-poverty policy would achieve, presents the successes and failures of current anti-poverty efforts, provides a set of principles to guide future policy decisions, and presents a set of strategic options. DPC acceptance of the principles and selection from among the options presented here will establish a framework within which the LIOB can proceed to develop and implement the next stage of this strategy: a long-term legislative and administrative agenda.

In preparing this document, ten outside experts were asked to send short statements of their suggested long-term strategies; these comments are briefly summarized in Appendix B. In addition, 16 background papers on major poverty-related issues are included as Appendix C.

I. What would an effective anti-poverty strategy do?

The LIOB believes that the principal goal of an effective anti-poverty system should be <u>to provide economic empowerment for American families -- to enable them to participate fully in the mainstream of the economy</u>. Achieving this goal would not mean that no American would ever be poor, but rather that all those who do experience poverty would have real opportunities to become economically self-sufficient.

For most of the poor, an effective welfare system consistent with this goal would operate not as a safety net, but as a <u>trampoline</u>. It would help the poor achieve the dignity and self-respect that flow from economic self-sufficiency, and it would function as a long-term safety net only for those unable to achieve self-sufficiency.

It is useful to think about the societal outcomes that would be produced by an effective anti-poverty system -- a system that must be seen as much more than traditional welfare programs:

- <u>Low unemployment; few working poor</u>. Those who are willing and able to work can find employment on terms that do not leave their families poor.

- o Few disadvantaged children. All children receive good health care, attend well-functioning schools, and have a sense of being part of and responsible to the larger society.

- o Communities work. Cities and neighborhoods are healthy, both economically and socially. Local institutions -- including schools, public service providers, and the health care and criminal justice systems -- operate effectively.

- o Families function effectively. Family members recognize and carry out their responsibilities to provide economic and personal support to each other; children receive support from both parents, even if those parents live apart.

- o Little welfare dependence. Public assistance mainly provides short-term aid to those who are poor and focuses on giving people the tools to escape poverty.

- o Adequate care of the needy who cannot work. Individuals unable to achieve economic self-sufficiency, such as the elderly or the permanently and severely disabled, have the resources to live adequately.

- o Private sector efforts complement government efforts to reduce dependency and promote self-sufficiency. Many profit and nonprofit organizations, as well as individual citizens, work to help disadvantaged Americans.

II. Where are we now?

Our present anti-poverty system often does not function effectively -- certainly not effectively enough to produce the outcomes described above.

A. The current face of poverty

Table 1 provides a picture of who is currently poor, indicating how both the composition and incidence of poverty is distributed across particular demographic groups. Several points regarding the poor deserve particular emphasis:

- o Poverty among children was sharply higher in the 1980s than in the previous decade. In 1988, almost one child in five lived in a poor family. These figures are much higher than in most other developed nations. This problem is closely related to the growth in families headed by women, who are less likely to work, often have only low-wage jobs available

TABLE 1: WHO ARE THE POOR?

A. Composition of Poverty for Specified Demographic Groups

	Percentage Distribution			
	1959	1969	1979	1988
Total	100.0	100.0	100.0	100.0
Age				
Elderly (65 & over)	13.9	19.8	14.1	10.9
Adult (18 to 64)	41.7	40.0	46.1	49.6
Children (under 18)	44.4	40.1	39.8	39.5
Household status				
Female-headed family	17.8	28.5	36.6	38.7
All other families	69.8	50.9	41.1	38.6
Unrelated persons	12.5	20.6	22.3	22.6
Race/ethnicity				
White	72.1	69.0	66.0	65.1
Black	25.1	29.4	30.9	29.6
Hispanic	--	--	11.2	16.9

(Note: Persons of Hispanic origin may be of any race.)

B. Incidence of Poverty for Specified Demographic Groups

	Poverty Rate (percent)			
	1959	1969	1979	1988
Total	22.4	12.1	11.7	13.1
Age				
Elderly (65 & over)	35.2	25.3	15.2	12.0
Adult (18 to 64)	17.0	8.7	8.9	10.5
Children (under 18)	27.3	14.0	16.4	19.7
Household status				
Female-headed family	49.4	38.2	34.9	37.4
All other families	18.2	7.4	6.3	7.3
Unrelated persons	46.1	34.0	21.9	20.6
Race/ethnicity				
White	18.1	9.5	9.0	10.1
Black	55.1	32.2	31.0	31.6
Hispanic	--	--	21.8	26.8

(Note: Persons of Hispanic origin may be of any race.)

to them, and cannot rely on a spouse for additional earnings. More than half of all poor children live in such families. In addition, only 44 percent of poor female-headed families receive any child-support payments from absent fathers. There is a large social and economic cost to allowing so many children to grow up in economic need, including lost productivity and employment, higher crime, and higher future government expenditures on health care and public assistance.

- o Homelessness has grown in the last decade, striking both single individuals and families. In addition, housing affordability and housing quality are growing problems for many of the poor who are not homeless.

- o Poverty among the elderly has fallen to all-time lows. Elderly persons are now less likely to be poor than the average individual. The expansion of private pensions, Social Security, and SSI has helped many older persons escape extreme economic need. Long-term health care remains a widespread concern, however.

- o A significant portion of the poor actually work full-time but remain poor. Sixteen percent of all poor families have at least one full-time, year-round worker. As the demand for less-skilled labor continues to fall, low-skilled workers may face declining wages and fewer jobs.

- o Long-term poverty and long-term dependence on government assistance continue. Although most spells of poverty and welfare use are short-term, long-term poverty is especially prevalent in urban and rural areas isolated from the economic and social mainstream. Poor people who live in these areas often suffer from the breakdown of the entire range of social institutions, from the family, to the schools, to the overcrowded criminal justice system. As a result, these individuals face multiple barriers to economic self-sufficiency and participation in mainstream society.

B. Problems with current anti-poverty efforts

- o Traditional anti-poverty programs have not performed effectively. The focus of most existing programs has been to provide income supplements, either in cash or in-kind, not to foster economic self-sufficiency. In addition, some believe that AFDC has created incentives for parents to live apart, rather than strengthening family life.

- o The nation's schools are not providing an adequate education. U.S. students rank below students from comparable countries in educational achievement. Fifteen percent of today's youth do not complete high school and

even among those who do, basic skills are often poor. An estimated 20 million adult Americans are functionally illiterate. These educational problems are particularly acute in areas of concentrated poverty.

- o Non-working individuals often face disincentives to work. Disincentives are created by the structure of welfare programs, declining wages for low-skilled labor, and growth in the underground economy. Work incentives may improve because of recent expansions in Medicaid to cover pre-school children in low-income families, as well as expected expansions in child care assistance, the minimum wage, and the Earned Income Tax Credit.

- o The system of anti-poverty programs is fragmented and often inefficient. Eligibility rules are not standardized and different programs are poorly coordinated with each other. This inflates administrative costs, creates inequities, and reduces program accessibility.

C. Poverty in the midst of a growing economy

- o Economic growth has had a smaller effect on poverty in the 1980s than in past decades. Despite eight years of sustained economic growth, poverty rates have not fallen as rapidly as historical experience would have predicted. This is partially because the demand for less-skilled workers has not grown as rapidly as the overall economy. It is also due to the changing composition of the poor, especially the growth in female-headed households.

- o Slower labor force growth in the 1990s means that the main challenge will not be to create jobs, but to assure that workers have the skills to fill the jobs available. As the baby boom ages and as the rate of labor force entry among women slows down, the U.S. will face potential shortages of workers, particularly skilled workers. Disadvantaged children and adults should have access to training and education opportunities that will allow them to take advantage of this strong labor market. The growing need for workers has also created strong private sector interest in bringing disadvantaged workers into the economic mainstream.

III. How do we get there from here?

The LIOB proposes the following strategic principles to guide the Administration in developing its legislative and administrative agenda and in evaluating economic empowerment policies.

1. The government must maintain a healthy, growing economy.

Economic growth has done more to reduce poverty and economic need over the past century than any specifically designed anti-poverty policy. Employment and wages will grow in an environment where inflation is low, and in which high levels of saving, investment, and innovation spur productivity growth. Effective government policy should foster economic health in all regions of the country; special assistance for business formation and employment growth may be necessary in concentrated areas of poverty. Economic growth raises the demand for skilled labor, which creates incentives to invest in America's workforce.

2. Employment should be the central operational objective of an economic empowerment strategy. Employment is the best way to reduce poverty and welfare dependence among families with an able-bodied, non-elderly adult. Getting a job -- even a low-skilled job -- provides work experience, encourages good work habits, and may lead to a better job in the future.

Now is the time for the public and private sectors to work together to bring disadvantaged Americans into the economic mainstream. As slower labor force growth in the 1990s raises the potential for labor shortages, opportunities for those outside mainstream employment should increase.

Because of the decline in the demand for low-skill labor and the decline in wages for these jobs, an employment strategy will either have to raise skills or provide earnings supplements to family heads whose skills do not allow them to earn enough to escape poverty. Welfare programs must ensure that adult recipients have the incentives and opportunities to prepare themselves for meaningful employment. Institutions that remove individuals from the mainstream of society (such as prisons, mental health institutions, foster care, or drug rehabilitation programs) should actively prepare individuals for participation in the economic and social mainstream.

In the long run, the key to taking advantage of these labor market trends is to ensure that America's youth is educated and prepared to work. The education system must provide all children the basic skills and good work habits that will help them become self-sufficient adults.

3. Anti-poverty policies should target three groups: 1) poor children; 2) the working poor; and 3) the long-term poor who face multiple barriers to economic self-sufficiency and participation in mainstream society.

Poverty among children is at unacceptably high levels today; this will produce high social and economic costs in the future. Greater investment in children today can decrease these costs and contribute to economic growth. Policies targeted on child poverty could include greater investment in education, expanded child health programs, and initiatives that raise the skills and earnings of parents.

An economic empowerment strategy requires assisting those who are not working to move toward employment. It also implies that individuals who work full-time, year-round should be able to support their families. Work incentives are enhanced if work is an effective cure for poverty. Policies targeted on the working poor could include expanded opportunities for employment and training, reduced taxes for low-income workers, and incentives for employers to hire disadvantaged workers.

Those who live in deteriorating neighborhoods with concentrated poverty, drug-abuse, crime, poor education and transportation systems, and other problems, often end up isolated -- both economically and socially -- from the American mainstream. While most studies indicate only about 10 percent of the poor live in areas with concentrated social problems, individuals in these areas are particularly likely to be poor for long periods and to become dependent on the welfare system. Policies aimed at economic empowerment of these individuals would require coordinated efforts across multiple agencies and levels of government in order to address the many problems they face.

4. <u>The design, implementation, and evaluation of the entire range of programs and policies that affect low-income Americans should be coordinated, so that the accessibility and effectiveness of the overall system is enhanced</u>. Social programs, including anti-poverty programs, should be administered in an efficient and cost-effective manner.

It is important to consider the anti-poverty impact of the entire range of Federal, State, and local programs. Coordination across Departments and levels of government is essential, so that schools, public assistance programs, the criminal justice system, drug abuse programs, the health care system, housing programs, and economic development policies all work together. Since most of these programs are at least partially funded by the Federal government, but are run by State and local officials, program coordination requires effective program design and administrative leadership from Federal, state, and local officials. Thus, <u>a national low-income opportunity strategy is required</u>, one that pays close attention to how programs work together.

The problem of long-term poverty illustrates the importance of making the entire system of public programs work together. The severe problems that plague high-poverty inner-city neighborhoods cannot be solved by any single program. Rather, the programs that serve low-income Americans must be viewed as a package of opportunities; reforms should focus on restructuring this package and delivering it in an effective manner. Simplification and targeting remain key objectives for the package as a whole, as well as for individual programs.

5. Anti-poverty programs should enforce the mutual obligations and responsibilities of individuals and public institutions.

Governments are responsible for running schools that work, maintaining a healthy economy, preventing crime, and assisting those who find themselves in need. Similarly, an individual should be expected to take advantage of available opportunities for education and employment, to obey the law, and to support and nurture his or her children so that they too can become responsible citizens.

An effective anti-poverty system must publicly acknowledge and enforce these obligations, and it must hold accountable both institutions and individuals that do not fulfill them. This implies, for instance, challenging young urban men who have dropped out to return to the labor market and stiffening the consequences faced by men who provide no support to the children they father. It is more difficult to levy penalties on government-run institutions that do not function effectively, since this often ends up hurting clients. However, individuals who work for these institutions should be evaluated in terms of the quality of services they deliver and the performance of the programs they administer.

6. Social programs and institutions should empower individuals and communities. Public programs should seek to give individuals greater control over their lives, enhancing personal autonomy and dignity.

An ineffective, paternalistic system cannot produce self-sufficient adults. Institutions and programs should be redesigned to empower individuals, both by fostering participation and responsibility and by developing the skills necessary for effective decision-making. Parents should be encouraged to be active in their children's development, community members to participate in crime enforcement activities, and public housing residents to be active in managing their units. A strong emphasis on choice and responsibility can foster the attitudes and values that are central to economic self-sufficiency.

7. Financing and decision-making need to be appropriately shared between local, State and Federal entities.

Decisions that are more effectively and appropriately made by local and state communities should not be usurped by the Federal government. The economic and social structure of communities varies widely, and anti-poverty programs should be tailored to these differences. For instance, rural areas have very different problems and needs than urban areas; the structure of job training, education, and service delivery systems should vary across these areas. (Allowing greater local and state discretion may conflict with the goal of giving greater discretion and empowerment to individuals, although the two are not necessarily mutually exclusive.) On the other hand, there are roles for which the Federal government is uniquely qualified. The Federal government must hold state and local institutions accountable for effective delivery of services and programs, particularly those supported by Federal funds. The Federal government can also be important in assuring program coordination and effective evaluation. Those aspects of programs which are most effective when designed and administered in a centralized manner should be run by the Federal government.

8. The private sector is an essential partner with government in economic empowerment efforts.

Businesses, non-profit organizations, and other private sector groups can be effectively involved in assisting the poor toward self-sufficiency. Because of a shrinking pool of entry-level workers, employers will have incentives to invest more in training low-skilled workers. Charitable organizations already provide considerable help to disadvantaged groups, such as the homeless, and often deliver services more effectively than government bureaucracies. These efforts need to be encouraged and the partnership between the public and private sectors strengthened, with each sector doing what it does best.

9. The public system of anti-poverty programs should encourage innovation and experimentation, particularly among state and local governments that want to design programs to fit their populations.

Our knowledge of what works has been greatly enhanced by the implementation and evaluation of a wide variety of experimental programs. There are still many areas of important social policy where we do not know as much as we should about what constitutes effective policy. In these areas, state and local experimentation can build a base of

needed information. This implies expanding the flexibility (through broadened waiver authority) for states and localities to test new ideas about anti-poverty programs. The Federal government has a role in encouraging such experimentation, assuring effective evaluation, and providing centralized dissemination of the knowledge gained. However, it may be difficult to encourage experimentation without allowing greater flexibility in Federal funding arrangements.

IV. Where do we go from here?

Appendix A summarizes the initiatives this Administration has already adopted or proposed that will strengthen the Nation's economic empowerment efforts. These initiatives fulfill many of the promises made by the President during the campaign. This is an impressive list, ranging from school reform to assistance for the homeless. A number of these initiatives have already been enacted; as these are implemented, they should yield substantial benefits.

While currently proposed or enacted initiatives provide useful changes to the existing system of low-income opportunity programs, however, they largely reflect an uncoordinated approach to the problem of poverty, with specific proposals tailored to address specific concerns. There has not been an attempt to set an overall anti-poverty agenda, one that deals comprehensively with the entire range of issues and institutions. This is in contrast to the efforts of this Administration in areas such as drug enforcement, where a National Drug Control Strategy has been developed to encompass the full range of programs and issues relating to education, treatment, interdiction, and law enforcement. Another coordinated effort is occurring in education reform, where strong national goals have been established.

The LIOB believes that <u>it is now time to do the next stage of thinking regarding the low-income opportunity/economic empowerment agenda of the Administration</u>. The principles presented above can provide a framework for that thinking, but adoption of these principles will not, by itself, contribute directly to the development of an effective low-income opportunity policy. Development of a coordinated economic empowerment agenda would require the DPC to choose among the strategic options presented below.

V. Strategic Options

The DPC directive to the LIOB was not to recommend specific programmatic changes, but to develop an overall strategic approach. Two issues need to be resolved before the Administration can move from the principles outlined in this document to the development of a long-term low income opportunity agenda.

ISSUE I: How should any future anti-poverty efforts be targeted? This strategy paper suggests three high-priority groups: poor children, the working poor, and the long-term poor. (Note that targeting per se does not imply additional resources. Depending on the DPC's instructions, a targeted strategy could be made budget neutral by redirecting resources from lower-priority programs. Note also that principle 3, above, may need to be recast, depending on the resolution of this issue.)

Option 1. Should the Administration select target groups for its anti-poverty efforts?

Pros:

- Establishing target groups is a way of assuring that marginal dollars are spent in the most effective manner.
- These three groups are frequently mentioned as the groups deserving special policy attention.

Cons:

- Targeting creates political problems, particularly among groups that may not be included. Specifically not included in the recommended target groups are the elderly or the disabled.
- It may difficult to get targeted efforts enacted; pressures always arise to expand programs to cover more (and potentially less needy) groups.
- Targeting may lead to a focus on only particular issues, and prevent comprehensive reform of the anti-poverty system.

If Option 1 is answered with a "yes," it is necessary to define which group will receive the highest priority.

In addition to selecting the highest-priority group, the DPC may wish to consider whether the two groups not selected should

comprise a second-priority tier or should be assigned the same priority as all other poor -- including the elderly.

Option 2a. Select poor children as the major target group of the Administration's anti-poverty efforts over the near future. Give priority for incremental funding to efforts aimed at poor children and their families. Possible initiatives could include: 1) further educational reform in low-income areas; 2) providing health insurance to more children; 3) further strengthening child support collections; and 4) improving parents' employment and earning opportunities.

Pros:

- o Decreasing poverty among children can be viewed as an investment strategy and is consistent with the President's emphasis on the need to increase investment in America's future. In this sense, targeting children may be viewed as helping everyone in the long run. For instance, if today's children do not become productive workers, the financial viability of the Social Security system may be at risk.

- o The concern of this Administration for children and families fits well with this priority grouping.

- o Children are part of working poor and long-term poor families, so that focusing on children will also contribute to alleviating the worst poverty problems among all three high-priority groups.

Cons:

- o Focusing primarily on children may give the impression that the Administration is ignoring the problems of other low-income groups.

- o Attention must be given to the effects of such programs on the entire household, to assure that programs for children do not have undesirable effects (such as work disincentives) for the parents.

Option 2b. Select working poor as the major target group of the Administration's anti-poverty efforts over the near future. Give priority for incremental funding to efforts aimed at working poor individuals and families. Possible initiatives could include: 1) earnings subsidies to low-wage workers; 2) tax reductions for low-wage workers; 3) health insurance for the uninsured; and 4) expanded employment and training opportunities.

Pros:

- o Improving the reward to work strengthens work incentives generally.
- o Helping the working poor attain economic self-sufficiency sends positive signals to others who are poor, showing that those who "play by the rules" can escape poverty.
- o Helping the working poor may not be a very costly strategy, since many already have earnings that bring them close to the poverty line.

Cons:

- o Focusing on the working poor may mean less funding is available to other low-income groups, groups which are likely to be even poorer.
- o Policies aimed at the working poor often benefit those who are not poor as well.
- o Many policies that increase the reward for work have "notch effects" at the point where the reward ends; this may decrease the incentives to earn above this level.

Option 2c. Select the long-term poor as the major target group of the Administration's anti-poverty efforts over the near future. Give priority for incremental funding to efforts aimed at long-term poor individuals and families. Initiatives for the long-term poor would require targeting money and programs to areas of concentrated poverty and increased inter-Departmental and inter-governmental coordination. Initiatives might include such things as: 1) changing the structure of service delivery; 2) assisting economic development; and 3) implementing major reforms in the schools to increase skills and graduation rates.

Pros:

- o Americans see inner cities, in particular, as symbolic of the poverty problem; thus, targeting individuals in high-poverty areas could be viewed as tackling the heart of the issue.
- o Fits well with existing Administration initiatives aimed at high poverty areas (e.g., anti-drug programs and enterprise zones.)
- o In a time of limited budget resources, anti-poverty dollars may help more people if spent in areas with large poverty populations.

Cons:

- Some may perceive the long-term poor as too narrow a focus, since it would target only a relatively small percentage of the poor.

- Since targeting the long-term poor probably means targeting geographic areas of concentrated poverty, this may create administrative problems for State, county, and local service agencies. In addition, equity issues could arise by drawing lines around a specific area and providing differential services to people within the boundaries.

- Targeting the long-term poor, particularly without much additional funding, can be risky because the problems are so serious. There are few who are confident that we have effective strategies to deal with this group.

ISSUE II: What should be the profile of anti-poverty efforts within the Administration? This is an important decision at this stage of the process because it will shape the discussion of recommended programmatic reforms. A higher profile strategy may lead to greater resource commitments and greater political risk, but it may also produce a broader and more effective effort that promises greater increases in economic empowerment.

Option 1: Pursue a public, high-profile strategy. Make the alleviation of poverty and the problems associated with poverty a public theme of the Administration; publicly articulate the strategy outlined in this paper. The Administration would publicly define its approach to alleviating poverty through economic empowerment. Among the possible ways to do this are the following:

- The President could make a major speech presenting the vision and principles in this document and indicate what steps have been and are being taken to develop and advance this agenda.

- A major national gathering or a series of regional gatherings could be held, bringing together State, local and Federal officials, as well as representatives from the private and nonprofit sectors, to develop a coordinated national economic empowerment strategy. Such a gathering could be used to generate new programmatic ideas to support this strategy and could set in motion steps to increase coordination between agencies and programs.

- The chairperson of the LIOB could be given primary responsibility for the coordination of Federal efforts to limit poverty. This could include responsibility for developing a national anti-poverty strategy; enhancing coordination in the arrray of public assistance programs; encouraging private sector efforts; developing an evaluation strategy to measure the performance of the entire welfare system; and developing a research agenda for future demonstration projects and evaluation research.

The LIOB could operate as a central coordinating group for this effort and be directed to develop, for the DPC's approval, specific program and policy initiatives that are consistent with the principles in this document. Under these circumstances it would be crucial that a strong LIOB chairperson be appointed and that resources for staff assistance be provided. (The LIOB is currently operating without a chair; its one staff person could not handle all the staff work associated with the expanded LIOB role proposed in this option.)

Pros:

- By forcefully articulating an anti-poverty agenda, the Administration can seize the initiative on this issue. Such leadership may provide the opportunity to develop and pursue major reforms, rather than pursuing a series of uncoordinated, incremental changes in existing policies.

- Because business is increasingly concerned with potential shortages of skilled labor, Administration leadership in this area could open up new opportunities for private sector efforts in training, education, and job support.

- Builds on the emphasis the President has placed on family and children's issues.

- A major Administration anti-poverty emphasis is consistent with its other efforts to increase investment in America's future. Problems such as welfare dependence, school dropouts, teenage pregnancy, unemployment, and substance abuse may grow if not addressed now.

- Having a clearly defined rationale for a particular anti-poverty agenda makes it easier to oppose proposals the Administration thinks are misdirected.

Cons:

- Because of past suspicions regarding executive branch efforts at anti-poverty reform, Administration statements that articulate an anti-poverty strategy may be viewed as

purely rhetorical and may not be given serious public attention.

- o Adopting a major public commitment to economic empowerment will create significant pressure to announce new initiatives and to increase spending. Anti-poverty initiatives are often judged by the amount of additional spending proposed; the Administration will be subject to criticism if it does not propose to expand spending significantly.

- o The Administration can only pursue a limited number of major public agendas at once, without stretching itself too thin and losing credibility.

- o Providing leadership and staff support for the LIOB to develop new initiatives will require some increase in current resources.

Option 2: Establish and pursue a strong anti-poverty agenda within the Administration through internal negotiation and decision-making, without major public emphasis. Distribute this strategy paper (after revision to reflect DPC decisions) widely throughout the Cabinet agencies and OMB, and direct them to give priority to policy decisions that are consistent with its principles. As in Option 1, the role of the LIOB would be critical in this case, as the internal coordinating agency for anti-poverty efforts. This would require that the Administration appoint a strong chair for the LIOB and provide funding for staff support. Direct the LIOB, with the assistance and involvement of its member agencies, to develop for the DPC's approval specific program and policy initiatives that are consistent with the principles in this document.

Pros:

- o Avoids raising unrealistic expectations and avoids public attention while policies are being developed.

- o This process would provide the Administration with a set of specific recommendations with which it could pursue its anti-poverty agenda in the years ahead.

- o The LIOB is an established group that has functioned effectively in the past in an internal coordinating role. It can be a strong central group to spearhead Administration economic empowerment efforts.

Cons:

- Commissioning the LIOB to return with specific program recommendations may create pressures for additional spending.

- Pursuing a low-key internal economic empowerment strategy probably implies that no major changes in anti-poverty efforts will occur. This approach essentially involves a commitment to smaller-scale, incremental changes.

- Providing leadership and staff support for the LIOB to develop new initiatives will require some increase in current resources.

Option 3: Develop no further initiatives; pursue the existing agenda. Continue to pursue Administration initiatives that have been proposed (see Appendix A), but do nothing further to define or pursue a comprehensive long-term economic empowerment strategy. Additional future anti-poverty initiatives would arise out of agency deliberations or existing efforts on education, drug-abuse, and other areas and would be evaluated in light of the principles set forth above. Under these circumstances, the LIOB should probably remain without ongoing responsibilities (other than processing waiver requests), though other tasks might be assigned to it when specific issues arise.

Pros:

- The Administration may have already taken on as large an issues agenda as it can reasonably cope with in the near future. This option minimizes commitments of energy and resources to this area.

- Avoids potential political risks associated with high-profile strategies.

- Deciding that the agenda is too full right now does not mean the Administration cannot revisit these decisions at a later date.

Cons:

- Would not achieve any of the advantages listed under Options 1 or 2 above. Makes it very unlikely that significant moves toward economic empowerment and expanded low-income opportunity will occur for some years.

APPENDIX A:
CURRENT ADMINISTRATION LOW INCOME OPPORTUNITY EFFORTS

The Administration has already adopted, proposed, or seen enacted into law a variety of initiatives. These include:

Targeting Programs for Children

- Extension of Medicaid coverage to all children under six and pregnant women with incomes below 133 percent of the poverty thresholds; States are allowed to serve all poor children under eight years old and all infants from families with incomes up to 185 percent of the poverty line.

- Additional funding for WIC, enabling an increase of 300,000 in the number of individuals to be assisted by the program.

- Additional funding for Head Start of $151 million. A $500 million increase proposed for 1991, enabling the program to serve up to 180,000 additional four-year-olds.

- Joint work between the President and the Nation's Governors to establish national goals for the education system. Proposed initiatives include providing seed money to encourage States to experiment with innovative choice-based programs, recognizing excellence in schools and teaching, and targeting Federal education dollars to those most in need.

- A proposal to create a new and refundable income tax credit, the Child Credit, for families with an employed parent or parents of young children.

- A proposal to make the Dependent Care Tax Credit refundable.

Encouraging Economic Self-Sufficiency

- Implementation of the Job Opportunities and Basic Skills Training (JOBS) program of the Family Support Act, which established a major new work, training, and education program for those on welfare.

- Implementation of the Department of Labor's Youth Opportunities Unlimited (YOU) program of the Family Support Act, which provides a major new work, training, and education program for those on welfare.

- An increase in the minimum wage to $4.25 an hour by 1991, with a lower training wage for newly-employed teenagers.

- A proposal to reorganize the Job Training Partnership Act to target resources on the most economically disadvantaged.

- Support for the Americans with Disabilities Act, which is designed to lower barriers to employment, public services,

and public facilities for the disabled.

- A major new program, Homeownership and Opportunity for People Everywhere (HOPE) to expand housing opportunities to the poor. This proposed legislation includes tax incentives to encourage greater construction and rehabilitation of low-income housing and to encourage savings for downpayments and opportunities for residents of Federally subsidized housing projects to have more voice over their housing through tenant management and potential tenant-purchase plans.

- Important Medicaid expansions for the poor elderly include: protecting spouses from impoverishment when the other spouse enters a nursing home and seeks Medicaid coverage, and requiring State Medicaid programs to pay the Medicare premiums, deductibles, and coinsurance for all Medicare enrolles with limited assets and incomes below poverty.

Developing Opportunities for Economic/Community Development

- A proposal to create 50 enterprise zones, providing tax incentives for job creation and entrepreneurship.

- A proposal to create 50 Housing Opportunity Zones to establish Federal-local partnerships in metropolitan jurisdictions to remove barriers to affordable housing.

- A proposal to target Community Development Block Grant funds to those most in need.

Maintaining Effective Support for Those Most in Need

- Full funding proposed for the Stewart B. McKinney Homeless Assistance Act, and an additional $166 million aimed at the homeless in non-McKinney programs.

Expanding Knowledge and Evaluation

- Reestablishment of the Low Income Opportunity Board.

- A plan to evaluate the implementation of the Job Opportunities and Basic Skills Training (JOBS) program.

- Proposed reevaluation of the methodology used to measure poverty.

- A proposal to expand Food Stamp waiver authority to provide States greater flexibility for welfare reform experiments.

Simplifying the Welfare System

- An planned interagency review to propose ways to streamline eligibility policies and procedures across the welfare system.

APPENDIX B:
SUMMARY OF PAPERS SUBMITTED BY OUTSIDE EXPERTS

Stuart Butler

Butler recommends focusing on three target groups: the underclass, working poor, and poor children. He notes several problems related to the persistence of poverty: the welfare system contains disincentives for self-sufficiency; the breakdown in families; the centralization of the welfare system, which has discouraged innovation and flexibility; and the inefficient way in which Federal funds are distributed to aid State and local governments. He proposes four basic steps. First, changing the tax code to assure that work is more advantageous than welfare, potentially including expansions in the EITC and the personal exemption, and the creation of refundable tax credits for medical insurance. Second, restructuring Federal aid to States for anti-poverty programs so that all such programs involve a State match, one which is based on the fiscal capacity of the State. Third, decentralizing the welfare system to give States more flexibility to develop radical alternatives to the existing system. Finally, developing an empowerment strategy for the inner city, which would include housing vouchers, educational choice, contracting with community-based organizations for basic services, and establishing enterprise zones.

David Ellwood

Ellwood believes that progress against poverty can be achieved only by returning to "the principles of work and family and independence and viewing the origins of poverty and policies to alleviate them in light of them." He notes that over five million people live in poor families despite having a full-year, full-time worker. He believes that people who work shouldn't be poor and proposes a combination of wage and tax policies to raise family incomes above poverty, along with an expansion in medical coverage for low-income families. Specifically, he recommends a further increase in the minimum wage, an expansion of the EITC, more support for day care, and some form of guaranteed medical care. For single mother families, he proposes to reform child support by: requiring that both parents' Social Security numbers are identified at birth; basing child support payments on a simple formula; automatically withholding such payments from wages; and guaranteeing a minimum child support benefit, where the government would make up any difference between the absent parent's feasible payment and the minimum benefit.

Irwin Garfinkel

Garfinkel believes that the fundamental problem with U.S. anti-poverty policies is that they rely too much on welfare. He

targets single mother families for "nonwelfare" alternatives. The fundamental feature of his plan is a new child support assurance system (CSAS), which has three components: 1) a legislated standard based on the absent parent's income and number of children; 2) automatic wage withholding; and 3) an assured child support benefit under which the child would receive a guaranteed minimum benefit, with the government making up any difference between the absent parent's payment and the legislated minimum. He also favors converting exemptions in the income tax exemptions for children into refundable credits, to better target the benefits to the poor. Eventually, Garfinkel envisions doing the same with adult exemptions, and increasing their size by eliminating the Food Stamp program. He also supports universal national health insurance. Finally, he recommends replacing the current AFDC program with a system of work relief, where the amount of time able-bodied welfare recipients could receive benefits would be limited. For those unable to secure jobs (including all parents of poor children, not just mothers), he would have a public sector jobs program.

Edward Gramlich

Gramlich identifies the working poor and single mother families as the key target groups for an anti-poverty agenda. He proposes an expansion in the EITC for the working poor and a national minimum welfare benefit level (where AFDC plus Food Stamps would be at least 60 percent of the poverty line). To give low benefit States incentives and assistance to raise benefit levels, he suggests a revision in the current Federal-State matching process, where the Federal government would pay the entire combined (AFDC and Food Stamp) benefit up to 60 percent of the poverty line, 75 percent of the combined benefit up to 80 percent of poverty, 80 percent of the combined benefit up to the poverty line itself, and nothing thereafter. He also favors strengthening the child support enforcement system by: requiring States to establish paternity in all cases; nationalizing the withholding system; basing support orders on a simple percentage system; and not counting support payments as income for welfare purposes. Gramlich points out that something needs to be done about ensuring health insurance for the poor, but does not offer a specific reform proposal. Finally, he supports expanding the AFDC-UP program so that it covers more two-parent families.

Jack Meyer

Meyer advocates expanding human capital programs for the poor and giving them greater incentives to help people help themselves. He argues that government should increase funding for programs that work, noting that programs like Head Start, WIC, and the Job Corps fall in this category. He also believes that the welfare system should be reoriented by increasing basic benefits (including universal health insurance), but also by limiting the

duration such benefits can be received, as long as training, education, and support services are provided to ease the transition from welfare to work. For those who work, he proposes an expansion in the EITC, so that its benefits would be adjusted for family size. He emphasizes the need to reorient child welfare policies toward early intervention, especially for foster care. He also calls for more risk taking on the government's part, so that it can invest in ideas like youth entrepreneurship. Finally, Meyer contends that empowerment should be an important policy, where community leaders and the poor themselves have more control over decisions in the public assistance system.

Charles Murray

Murray targets the underclass, but provides few options. He emphasizes the empowerment theme, promoting choice in education. In addition, he calls for changes in housing markets, such as banning rent control for new housing.

Richard Nathan

Nathan calls for an incremental approach, aimed primarily at the underclass and poor children. He emphasizes the importance of implementing the new JOBS program, noting that it could bring together family, education, and jobs services in the inner city. He also urges other institutional strategies, such as "putting social workers in schools as a way to identify family problems and serve as a clearing house for solutions." He also proposes a targeted children's initiative, that would provide grants to States that target money to distressed areas with innovative new approaches.

June O'Neill

O'Neill notes that the incomes of the poor can be increased in three ways: 1) economic growth; 2) improvement in skills; and 3) income transfers. She believes there is little the government can do to generate productivity increases, though it should refrain from undertaking counterproductive actions which can harm the economy. Similarly, she believes most government job training programs (with the possible exception of Job Corps) have been ineffective. Although noting that transfer programs have provided important relief for some in need, she notes that they may have negative, unintended, side-effects. O'Neill believes that the government may make a difference in two areas: education and changing the philosophy of welfare. In the area of education, she sees the principal Federal role as one of encouraging innovation by sponsoring experiments and providing leadership. In terms of changing the philosophy surrounding welfare, she advocates limiting the duration of assistance and strengthening requirements to participate in job search or some

other training or education program.

Isabel Sawhill

Sawhill offers a broad range of proposals aimed at the working poor, poor children, and the underclass. She believes that work effort should be rewarded, and recommends expanding the EITC and subsidies for child care and health insurance. She also believes children should be given more opportunities early in life through early prenatal care, preventive health care, enriched preschool programs, and developmental day care. She also suggests strengthening the child support system by making greater efforts to establish paternity and establishing a universal child support tax to be levied on the income of every absent parent. For single mothers, the government should invest more in education and training programs. Sawhill also believes that the current welfare system should be simplified by consolidating and cashing out many of the existing programs. She also favors income-relating social insurance programs, such as Social Security, by including the benefits in taxable income. Finally, she advocates giving greater incentives for local governments to restructure assistance systems, as long as such experiments are evaluated and the results and disseminated.

APPENDIX C: BACKGROUND PAPERS

1) Measuring Poverty
2) Poverty Statistics
3) The Welfare System
4) History of Welfare Reform Efforts
5) The Relationship Between Work and Program Incentives
6) Lessons From Employment and Training Programs
7) The Working Poor
8) The Unemployed
9) Female-Headed Families
10) Children and Infants
11) The Elderly
12) The Disabled and Employable
13) The Underclass
14) The Homeless
15) Housing Affodability
16) Economic Development

BACKGROUND PAPER #1

MEASURING POVERTY

Background

The official poverty measure, developed in 1963-64 as a research tool by Mollie Orshansky of the Social Security Administration, is intended to be a measure of income adequacy. However, the only basic consumption need for which a minimum standard was available was nutrition. Thus, the poverty thresholds were originally set at three times the cost of the USDA's 1961 economy food plan (a minimal food basket meeting then recommended dietary allowances for "temporary or emergency use"), adjusted for family size, farm/nonfarm status, age of household members, and gender of the head of household. The formula was derived from the 1955 Household Food Consumption Survey, which showed that the average family of three or more spent approximately one-third of their aftertax money income on food. The reasoning was that if typical middle-income families spent three times their food budget for all their basic needs, then three times a nutritionally adequate food budget would be adequate for all needs as well. (Poverty thresholds for two-person families were derived using a somewhat higher multiplier than three, and poverty thresholds for unrelated individuals were derived directly from those for two-person families, in order to compensate for the relatively larger fixed expenses of these smaller units.)

Originally, the thresholds were updated based on changes in the cost of the economy food plan, but since 1969 they have been updated by changes in the overall Consumer Price Index (CPI). Adjustments for farm status and the gender of the head of household were abolished in 1981; otherwise, the poverty definition has remained basically the same as when it was first developed. Data adjusting the national poverty line by consumer price levels extend from the present back to 1959. Table 1 shows the weighted averages of the 48 different thresholds (which vary by family size, number of children and age of householder for one- and two-person families) used by the Census Bureau.

Table 1: Weighted Average Poverty Thresholds in 1988

Size of family unit	Threshold
One person (unrelated individual)	$ 6,024
15 to 64 years	6,155
65 years and over	5,674
Two persons	7,704
Householder 15 to 64 years	7,958
Householder 65 years and over	7,158
Three persons	9,435
Four persons	12,092
Five persons	14,305
Six persons	16,149
Seven persons	18,248
Eight persons	20,279

By comparing money income against these thresholds, the Bureau of the Census reports the poverty status of families and unrelated individuals (excluding institutionalized persons). Income received from the following sources is included in the Census Bureau's definition: money wages or salary; net income from self-employment; cash transfers from government programs; property income (e.g., interest, dividends, net rental income); and other forms of cash income (e.g., private pensions, alimony, child support). It does not include capital gains, money received from the sale of property, gifts, imputed rents, and lump-sum or one-time payments such as life insurance settlements. It also excludes noncash government and private benefits, such as food stamps, Medicare, and employer-provided health insurance. Nor does it subtract taxes. The income estimates are derived from the March supplement to the Census Bureau's Current Population Survey (CPS).

Limitations of the Official Poverty Definition

Any measure of poverty is necessarily arbitrary; no two individuals are alike and have exactly the same needs. Thus, it is impossible to quantify in dollar terms a standard that will meet all circumstances. Nevertheless, some measure is needed to help understand the degree of hardship experienced by the most disadvantaged citizens and then to be able to evaluate progress toward alleviating this hardship.

Numerous researchers have examined the limitations of the "official" poverty measure. Some of these tend to understate the incidence of poverty, while others tend to overstate it, while still others have an uncertain effect.

1) The official poverty statistics are based on cash income; they ignore the value of noncash benefits, such as food stamps, Medicaid, Medicare, employer-provided health insurance, and housing assistance, which have increased dramatically in the last 25 years. When the poverty statistics were first compiled, 90 percent of government means-tested benefits were in the form of cash and were counted, but today noncash benefits comprise about three-quarters of all means-tested spending. For 1988, the Census Bureau used a conservative method of valuing noncash benefits (including employer-provided health insurance), which reduced the poverty level from 13.1 percent to 10.5 percent. Other valuation methods, used by Census from 1979 through 1987, would have shown an even lower poverty rate. (Many difficult and controversial issues arise in trying to value noncash benefits, e.g., whether to use the cost to the government or the value to the recipient.)

2) The current poverty thresholds are based on data from a 1955 survey which found that, on average, families of three or

more spent one-third of their income on food. No attempt was made to estimate subsistence levels of nonfood items in a poor family's budget because generally accepted minimum standards did not (and do not) exist. Since the time of the 1955 survey, there have been major changes in consumption patterns and relative prices (as reflected in the 1965, 1977-78, and 1987-88 Household Food Consumption Surveys and various Consumer Expenditure Surveys. In particular, housing costs have increased significantly (though this may reflect improvements in the quality of housing, as far fewer families live in substandard or crowded dwellings), and work-related expenses, such as child care costs, have grown with the changing demographics and the increase of women into the labor force. These examples illustrate why the original method was imperfect; however, if this method were updated to reflect more current data on food prices and consumption patterns, the result would be poverty thresholds that are much higher. For a family of three in 1987, this method would produce a poverty threshold of $14,308, as opposed to $9,056, and a poverty rate for the total population of 24.1 percent, rather than 13.5 percent (Joint Economic Committee, October 1989.)

3) Poverty statistics are based on the voluntary responses of households which may be unreliable. Some respondents may underreport (or not report at all) income in cases where they believe (erroneously) benefits may be lost if reported income exceeds a certain threshold. Such unreported income would include that obtained in the underground economy. In addition, there may be a time lag of up to 15 months between the time of the survey and the receipt of income, making it difficult for respondents to accurately recall their true incomes. The Census Bureau derived independent estimates of incomes, by type, for 1983 and found that the CPS captures only about 90 percent of all income. The understatement for certain types of income is particularly high. It has been estimated that up to 33 percent of all means-tested benefits go unreported in poverty surveys, thereby biasing the poverty statistics upwards. The impact of this underreporting can be seen by comparing CPS to the Survey of Income and Program Participation (SIPP), which due to a shorter recall period, is believed to have more complete income reporting. In 1985, SIPP reported a poverty rate of 11.0 percent, while CPS showed 14.0 percent.

4) Another measurement problem is the choice of a price deflator for adjusting poverty thresholds for inflation. The official Consumer Price Index for All Urban Consumers (CPI-U) has been used, yet the CPI-U is known to have overstated inflation during the 1970s and early 1980s, due to the way it measured housing costs. The CPI-U methodology was changed in 1983, but the change was not made in the official measure for the years before 1983, when the discrepancy was actually at its peak. An experimental Labor

Department index, the CPI-U-X1 has adjusted the earlier years of the price index series for this problem; this resulted in a change in the entire poverty rate series. The adjusted number for 1988 falls from 13.1 percent to 11.6 percent. However, since the CPI (and CPI-U-X1) is based on the consumption of goods and services of the average consumer, not the poor, there is still no assurance that the thresholds have been adjusted correctly.

5) The degree of poverty is understated by the failure to subtract taxes from income. This was originally judged to be acceptable because only a small fraction of the income of poor households was taken for income taxes. This became a serious problem in the mid-1980s, as the poor were being subjected to higher and higher levels of taxation. Important legislative changes in 1986 reduced their income tax burden, but the payroll tax still takes about 7.65 percent of their earned income.

6) There are groups of people who are not covered by the CPS, such as the homeless and those living in institutions. In addition, Census surveys are believed to undercount minorities and other groups that are disproportionately poor.

7) Many factors that affect the well-being of households are excluded: the availability of public goods (e.g., education and police protection), the amount of leisure available, and a range of nonpecuniary benefits.

8) Some who are counted as poor have significant assets, which could be "spent down" to meet consumption needs. For example, self-employed people would be counted as poor in a given year if their net income dropped below the poverty threshold, even though their wealth may be large and they may be drawing down on it and living at a higher level than the money income figure suggests. Money income also does not reflect the fact that many families may have low housing costs because they own their own homes outright. This is especially true for the elderly.

9) Intrafamily transfers, such as payments made to elderly parents living on their own, are not counted. Also, there may be students who show up in poverty, even though they may be getting support from their families and many of their necessities may be covered.

10) Poverty thresholds are not adjusted for geographic variations in the cost-of-living. The official figures show that the South has a significantly higher poverty rate than any other U.S. region. The data, however, may greatly exaggerate conditions. One experimental tabulation applied a set of crude geographic differentials to the 1977 poverty statistics. Not only did this result in an overall drop in

the number of poor, but it reduced the disparity between the South and other regions of the country. A single poverty line for the entire country will tend to exaggerate poverty in areas where price levels are lower (such as the South and less urban regions) and understate it elsewhere.

Alternative Poverty Measures

A number of alternatives have been proposed to the current poverty measure. They reflect differing judgments about what constitutes a minimum acceptable standard of living and how income and resources should be counted.

1) A minimum market basket of goods and services deemed essential for survival and health could be identified. Those with incomes below the level needed to purchase such a "poverty market basket" would be considered poor.

2) A consumption-based measure of poverty could replace the current income-based measure, where poverty would be based on what people actually consume. (Note: Some surveys now show that low-income people actually consume more than their incomes (perhaps because of dissaving and/or the underreporting or nonreporting of income).

3) Poverty could be based on a relative standard, e.g., some percentage of median income. Many have argued that poverty is a relative concept and that as the general standard of living rises, so too do ideas about what constitutes a basic subsistence level. Critics argue that a relative standard would not measure real economic well-being; poverty would be reduced only if income became distributed more evenly. In other words, if everyone's income doubled, the poverty rate would remain the same, even though everyone was better off.

POVERTY STATISTICS

Trends in the Level and Composition of Poverty

As shown in Table 1, the official poverty rate has fallen from 22.4 percent in 1959, the first year for which official data is available, to 13.1 percent in 1988. Most of this progress occurred in the 1960s and early 1970s, with the poverty rate falling to its lowest level ever in 1973, when it was 11.1 percent. Since then, the poverty rate has tracked the economy: rising during recessions, then falling afterwards. Poverty rose to a peak in 1975 during the recession, then declined to 11.4 percent in 1978. From 1979 through 1983 poverty was on an upward trend again, peaking at 15.2 percent. It has since declined to 13.1 percent, which means that nearly 32 million Americans counted as living in poverty.

Table 1: The Incidence of Poverty

Year	Number of Poor Persons (000s)	Poverty Rate (percent)
1959	39,490	22.4
1960	39,851	22.2
1961	39,628	21.9
1962	38,625	21.0
1963	36,436	19.5
1964	36,055	19.0
1965	33,185	17.3
1966	28,510	14.7
1967	27,769	14.2
1968	25,389	12.8
1969	24,147	12.1
1970	25,420	12.6
1971	25,559	12.5
1972	24,460	11.9
1973	22,973	11.1
1974	23,370	11.2
1975	25,877	12.3
1976	24,975	11.8
1977	24,720	11.6
1978	24,497	11.4
1979	26,072	11.7
1980	29,272	13.0
1981	31,822	14.0
1982	34,398	15.0
1983	35,303	15.2
1984	33,700	14.4
1985	33,064	14.0
1986	32,370	13.6
1987	32,341	13.4
1988	31,878	13.1

The aggregate poverty rate cannot show significant differences among different groups within the poverty population. Tables 2 and 3 present data on the incidence and composition of poverty for various subgroups for selected years since 1959.

Table 2: Incidence of Poverty for Specified Demographic Groups

	Poverty Rate (percent)			
	1959	1969	1979	1988
Total	22.4	12.1	11.7	13.1
Age				
Elderly (65 & over)	35.2	25.3	15.2	12.0
Adult (18 to 64)	17.0	8.7	8.9	10.5
Children (under 18)	27.3	14.0	16.4	19.7
Household status				
Female-headed family	49.4	38.2	34.9	37.4
All other families	18.2	7.4	6.3	7.3
Unrelated persons	46.1	34.0	21.9	20.6
Race/ethnicity				
White	18.1	9.5	9.0	10.1
Black	55.1	32.2	31.0	31.6
Hispanic	--	--	21.8	26.8

(Note: Persons of Hispanic origin may be of any race.)

Age. For the elderly, the incidence of poverty has declined dramatically from 35.2 percent in 1959 to 12 percent in 1988. (Although the poverty rate for the elderly is lower than for the nonelderly, a disproportionate share of the elderly are counted as "near poor," i.e., with incomes between 100 percent and 125 percent of poverty.) The poverty rate for children also declined after 1959, reaching a low of 14 percent in 1969, but has since risen to 19.7 percent and remains higher than for any other age group. The poverty rate is lowest for prime-age adults.

Household Status. The poverty rate for female-headed families has consistently exceeded, by a significant amount, the poverty rate of married-couple and male-headed families. In 1988, over half of all poor children lived in female-headed families. Unrelated persons are disproportionately young people just getting started or older people living alone.

Race. The poverty rate for whites is about one-third what it is for blacks. The greatest progress was made in the decade from 1959 to 1969, when the poverty rate for both groups was reduced by about 50 percent. Since then, there has been little, if any, progress for either group. Even though the poverty rate for whites was significantly lower than for other groups in 1988, 65 percent of all poor persons were white.

Table 3: Composition of Poverty

	Percentage Distribution			
	1959	1969	1979	1988
Total	100.0	100.0	100.0	100.0
Age				
Elderly (65 & over	13.9	19.8	14.1	10.9
Adult (18 to 64)	41.7	40.0	46.1	49.6
Children (under 18)	44.4	40.1	39.8	39.5
Household status				
Female-headed family	17.8	28.5	36.6	38.0
All other families	69.8	50.9	41.1	37.9
Unrelated persons	12.5	20.6	22.3	22.2
Race/ethnicity				
White	72.1	69.0	66.0	65.1
Black	25.1	29.4	30.9	29.6
Hispanic	--	--	11.2	16.9

(Note: Persons of Hispanic origin may be of any race.)

Poverty rates also vary significantly in relation to work and educational status. Table 4 shows the combined impact of race, family type, and work experience. Families with more workers and/or more weeks of work experience less poverty.

Table 4: The Relationship Between Poverty and Work Experience

	Poverty Rate (percent)		
Family Type/Work Status	Total	White	Black
Married couple, w/ children:			
Number of workers			
0	61.2	54.5	74.4
1	13.9	12.6	28.7
2	4.3	3.9	6.8
3	2.5	2.1	5.7
Work experience of householder			
50-52 weeks	3.5	3.3	5.5
1-49 weeks	16.9	16.1	19.1
No work	33.1	27.9	42.5
Female householder, w/ children:			
Number of workers			
0	90.7	87.7	95.3
1	36.3	32.0	44.9
2	16.5	11.3	27.1
3	11.7	7.6	19.6
Work experience of householder			
50-52 weeks	14.1	12.1	18.6
1-49 weeks	59.5	53.1	71.4
No work	80.7	76.1	86.8

Table 5 shows the combined impact of race, family type, and educational attainment. Not having a high school degree is strongly associated with being in poverty.

Table 5: The Relationship Between Poverty and Educational Attainment

Family Type/Education	Poverty Rate (percent) Total	White	Black
Married couple, w/ children:			
Education			
8 years or less	27.9	25.6	38.4
High school	5.8	5.4	7.1
College, 1 or more years	2.5	2.1	5.7
Female householder, w/ children			
Education			
8 years or less	65.9	64.2	69.6
High school	39.3	31.5	54.0
College, 1 or more years	19.3	16.7	26.1

Based on analysis of household survey data, Charles Murray has observed that if people meet certain requirements, they can almost assuredly avoid poverty. For men, he says:

> These requirements for a male, black or white, are to go to a free public school and complete high school. Get into the labor market and get a job, any job, and stick with the labor market. Do so and the odds that you will be poor are small.

For women, he says:

> One option is to get an education, acquire skills, and get a job. For such women, if they don't have children, avoiding poverty is no more difficult than for men. Another option is to marry a man who will be a good and conscientious provider. This requires the woman to assess his character accurately. To be safe, it is better to acquire job skills too. But even given the chancy business of predicting the future, the vast majority of women who marry avoid poverty, whether or not the marriage lasts. Whatever else she does, a poor woman who wishes to get out of poverty should not have a baby out of wedlock. This is not a moral statement, but an empirical one.

There are a number of factors related to the size of the poverty population, related principally to: demographic and economic changes, and changes in government transfer programs.

Demographic Changes

Over the last several decades, there has been a dramatic growth in the size of demographic groups with higher-than-average poverty rates, especially households headed by women with children. These demographic changes have put upward pressure on the overall poverty rate.

In 1959, only nine percent of families with children were headed by a woman; by 1988 this had risen to 21 percent. Moreover, these are only point-in-time percentages; the majority of children born today are expected to spend at least part of their childhood in a single-parent home. This trend is especially troublesome, because children from mother-only families are more likely to drop out of school, give birth out of wedlock, divorce or separate, and become recipients of public assistance.

Even if there had been no change in the poverty rates of any individual demographic group, the poverty rate would have risen as these groups, especially families headed by women with children, became a larger proportion of the population. According to Isabel Sawhill: "If the age, race, and sex composition of household heads in 1980 had been the same as that in 1950, decennial census data indicate that the poverty rate would have been 23 percent lower at the end of the period. On average, these changes have been adding about one percentage point a decade, or 0.1 percentage points per year, to the incidence of poverty."

Changes in the Economy

David Ellwood and Lawrence Summers recently claimed that "economic performance is the dominant determinant of the poverty rate." Indeed, earnings remain the most important source of income for the poor. However, the impact of economic growth varies among different groups of the poor. It is especially closely linked to changes in the incidence of poverty among male-headed households, but not for elderly or female-headed households, since they have weaker attachments to the labor market. Research findings by Rebecca Blank and Alan Blinder suggest that a one-point increase in the prime-age unemployment rate is correlated with an increase in poverty of 0.7 points.

Government Transfers

Spending on transfer programs has grown dramatically since the mid-1960s. These programs fall into two principal categories: social insurance and public assistance. The objective of social insurance programs is to replace earnings losses from unemployment, retirement, disability, or death, and to help pay for the health costs of the elderly and disabled. Social

insurance programs pay benefits to those who have contributed to such programs, usually through a payroll tax. The principal social insurance programs include Social Security and Unemployment Insurance. In contrast, public assistance, or means-tested, programs generally restrict benefits to those who are poor. The major programs are Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), Medicaid, and Food Stamps. Table 6 shows the size and growth of these programs.

Table 6: Federal Social Welfare Expenditures, 1960-1984
(In billions of 1986 Dollars)

	1960	1965	1970	1975	1980	1984
Total means-tested	16	22	45	84	93	100
Cash	13	16	24	35	31	30
In-kind	3	7	21	49	62	70
Total social insurance	82	110	167	264	320	375
Cash	82	110	147	234	273	309
In-kind	0	0	20	30	47	66
TOTAL	98	132	212	348	413	476
Cash	95	125	171	269	304	340
In-kind	3	7	41	79	109	136
Total as a percentage of GNP	5.2	5.5	7.6	11.0	11.8	13.4

It is not easy to estimate the impact government assistance programs have in reducing poverty. This is because many programs provide assistance in the form of noncash benefits, which raise difficult issues associated with the proper valuation of those benefits. For example, if actual medical benefits received were counted, this would imply that those in poorer health are somehow richer.

The antipoverty effectiveness of income transfers is generally measured by looking at the number of people with pretransfer incomes below the poverty line who are moved out of poverty by the receipt of transfer payments. "Pretransfer poverty" refers to those with incomes below poverty counting only earnings and other private income, but excluding government transfers. "With Social Insurance" refers to those who remain impoverished even after receiving social insurance benefits. Finally, the "With Means Tested" rate shows the impact after all private income and government transfer payments are counted.

Table 7 shows these various measures of poverty for different groups of the poor. The 1988 pretransfer poverty rate for all

persons was 19.8 percent. Cash and noncash transfer payments reduce this by 47 percent, to 10.5 percent. As the table shows, however, the relative effectiveness of social insurance and means-tested programs varies significantly from one group to another. For example, social insurance programs reduce the pretransfer poverty rates for the elderly from 47.5 percent to 11.8 percent, but have a much smaller effect on other age groups.

Table 7: Anti-Poverty Effectiveness of Major Cash and Noncash Transfer Programs (1988)

	Poverty Rate (percent)			
	Official	Pre-transfer	With Social Insurance	With Means Tested
All persons	13.1	19.8	13.2	10.5
Age				
Elderly (over 65)	12.0	47.5	11.8	9.1
Adult (18 to 64)	10.5	13.5	10.7	8.7
Children (under 18)	19.7	22.1	19.9	15.7
Household status				
Female-headed	38.1	45.4	39.6	30.2
Married couple fam.	6.6	11.8	6.6	5.2
Unrelated persons	20.6	34.6	20.2	17.5
Race/ethnicity				
White	10.1	16.9	10.2	8.3
Black	31.6	38.2	31.7	24.8
Hispanic	26.8	31.4	27.5	22.0

(Note: This table represents a highly simplified summary of the anti-poverty effectiveness of transfer programs. Among other things, the results are very sensitive to the order in which programs are counted and the valuation technique applied to noncash programs.)

One problem with using the poverty rate to measure the effectiveness of transfer programs is that it shows only the number of people who move above the poverty line. Transfer programs can provide significant resources that ease economic hardship without actually moving people over the line itself. A more informative way to analyze the impact of government programs on poverty is to look at what is called the poverty gap. This is the amount it would take to raise the income of a person or group just above the poverty level applicable to their family size. In effect, it measures the degree of poverty. In 1987, the poverty gap (using the "official" poverty definition) was $51.7 billion, or $1,587 per person. The aggregate measure shows how much it would take to eliminate poverty if the money could be distributed only to the poor and only up to the poverty level. The per

capita measure shows how much would have to be given each poor person, on average.

Because social insurance and means-tested programs can influence the behavior of individuals in ways that lower private incomes, the anti-poverty effectiveness of government spending is overstated. The extent to which these programs reduce economic growth, work effort, savings, or alter family structure is uncertain, but these effects are not trivial and should be considered in any assessment of the role of transfers in reducing poverty.

The Dynamics of Poverty

The relatively small changes in the poverty rates from year to year may give the perception that there is little movement into and out of poverty. In fact, annual rates are snapshots of poverty, and comparisons from year to year are comparisons of net changes. The number of people who move in or out of poverty in a year is considerably higher than the net drop or increase in the overall number of poor.

The Panel Study of Income Dynamics (PSID), begun in the late 1960s, provides information on changes in the economic status of the population and follows the same people over time. Data from the survey indicate that only a small portion of the population, 2.6 percent, can be thought of as being persistently poor, i.e., in poverty eight out of the ten years between 1969 and 1978. A relatively large proportion of the population, 24.4 percent, was poor for at least one year during this ten-year span.

Among those who ever experience poverty, about 45 percent escape poverty within one year and 70 percent do so within three years. Only 13 percent stay poor longer than eight years. Of those in poverty in a particular year, 11 percent have spells that last less than a year, one-quarter that last less than three years, and slightly more than one-half that last more than eight years. From this data, Isabel Sawhill estimates that about 6 or 7 percent of the population is chronically poor, where "chronic" is defined as poor for more than eight years.

More recent data from the Survey of Income and Program Participation (SIPP), show a great deal of movement into and out of poverty during the course of a year (when measured on a monthly basis using one-twelfth of the annual poverty thresholds). For example, the annual poverty rate, as measured by SIPP, was 11 percent in 1984. Only six percent were poor in every month, while 26 percent were poor at least one month. This profile also illustrates that while many people experience short periods of poverty, while far fewer are persistently poor. Table 8 illustrates how these rates vary for different family types.

Table 8: Alternative Poverty Rates by Family Type, 1984

	Annual Rate	Poor All 12 Months	Poor in Any Month	Average Monthly Rate
All persons	11.0	5.9	26.2	13.7
Married couples, with children	7.4	2.8	24.3	10.2
Single parents, with children	39.9	25.8	60.8	42.7
Unrelated individuals	17.7	11.0	35.9	21.9
Elderly persons	10.3	6.8	18.5	12.1

Transitions In and Out of Poverty

It is also important to know which factors are associated with the onset of poverty spells and which are linked to exits from poverty. Even longitudinal data bases, such as the PSID, can provide only limited information. This is because they typically provide information on an annual basis, which may make it difficult to link a specific event to a change in poverty status. It may even result in overlooking events associated with short-term entries into or exits from poverty. Recent research using SIPP, however, can now provide some insights into these changes.

Labor market events are important determinants of entries into and exits from poverty. Over 40 percent of poverty spells began with the loss of a job by a family member, while 47 percent of exits were associated with a family member gaining a job. In contrast, demographic events, such as the birth of a baby, a death, a marriage, or a marital separation, were associated with far fewer families entering or leaving poverty. This difference, however, is largely due to the fact that labor market events tend to be much more common than demographic events.

Although demographic changes were relatively infrequent, when they did occur, they were closely linked with poverty transitions. For example, 23 percent of those experiencing a marital break-up and 13 percent of those in families with a new baby became poor in the month in which the event occurred. In contrast, a job loss was associated with entry into poverty for only 17 percent of families experiencing such losses. Job gains and marriages led to poverty exits for 16 percent and 14 percent, respectively, of families experiencing such events.

BACKGROUND PAPER #3

THE WELFARE SYSTEM

Background

In 1986, the Low Income Opportunity Working Group released Up From Dependency, which identified 59 major means-tested programs, 31 other low income grant programs and 11 loan programs. Assistance for basic needs is provided through direct cash payments and through in-kind programs that provide benefits in the form of medical care, food, and housing. Other programs, primarily social services, employment and training, and education programs, are aimed at reducing dependency by providing support services or increasing skills and knowledge. The table provided at the end of this paper provides a comprehensive listing of the welfare system as it stood in 1985. Since that time it has actually grown, both in dollar terms and in the number of programs.

System Complexity

These dozens of programs operate as a system, although not a very efficient one. They often serve the same people and have similar purposes, interacting with one another without taking into account how other programs are working. Each was created in response to the perception of some specific need, but together they are carried out under a confusing array of rules, purposes, and agencies.

Oversight. The system's complexity begins in Washington, D.C., with the Congressional committees which authorize the programs. Nine separate committees in both the House and the Senate authorize spending for the 59 major programs. Certain committees oversee a particular kind of aid, as the Agriculture Committees do for food; others serve special groups, such as the Select Committee on Aging. Typically, many committees authorize programs for the same purposes. For example, seven committees in the House and seven in the Senate authorize cash or other assistance to pay for low income housing.

Administrative Complexity. This tangle of oversight is mirrored in Federal administration, as the programs are scattered throughout nine Departments and several independent agencies. For example, the Department of Housing and Urban Development administers only four of the nine programs that provide noncash housing assistance. Four other Departments and one independent agency administer the other programs. State and local agencies often try to overcome the Federal tangle by using one local agency to deliver many programs. Nonetheless, a person seeking public assistance must face an array of public and private institutions.

Eligibility Issues. The growth in the number of Federal programs has led to a variety of groups being targeted for assistance. Most of these programs also have their own rules for determining eligibility and benefit levels. For example, to determine eligibility, seven of the 59 major programs use 100 percent of the poverty guidelines, while 20 programs set limits at some multiple of those guidelines. Other programs use the median income of a State or county, a State-determined eligibility level, or some other measure. The various programs have different ways of counting income as well, in determining who needs assistance and how much. As a rule, programs with large monthly benefits, such as AFDC, SSI, Medicaid, and Food Stamps, have detailed rules about what must be counted as income. Recipients must document their income and report income changes to the welfare agency. The smaller programs tend to have less exacting standards and require less documentation. Welfare recipients who receive benefits from several programs must meet a multitude of confusing and seemingly arbitrary income standards.

Program Overlap. The multiplicity of public assistance programs has made it the rule, rather than the exception, that a family or individual will receive benefits from more than one program. Due to this pattern of multiple participation, it is not possible to determine, simply by looking at one program's benefits, whether or not the safety net is adequate. As a result, some families receive more than they need, while others do not receive enough.

TABLE 1

LOW INCOME ASSISTANCE PROGRAMS

		FY 1985 FEDERAL AND REQUIRED STATE SPENDING (IN MILLIONS)
59 MAJOR FEDERAL PUBLIC ASSISTANCE PROGRAMS		$132,177
CASH PROGRAMS		$32,335
Aid to Families with Dependent Children	$14,758	
Supplemental Security Income	10,889	
Pensions for War-time Veterans	3,842	
Earned Income Tax Credit	1,100	
Foster Care	929	
Refugee Resettlement Program	436	
Emergency Assistance to Needy Families	154	
Veterans Parent's Compensation (DIC)	89	
Adoption Assistance	71	
Indian General Assistance	67	
FOOD PROGRAMS		$20,407
Food Stamps	$12,533	
National School Lunch Program	3,391	
Special Supplemental Feeding Program for Women, Infants and Children	1,495	
Temporary Emergency Food Assistance Program	973	
Nutrition Assistance Program for Puerto Rico	825	
Child Care Food Program	418	
School Breakfast Program	391	
Food Donations to Charitable Institutions	172	
Summer Food Service Program for Children	110	
Commodity Supplemental Food Program	43	
Needy Family Program	42	
Special Milk Program	16	
HOUSING PROGRAMS		$13,707
Housing Assistance Payments (Section 8 and Rent Supplements)	$6,884	
Public and Indian Housing	3,409	
Low Income Home Energy Assistance Program	2,139	
Interest Reduction Program (Section 236)	619	
Homeownership Assistance Program (Section 235)	268	
Weatherization Assistance	192	
Rural Rental Assistance Program (Section 521)	105	

		$48,632
HEALTH PROGRAMS	$41,216	
Medicaid	5,393	
Veterans Health Care (non service-connected)	813	
Indian Health Service	783	
Maternal and Child Health Services Block Grant	383	
Community Health Centers	44	
Migrant Health Centers		
		$4,890
SERVICE PROGRAMS	$2,725	
Social Services Block Grant	1,344	
Head Start	366	
Community Services Block Grant	313	
Legal Aid (Legal Services Corporation)	143	
Family Planning Services		
		$3,952
EMPLOYMENT PROGRAMS		
Training Services for the Disadvantaged (JTPA II-A)	$1,710	
Summer Youth Employment Program (JTPA II-B)	776	
Job Corps (JTPA IV)	593	
Senior Community Service Employment Program (Older Americans Act)	356	
Work Incentive Program and Demonstrations	310	
Native American Employment and Training Program (JTPA IV)	65	
Seasonal Farmworkers Program (JTPA IV)	63	
Foster Grandparent Program	56	
Senior Companion Program	23	
		$8,254
EDUCATION PROGRAMS	$3,788	
Pell Grants	3,200	
Grants to Local Education Agencies - Educationally Deprived Children	554	
College Work-Study	396	
Supplemental Education Opportunity Grants	152	
State Student Incentive Grants	74	
Upward Bound	70	
Special Services for Disadvantaged Students	21	
Talent Search		

OTHER LOW INCOME GRANT PROGRAMS		$8,438
Community Development Block Grants	$3,817	
Vocational Rehabilitation Services	1,366	
Vocational Education Grants to States	692	
Child Support Enforcement	572	
Urban Development Action Grants	497	
Title III - Nutrition Program (Older Americans Act)	400	
Title III - Supportive Services (Older Americans Act)	265	
Migrant Education Program	257	
Public Works and Economic Development Facilities	150	
Higher Education Aid for Institutional Development	148	
Consumer and Homemaker Education	32	
Higher Education Grants for Indians	27	
Cuban and Haitian Resettlement	26	
Health Careers Opportunity Program	24	
Adolescent Family Life Demonstration	21	
VISTA	17	
Indian Social Services	15	
Employment Services and Job Training	15	
Rental Housing Rehabilitation	14	
Rural Self-help Technical Assistance	13	
Rural Housing Grants	13	
Adult Programs (OAA, AB, APTD)	13	
Graduate and Professional Fellowships	12	
Title VI Grants to Tribes for Supportive & Nutritional Services	8	
Follow Through	7	
EFN Scholarships	7	
Migrant High School Equivalency Program	6	
Black Lung Clinics	3	
College Assistance Migrant Program	1	
Federal Employment for Disadvantaged Youth - Part Time	-	
Federal Employment for Disadvantaged Youth - Summer	-	

LOW INCOME LOAN PROGRAMS $12,059

Guaranteed Student Loans	$7,900
Very Low and Low Income Housing Loans	2,300
Rural Rental Housing Loans	900
Rural Housing Site Loans	218
Mortgage Insurance-Homes for Low and Moderate Income Families	213
National Defense/Direct Student Loans	192
Loans for Small Businesses	116
Community Facilities Loans	115
Section 312 Rehabilitation Loan Program	75
Farm Labor Housing Loans and Grants	20
Rural Development Loan Fund	10

BACKGROUND PAPER #4

HISTORY OF WELFARE REFORM EFFORTS

Background

The Social Security Act of 1935 marks the beginning of the current welfare system. It included both the Social Security and Unemployment Insurance programs, as well as the means-tested joint Federal-State programs of Old Age Assistance (OAA), Aid to the Blind (AB), and Aid to Dependent Children (ADC). From this base, the welfare system has grown to about 60 programs, costing Federal and State governments over $170 billion a year (see Up From Dependency).

The welfare system has been the source of controversy for many years. Some of the principal criticisms are that it: 1) is too big and costly; 2) has gaps in coverage and provides inadequate benefits; 3) is administratively cumbersome; and 4) has perverse anti-work and anti-family incentives. To remedy these deficiencies, a number of reform efforts have been put forth, especially over the last twenty-five years. Some have involved incremental changes, while others have called for a complex restructuring.

Incremental reforms are those that build on the existing system, making marginal changes in existing programs or adding new ones. Advocates of incremental change believe that the approach is politically more feasible than radical change, because the current system, despite its shortcomings, enjoys considerable acceptance with politically powerful groups, such as recipients, bureaucracies in the executive branch and the States, and committees in the Congress. Incremental reform is also perceived to be less risky than comprehensive reform, because little can be known in advance about the effects of a totally restructured system on the poor, labor markets, and existing family and social patterns. However, the primary disadvantage of this approach is that, by building on the current system, it retains the basic weakness of that system: that it is a composite of uncoordinated programs, each designed to meet individual objectives.

The comprehensive approach, on the other hand, involves radically altering the current system. Although the U.S. welfare system has essentially evolved through incremental reforms, a number of comprehensive reform strategies have been proposed. Some of these are described below.

The New Deal and the Social Security Act

Before the Social Security Act of 1935, private charities and local governments provided most assistance for the poor. State programs provided some assistance to those who did not qualify for local programs, but Federal aid was almost nonexistent. The Great Depression strained the budgets of private charities and of

State and local governments, and, as a result, the Federal government expanded its role. The means-tested programs of Old Age Assistance, Aid to the Blind, and Aid to Dependent Children were intended to help those poor who were not expected to work and who had little other means of support: the aged, disabled, and children. Although State participation was voluntary, Federal matching payments made State enrollment attractive.

It is worth noting that the designers of the Social Security Act strongly believed in a categorical system of assistance: "The measures we suggest all seek to segregate more clearly distinguishable large groups among those now on relief or on the verge of relief and to apply such differential treatment to each group as will give it the greatest practical degree of economic security."

The War on Poverty

President Johnson declared the War on Poverty in 1964, emphasizing that the objective was to provide a hand-up, not a hand-out. The Economic Opportunity Act of 1964 was the centerpiece of that. It established the Office of Economic Opportunity, local Community Action programs, and a series of education and employment and training programs to assist the poor, such as Head Start, Job Corps, Neighborhood Youth Corps, Work Study, and Upward Bound. All of these programs were designed to attack the root causes of poverty, so that the poor could lift themselves from poverty through their own efforts, rather than through direct aid.

At this same time, however, numerous assistance programs were created or expanded and welfare expenditures increased dramatically. Programs such as Medicaid and Food Stamps were created and AFDC was significantly liberalized, both in terms of benefit levels and acceptance rates. Some of these expansions were prompted by court decisions, which struck down some State practices pertaining to the AFDC program that limited eligibility, such as "man-in-the-house" rules and residency requirements. These changes made the welfare package significantly more attractive to potential recipients.

However, other factors in addition to program liberalizations were responsible for growing welfare costs. Attitudes about welfare receipt were changing, as the stigma associated with receiving such assistance was reduced. In addition, demographic changes, such as the increase in the number of female-headed families, were also important.

The Negative Income Tax

The idea of a negative income tax (NIT) came into prominence in the 1960s and has appeared, in several forms, in various welfare

reform proposals. Unlike welfare, which provides benefits only to certain categories of the poor, the negative income tax was proposed for all those with low incomes, regardless of age, gender, or employability. It would provide a minimum level of support through the tax system, where benefits would be based on income and family size. Those with no income would receive the maximum benefit and as earnings rose, benefits would be reduced, but not so rapidly as to erode incentives to work. Some viewed the NIT as a replacement of all existing cash and in-kind programs, while others saw its role as more limited, replacing only welfare programs or even acting as a supplement, rather than substitute, for existing programs.

Advocates of a NIT argued that it would raise the incomes of the poor, especially those residing in States with low welfare benefits, and reduce the disparity in benefit levels between the States. By replacing in-kind programs with cash assistance, it would be less stigmatizing and would leave recipients with maximum freedom in making budget decisions. Supporters also argued that by removing the categorical nature of assistance, there would be fewer incentives to families to break-up to qualify for benefits and by phasing benefits out at a low rate, work incentives would be retained. Finally, replacing numerous assistance programs with a cash grant would simplify administration and reduce the administrative costs of the welfare system.

Opponents of replacing the existing welfare system with the negative income tax argued that the NIT has a number of weaknesses. First, they claimed that different causes of poverty and dependency call for different solutions and that a universal income support system ignores variation in the needs of groups. In addition, they believed that the administrative simplicity of the NIT was exaggerated, since the circumstances of the poor are continually changing, incomes would need to be verified and benefits adjusted on a more frequent basis than is currently done by the tax system. They also claimed that by extending benefits to new populations and guaranteeing a minimum benefit, the NIT would be very costly and extend work disincentives to those who otherwise would not have received welfare. Finally, they point out that some in-kind benefits are not suitable for "cashing out" (e.g., medical assistance).

Nixon's Family Assistance Plan

In 1969, President Nixon proposed replacing AFDC with a new Family Assistance program (FAP), a version of the NIT for all families with children. Two types of families would have been covered by the new program: "dependent families" headed by an unemployed mother or father, and "working poor" families headed by an employed male with low earnings. FAP imposed a work requirement for family heads and reduced benefits as earnings

rose at a rate of 50 percent. It differed from a pure negative income tax in several ways: it was categorical, i.e., it excluded single persons and childless couples, as well as the aged and disabled eligible for other cash assistance; it featured a work test; it was not strictly a cash program, because it offered day care services to working mothers; and it would have created a public jobs program.

Both liberals and conservatives opposed FAP, but for different reasons. Liberals believed that the Federal income floor was inadequate. Conservatives were concerned that when a minimum cash income was guaranteed, recipient work effort would decline. In addition, the expansion of eligibility would have doubled welfare caseloads. It was also noted that the benefit reduction rate for many would be much higher than the NIT rate, due to the interaction with Food Stamps and Medicaid.

FAP passed twice in the House of Representatives, but it failed in the Senate. Although FAP didn't pass, the Food Stamp program was broadened during this time and took on many features of a negative income tax: it provided a minimum level of benefits to all categories of the poor and it contained a relatively low benefit reduction rate. In addition, the Supplemental Security Income (SSI) program was created in 1972, which also provided a guaranteed income for the aged and disabled.

Carter's Program for Better Jobs and Income

In 1977, President Carter proposed the Program for Better Jobs and Income (PBJI), which contained an NIT as its centerpiece but emphasized differential treatment of those expected to work and those from whom work was not expected in return for aid. The proposal would have consolidated three major existing welfare programs: AFDC, SSI, and Food Stamps. It also would have created up to 1.4 million public service jobs. Eligible families would have received a cash payment whose size depended on whether or not the family head was expected to work, family size, and income. The higher payment standard would have applied to those in which no adult was expected to work; cash benefits would be reduced at a 50 percent rate.

The PBJI proposal did not pass either house of Congress due to concerns that welfare caseloads would increase; it was estimated that 32 million persons would have become eligible for cash payments. In addition, evaluation results from the Seattle-Denver income maintenance experiments showed that higher benefits for some categories of families reduced work effort and, surprisingly, that extending such assistance to two-parent families appeared to actually increase marital instability.

Reagan's 1981 Reforms

An underlying principle of the 1981 budget cuts proposed by President Reagan was that Federal spending was too large and should be reduced to spur economic growth and promote self-sufficiency. The reforms were designed to: 1) improve the targeting of benefits to the poor (e.g., reforms in AFDC and Food Stamps to tighten eligibility and target the most needy; reductions in school-lunch subsidies and post-secondary student aid for middle- and upper-income families); 2) reduce errors and waste (e.g., various measures to reduce fraud and error rates); 3) make receipt of welfare contingent upon an individual's effort to leave welfare (e.g, workfare and other work activities for AFDC recipients); 4) turn decision-making over to States and localities (e.g., block grants involving education, social service, and health programs); and 5) eliminate programs that don't work (e.g., CETA public service employment).

Critics of the 1981 reforms argue that many needy families lost benefits. For example, the GAO estimated that 451,000 families lost AFDC and Medicaid benefits. They also note that while the block grants may have given States and localities greater flexibility, they were also accompanied by funding reductions, making it harder to meet needs.

Federalism Proposals

In the early 1980s, a number of proposals were advanced which would have altered the responsibilities of the Federal and State governments with respect to welfare and other programs. The fundamental purpose of such restructuring was to simplify the complex system of programs and the rules and regulations that underlie them. One such proposal, produced by the Committee on Federalism and National Purpose, proposed that the Federal government assume greater responsibility for welfare programs, such as AFDC and Medicaid, while States and localities would be given greater responsibility for community development, local infrastructure, and social service programs. In contrast, President Reagan's "New Federalism" proposal would have turned over responsibility of AFDC and Food Stamps to the States, while federalizing Medicaid.

Proponents of centralized control argue that only the Federal government can ensure that welfare benefits are adequate and bring about greater uniformity between the States. They also point out that this has already been done with most other national income support programs, such as Social Security, Medicare, Food Stamps, and SSI. Advocates of decentralization argue that no nationally uniform system can address the diverse needs and problems of the poor. State and local governments are in a better position to make judgments about the level of assistance and strategies for promoting self-sufficiency.

Up From Dependency

In December 1986, the Domestic Policy Council presented a report to President Reagan which identified the size and scope of the welfare system and presented a new strategy. The report's principal recommendations were: 1) welfare should be treated as a system, not a collection of mutually exclusive programs; 2) national "solutions" should not be adopted until they have been tried locally and shown to reduce dependency; and 3) the Federal government should allow maximum flexibility for State and community based reform efforts, and promote those efforts. Thus, a decentralized strategy was proposed, which would rely on change from the bottom up. This would allow the national system itself to evolve into a new form without imposing a new national model on any of the existing Federal programs.

Congress rejected this approach, for several reasons. One was a basic mistrust of the Reagan Administration's motives, because of its early efforts to reduce spending on public assistance programs. It also feared that giving States greater flexibility over welfare programs would undermine the entitlement nature of welfare programs and lead to reductions in assistance, either by States themselves or the Federal government. Although many of these concerns were misplaced, the proposal was not enacted. One complicating factor was that because of the scope of the welfare system, the legislation would have had to clear eighteen separate committees in the House and the Senate.

President Reagan established the Low Income Opportunity Board in 1987 to enhance the coordination of Federal public assistance programs and policies that now cut across Department lines, and to create a focal point for intergovernmental coordination. With the creation of the Board, States gained for the first time the opportunity to have the Federal government respond to their demonstration projects as complete proposal, rather than as individual waiver requests. Since its creation, fifteen States have had their welfare reform proposals approved through negotiations with the Board.

Family Support Act

Although the Family Support Act of 1988 (FSA) has been called the most sweeping welfare overhaul in 50 years by some, it is actually an example of incremental welfare reform. Most of the changes are marginal and affect just three programs: AFDC, Medicaid, and the Child Support Enforcement program. The Act strengthened child-support enforcement procedures, required States to implement work, education and training programs for welfare recipients, required all States to pay benefits to two-parent families, and offered extended child care and medical benefits to those families which left welfare due to increased earnings.

BACKGROUND PAPER #5

THE RELATIONSHIP BETWEEN WORK AND PROGRAM INCENTIVES

Background

Economic theory suggests that income transfer programs can create a disincentive to work in two ways. First, the provision of a payment decreases the need to work (the "income effect"): the higher the payment, the greater the effect. Second, the benefits of income-tested programs are generally reduced as earnings rise, raising the effective tax rate on earnings. By reducing the reward for increased work (the "substitution effect"), work effort is discouraged.

Over the past twenty-five years, efforts to reform the welfare system have focused on ways to provide adequate income support and incentives for work, while keeping costs under control. Two principal programmatic approaches to reduce dependency by encouraging welfare recipients to work have been used: financial incentives, in the form of earnings disregards, and requirements to participate in (or at least register for) employment and training programs. This paper will focus on the research findings pertaining to financial incentives (see "Lessons From Employment and Training Programs" for a review of the findings pertaining to employment and training programs).

Most of the larger welfare programs allow program recipients to deduct certain kinds of expenses, e.g., child care, in arriving a net income figure to be used in calculating the appropriate benefit level. In addition, some programs have allowed recipients to disregard a percentage of earnings as an incentive for work. The effect of these disregards is to lower the effective benefit reduction rate (called a "tax rate" by some).

Financial Incentives: The Experience in AFDC

Throughout most of the history of the AFDC program, benefits have been reduced dollar-for-dollar with increases in earnings. In 1962, deductions were allowed for work-related expenses and, in 1967, financial incentives were instituted as a way of encouraging work. In calculating their AFDC grant, recipients were allowed to deduct $30 per month plus one-third of their gross monthly earnings, in addition to their work-related expenses. In evaluating the impact of the 1967 changes, it is important to bear in mind that what represents a "tax rate" reduction for some families, can expose other families to a higher "tax rate." The main reason for this is that a lower benefit reduction rate raises the break-even level (the income level beyond which a family becomes ineligible for welfare) and thereby extends the disincentive effects of welfare to those who otherwise would not have been exposed to them.

An example can help illustrate the impact of this policy change. Suppose that the monthly benefit level in a State is $600, there are no work-related expense deductions (for simplicity), and the benefit reduction rate is 100 percent. Also assume there is no other tax system. This means that as soon as a family's earnings rise to $600, it is off AFDC and its effective marginal tax rate is zero percent. Now suppose the benefit reduction rate is reduced from 100 percent to 67 percent. This means that earnings can rise to $900 before the family is off AFDC, because it can disregard one-third of its earnings. The question then is, how will this affect work incentives? Different groups of the poor will be affected differently. Some will have incentives to work more, some less, and for some, it is uncertain. Consider the following three groups:

(1) AFDC recipients with no earnings. This group has clear incentives to work more. There is no increase in benefits (which would depress work effort through the income effect), but their effective tax rate is lowered from 100 percent to 67 percent, which increases the reward for work (substitution effect).

(2) AFDC recipients with earnings between $1 and $600. This group faces two opposing incentives, and it is unclear what the impact will be on their work effort. The reward for work is higher, leading to more work effort (substitution effect), but they also get to keep more of their earnings, depressing work effort (income effect).

(3) Those with earnings between $600 and $900. This group has clear incentives to work less. When the benefit reduction rate for AFDC recipients was 100 percent, the effective tax rate faced by this group was 0 percent. Lowering the rate for AFDC recipients means that this group now faces a tax rate of 67 percent, thereby making work effort less rewarding (substitution effect). In addition, they also receive AFDC benefits, reducing the need to work (income effect). In this case, both the income and substitution effects lead to less work effort.

(Two caveats about this explanation. First, even those with earnings above $900 could be induced to work less, since they could then qualify for program benefits and enjoy more leisure. Second, the earnings disregard under AFDC is only applied in calculating the AFDC payment, not in determining AFDC eligibility. A family would first have to qualify, in this example, by reducing its earnings below $600. The example was written to illustrate the point that new groups would have disincentive effects. In the case of AFDC, that group is primarily those who otherwise would have been off the rolls due to higher earnings.)

Thus, the net effect of a "tax rate" reduction on overall labor supply depends on the magnitude of the combined income and substitution effects for these three groups. The empirical evidence on the subject is mixed on the direction of the overall impact, but there is a consensus that whatever the effect, it is small (within the range of benefit levels and benefit reduction rates which have been examined). According to Robert Moffitt, these research findings "effectively bury the idea of using the benefit reduction rate to achieve significant gains in work effort in the low income population" On balance, lower benefit reduction rates don't appear to increase work effort, while higher ones don't appear to discourage it.

Additional information on the impact of the AFDC work incentives is available from several studies examining the impact of changes in the Omnibus Budget Reconciliation Act of 1981 (OBRA), which returned the "tax rate" on earnings to 100 percent by eliminating the "$30-and-a-third" earnings disregard after four months and set other limits on deductions and maximum earnings. Each study followed a group of AFDC recipients over time to see if they were still on AFDC after OBRA and if they were, whether or not they worked. The general findings were that working recipients did not stop working and return to AFDC, and that nonworking recipients did not reduce their rate of entrance into the labor force, despite the sharp 1982 recession.

One of the major shortcomings of most research is the limited focus on AFDC. Since AFDC families frequently participate in other programs, the relevant benefit levels and tax rates are those of the total welfare package. Further complicating the evaluation task is that most recipients may not understand how the complexities of the system interact to reduce benefits as earnings rise, and their responses may not reflect accurate knowledge of the benefit reduction rate. As David Ellwood notes:

> Rules and regulations are so complex that administrators often report that welfare recipients simply do not understand what their options and rights are. The marginal incentives are even more confusing, particularly with differing rules across many different programs. The experience of welfare may be far more one of dealing with stigmatization, bureaucratic rules, and conflicting signals than income guarantees and marginal tax rates.

Lessons from the Negative Income Tax Experiments

Strong evidence that transfer payments reduce work effort comes from the negative income tax experiments operated between 1968 and 1980 in various parts of the country. The largest and most thoroughly examined was the Seattle and Denver Income Maintenance Experiment (SIME/DIME). These studies were based on experimental design (i.e., random assignment); thus, their findings are of

high quality in assessing the relationship between welfare and work effort.

A number of versions of the negative income tax were tested on different populations, including both two-parent and single-parent families. The universal availability of benefits to two-parent families, including those without children, was a major difference between the demonstration and the regular AFDC program. Families in the experimental group were assigned to various negative income tax plans, while families in the control group remained eligible for AFDC, Food Stamps, and other benefits. The basic guaranteed payments ranged from 50 percent to 135 percent of poverty, and the benefit reduction rates varied from 30 percent to 70 percent. By testing behavioral responses to a number of benefit levels and benefit reduction rates, the results are useful for predicting responses to a wide range of transfer plans. However, because these studies, especially SIME/DIME, tested behavioral responses at benefit levels more generous (sometimes considerably so) than those of the current AFDC program (even if combined with Food Stamps), the applicability of the results may be limited.

The results of these studies generally show a significant reduction in work effort, though this varies substantially by the characteristics of the group being examined (i.e., age, race, sex, etc.). Generally, the reductions were smallest for husbands and largest for youth, while those for wives and single female heads fell in between. In SIME/DIME, the provision of a guaranteed income more generous than regular welfare reduced hours of work by 8.8 percent among husbands, 17.9 percent among wives, and 14.0 percent for single female heads of household. The results show that: 1) a higher payment level reduces work effort; and 2) a lower benefit reduction rate increases work for those receiving transfers, but lowers it for the population as a whole. One exception to this general rule is female heads, the group most relevant to the AFDC population. According to HHS, it is clear that the plans reduce work effort, but a comparison of the plans reveal "no obvious pattern of variation between the labor supply response and either the guarantee or the tax rate."

However, the SIME/DIME analysts did conclude that lower tax rates were a work disincentive. Specifically, they write:

> ...although the decrease in hours worked by participants gets larger the higher the tax rate (holding the guarantee constant), the work disincentive for the U.S. population as a whole gets smaller. This is because a higher tax rate implies a lower breakeven income level and a smaller number of participants. The positive labor supply response from those losing eligibility is big enough to offset the larger negative response among program participants.

Conclusion

Evaluations of both AFDC and the negative income tax experiments suggest that, on balance, a program's benefit reduction rate does not have a significant impact on the work effort of the low income population. It is partly for these reasons that policymakers today are focusing more on employment, training, and education programs as a way of fostering self-sufficiency. However, there may be other reasons to consider lowering benefit reduction rates, e.g., to increase the income of the working poor.

BACKGROUND PAPER #6

LESSONS FROM EMPLOYMENT AND TRAINING PROGRAMS

Background

For the nation as a whole, improvements in productivity and economic growth are, to a large extent, contingent upon increasing the education and skill levels of the labor force. For individuals, higher skills lead to higher wages, less joblessness, and a higher standard of living. The Administration's budget warns that: "Emerging demographic trends, coupled with higher job skill requirements, will challenge the nation's ability to supply the highly skilled workers needed to sustain economic growth in the 1990s."

Since the 1960s, an array of employment and training programs have been created to raise the productivity of the low-income population. These have generally operated as voluntary programs, but, since 1981, there has been an increasing level of interest in work requirements and other strategies leading to work for AFDC recipients, due, in part, to the ineffectiveness and cost of financial incentives (see "The Relationship Between Work and Program Incentives"), as well as other factors, such as the general increase in female labor force participation. This interest culminated in the Family Support Act of 1988.

The programs implemented over the years have been diverse as to program activities and target populations. Four major kinds of programs have been part of the Federal government's efforts to improve labor market outcomes: job search assistance; classroom training, which can focus on basic education or vocational skills; on-the-job training, where employers are reimbursed for up to 50 percent of wages; and work experience or public service employment, which are direct employment programs. Some of the various target groups among the economically disadvantaged include: welfare recipients; youth; and dislocated workers.

What follows is a brief review of the principal findings regarding the effectiveness of various programs. Two types of results are discussed: impact estimates and cost-benefit ratios. Impact estimates refer to the net increase in earnings and employment experienced by program participants, as well as the net reduction in welfare use. Cost-benefit results compare the costs and benefits of the program from several perspectives: the participant, taxpayers, the government, and society as a whole.

Current Federal Role

Although the private sector pays for the vast majority of training expenditures, the Federal government does play a significant role in providing employment and training assistance for the economically disadvantaged. A recent GAO study

identified 45 programs with a significant skills training component, with fiscal year 1989 funding of $16.7 billion (see GAO, Training Programs: Information on Fiscal Years 1989 and 1990 Appropriations, April 1989). Approximately half of this amount is available for non-college-bound participants.

Two especially important programs are the Job Training partnership Act (JTPA) and the Job Opportunities and Basic Skills Training (JOBS) program for AFDC recipients. JTPA is a public-private partnership and provides employment-related services to certain economically disadvantaged groups, such as displaced workers, disadvantaged youth, migrant and seasonal workers, Native Americans, and veterans. JOBS provides education, job training, and other employment-related services, along with child care, for AFDC recipients.

Administration Initiatives

The Administration has proposed amendments intended to improve the targeting and effectiveness of JTPA services for workers facing serious barriers to employment. These amendments include enhanced performance standards to increase accountability; better coordination of services and more attention to individual needs to improve program quality; and more intensive and comprehensive services for disadvantaged youth and adults to improve targeting. The Administration is also implementing the JOBS program, which was created by the Family Support Act of 1988. Under JOBS, a greater number of AFDC recipients will be required to participate in employment and training activities than ever before.

Findings From Employment and Training Program Evaluations

CETA. Some of the earlier employment and training programs, primarily those operated under the Manpower Development and Training Act of 1962 (MDTA) and the Comprehensive Employment and Training Act of 1973 (CETA), served a broad array of the unemployed and economically disadvantaged. They offered a variety of services, such as classroom training, on-the-job training, work experience, and public service employment.

A recent review of CETA research (Barnow, 1987) finds that CETA increased the earnings of participants by $200 to $600 per year (measured in late 1970s dollars; the CPI has approximately doubled since then). In general, the findings indicate that these earnings gains are larger for women than men, and principally arise by increasing their hours of work rather than the hourly wage. In addition, those with the least work experience appear to have benefited the most. The studies suggest that the on-the-job-training and public service employment components had bigger effects on earnings than either classroom training or work experience, though their estimated effects on welfare dependence are more ambiguous. These results

are only indicative of the impact on participants; they do not imply that the programs are (or are not) cost-beneficial from the government's or society's standpoint. The cost of the various activities ranged from $50 to $250 for job search, to $1,500 for classroom training, to anywhere from $5,000 to $10,000 per participant for work experience, public service employment, and on-the-job-training. There is little empirical work on the cost-effectiveness of CETA, though one study (Bassi, 1983) did find that classroom training and on-the-job training were cost-effective.

The findings from the CETA evaluations are of questionable reliability. Since the programs were voluntary, it is hard to tell whether the gains (where they exist) are due to the program or to the fact that the individuals participating are more motivated or have some other unmeasured characteristic that makes them more successful than their counterparts in a comparison group. Reinforcing this potential bias toward success is the tendency for program operators to select the most job-ready applicants to show a higher placement rate. In addition, the estimates appear sensitive to the evaluation methodology employed. A Labor Department panel concluded that "the estimates of the net impact of CETA are not reliable and that the true net impacts of CETA are still open to question."

Supported Work. The National Supported Work Demonstration was designed to test the impact of a short-term but intensive program of supervised employment and support services for groups of individuals facing severe employment problems, including long-term AFDC recipients. One research study (Hollister et al., 1984) reported significant and sustained improvements in both the hours of work and the earnings of the AFDC target group, as well as significant welfare savings. The demonstration randomly assigned people to treatment and control groups so that it was possible to determine what difference the program made over and above what would have happened without the program. The greatest impacts were for relatively older women (36-44) who had not completed high school, had been on welfare a long time, had little training and work experience, and received relatively high welfare benefits. For long-term AFDC recipients, the analysis indicated that the program was cost-effective from both the point-of-view of the taxpayer and from that of society. However, this was not the case from the participant's perspective, because the earnings gains were not large enough to offset reductions in welfare benefits. For youth, the evaluation showed no statistically significant differences in employment and earnings once participants left the program, nor did it have long-term impacts on education, drug use, or criminal activity. Thus, it is not surprising that costs for this group exceeded benefits from the point of view of society as a whole.

Job Training Partnership Act (JTPA). The Job Training Partnership Act of 1982 (JTPA), which replaced CETA, served a similar population, offering similar services, but includes no public service employment. Unfortunately, no rigorous evaluation to determine the impacts of JTPA has been completed, though one is currently underway.

Several less rigorous evaluations have been undertaken, but their results must be interpreted with caution. An audit by the Department of Labor's Inspector General (DOL, 1988) did not evaluate the program's net impacts, but it did find that the program had not extended services to the hard-to-serve population. It also noted that 70 percent of those who went through the program found employment and most were earning less than $5 an hour. Since there was no control group, it is not possible to tell whether this is an improvement or not. The report also concluded that 60 percent of those participating in the on-the-job-training component would have been hired by their employer even without the program.

Job Corps. Job Corps is an intensive training program for economically disadvantaged youth between the ages of 14 and 21. Originally a War on Poverty program, its purpose is "to assist young individuals who need and can benefit from an unusually intensive program, operated in a group setting." Job Corps offers a wide array of services, including basic education, vocational skills training, and work experience, in addition to support services. Gary Burtless has described it as "essentially a boarding school aimed at removing young people from the supposedly undesirable influences of economically deprived neighborhoods."

An evaluation of Job Corps (Mallar, et al., 1980) reported that the program increased the employment and earnings of participants, and that it also reduced welfare dependency and criminal activity. From a societal perspective, it was estimated that the program resulted in benefits of $1.45 per dollar spent. However, the program is very expensive compared to most other types of training and some question whether or not it really was cost-effective, since it was evaluated through the use of comparison (vs. control) groups and the difficulties in quantifying benefits, such as "reduced criminal activity." In addition, since the program had so many components, it is not clear which contributed most to its cost-effectiveness.

AFDC Work Programs. Since 1982, the Manpower Demonstration Research Corporation (MDRC) has conducted a large-scale, multi-year, multi-State study to measure the effectiveness of innovative State AFDC work programs using random assignment. In general, the programs implemented have been low-cost and short-term in nature. Some offered just job search assistance, while others established a two-stage program of job search followed by

a time-limited work obligation for those unsuccessful in finding employment. These programs have stronger mandatory elements than earlier employment and training programs in that sanctions can be imposed for nonparticipation.

The research findings show that work activities for welfare recipients can raise employment and earnings, and reduce welfare dependency. However, these impacts varied, depending on the characteristics of the recipient population. It appears the most employable recipients, those with recent work experience and no prior welfare receipt, did not benefit from participation in the program. In contrast, women with little or no work history did gain from participation. Although they were more likely to remain on welfare than the women with more work experience, their gains relative to similar women in the control group were greater. However, there were no consistent gains in earnings for the most disadvantaged women, long-term welfare recipients, though there were some welfare savings. (It is important to remember that the programs typically studied were those that provided job search followed by short-term work experience. Thus, these findings may not apply to more intensive programs, including education and training.)

Benefit-cost evaluations were also generally positive. Gains in earnings for participants generally outweighed reductions in welfare benefits and savings to the government were greater than the costs incurred in running the programs.

Conclusion

While much more needs to be learned about the impact of employment and training programs, especially as they apply to different subgroups of the population, the research results from a broad range of programs suggests that: 1) programs for poor women have had some positive, albeit modest, effects; 2) programs aimed at youth have mixed results, though there appear to be some promising programs; and 3) there is very little evidence that men have gained from participation in these programs (and, indeed, may be worse off as a result). Both intensive programs, such as Supported Work, as well as less intensive ones, such as job search, can have positive impacts on some subgroups of the poor, but not always the same group. Evaluations of current programs, such as JOBS, JTPA, and the Food Stamp Employment and Training program that are now (or will soon be) underway should provide new information on the effectiveness of employment and training programs.

BACKGROUND PAPER #7

THE WORKING POOR

Background

Although work is a common route out of poverty, people can work and still be poor. This may be because they do not work the entire year and/or do not work full-time, or because they live in a large family and, thus, must have a relatively high income to escape poverty. Even earnings from a full-time, year-round job may not be sufficient to lift all families out of poverty. In 1990, someone working full-time, year-round would have to earn $5.20 an hour to lift a family of three out of poverty and $6.65 to do the same for a family of four.

The "working poor" have been defined as those who have some involvement to the labor market, but who still live in poor families. Of the 6.8 million families that were in poverty in 1988, 3.3 million, or 48 percent, were poor despite the fact that at least one member worked at least one week during the year, and 1.1 million, or 16 percent, had a member who worked full-time, year-round. In addition, there were 2.7 million unrelated individuals who had some work experience and were poor, and 400,000 worked full-time, year round. Among poor families with children, there are 1.4 million female-headed families and 1.3 million married couple families with some work experience that were nevertheless living in poverty.

Table 1: The Working Poor

	Families			
	All	Married w/Children	Female-Head w/Children	Unrelated Individuals
Total	6,845	1,838	3,281	7,059
Work Experience	3,304	1,303	1,434	2,719
50-52 weeks	1,423	685	486	727
1-49 weeks	1,881	618	949	1,992
No work	3,509	504	1,846	4,336

The growing numbers of those classified as the "working poor" has led some to argue that the rewards to work must be improved. They note that a full-time job at the minimum wage ($3.35 an hour) provides an annual income of just $6,700 well below the estimated 1990 poverty level of $10,371 for a family of three.

Current Federal Role

A number of Federal programs are available to the working poor, most notable the Earned Income Tax Credit and Food Stamps. The

EITC is the only refundable tax credit now available; a family can receive a tax refund even if they have no tax liability. The credit is available to low-income families with at least one dependent child. In 1990, the EITC allowed a credit of 14 percent on the first $6,810 of earnings, with a maximum credit of $953. Between earnings of $6,810 and $10,740 the maximum credit remains flat, but beyond earnings of $10,740, it is reduced by 10 cents for every dollar of adjusted gross income (or, if greater, earned income), and is completely phased out at $20,270. This has the effect of raising the marginal tax rates of families in the phase-out range. In addition to the EITC, the Food Stamp program is available to all poor households (assuming they meet the program's other requirements, such as assets tests), as are many other programs that provide support for daily necessities.

Some programs help pay work-related expenses for working families. The Dependent Care Tax Credit is the largest source of Federal support for child care. It is a non-refundable tax credit for work-related child care expenses, providing a credit of between 20 and 30 percent of actual costs up to $2,400 for one child and $4,800 for two or more children. Since it is not refundable, poor families that have no tax liability currently do not benefit from it. However, other Federal programs, such as the Title XX Social Services Block Grant and AFDC pay for child care expenses as well. These programs subsidize a variety of child care arrangements, including center-based care, family day care homes, and informal arrangements with relatives or friends.

Taken together, these programs enable many families to substantially improve their standard of living. The recently enacted minimum wage increase (to $4.25 an hour in 1991), along with the availability of these programs, will make it possible for more families to escape poverty. For example, someone earning about $4 an hour (the $4.25 an hour 1991 minimum wage roughly adjusted to 1990 dollars) would have annual earnings of $8,000. This family would also receive an Earned Income Tax Credit of $953 and a minimum of $1,360 in Food Stamp benefits (for a family of three; assuming they meet the program's other requirements). Thus, their total annual income from just these sources would be $10,313, or 99 percent of their poverty threshold. It is worth noting that this calculation does not include the Social Security payroll tax, which would reduce the family's take-home pay by $612, reducing its total disposable income to $9,701, or 94 percent of poverty. However, they may qualify for a number of other programs, such as housing assistance, energy assistance, various child nutrition programs, which may actually lift their real income above the poverty level. There are also a number of programs that provide support services, which help pay for work-related expenses, such as child care and transportation.

BACKGROUND PAPER #7

Bush Administration Initiatives Affecting the Working Poor

The Administration has proposed a new and refundable income tax credit, the Child Credit, for families with an employed parent and young children. It has also proposed making the existing Dependent Care Tax Credit refundable to increase its usefulness to poor families with child care expenses. The President has signed an increase in the minimum wage to $4.25 an hour by 1991, with a lower training wage for newly-employed teenagers. In addition, the Family Support Act is being implemented, which provides added support services for working parents leaving AFDC.

Initiatives Directed at the Working Poor

A number of initiatives have been proposed to help the working poor. Most seek to encourage employment by making work pay and allowing families that work to escape poverty.

Restore the purchasing power of the minimum wage to its 1981 level. This means increasing the minimum wage to $4.70 an hour, higher than the legislated increase to $4.25 an hour. Proponents of further increasing the minimum wage argue that the recently enacted increase is still not large enough to lift many low income earners above poverty. If, for example, the minimum wage this year were $4.25 an hour, a full-time job would provide annual earnings of $8,500, nearly $1,900 below the poverty threshold of $10,371 for a family of three. Increasing the minimum wage to $4.70 would raise a family's annual income to $9,400, which combined with the $953 EITC benefit this family would also be eligible to receive, would just about lift them to the poverty line. It would lift singles and families of two out of poverty, but would still not be enough to lift families of four or more out of poverty.

There is nearly universal consensus that increasing the minimum wage would reduce employment opportunities, not just for those now earning the minimum, but also, to a lesser degree, the millions of other workers whose wages are between $4.25 (the minimum for 1991) and $4.70 (or whatever other minimum one chose to propose). Moreover, the disemployment effects of raising the minimum wage become progressively more severe the higher it is raised. (Teenagers would suffer most of the disemployment effects from an increase in the minimum wage, which is why the President's insistence on a training wage was important.)

As an anti-poverty device, the minimum wage is an inefficient mechanism. Most workers at the minimum wage do not head families, do not work full-time, or live in households whose total income is well above poverty. As a result, the vast majority (over 80 percent, according to CBO) are not in poor families. Hence, most of the benefits from increasing the minimum wage will go to the non-poor.

Expand the Earned Income Tax Credit (EITC). Some have expressed concern that the current EITC does not provide greater assistance to larger families with greater needs. They argue that increasing the credit rate according to the number of dependents would help protect larger families. Others note that since the EITC is restricted to those with earnings and at least one dependent child, only about 21 percent of all poor households were eligible in 1986. Twenty-three percent had earnings but not children, 18 percent had children but no earnings, and 37 percent had neither earnings or children. To increase its effectiveness as an anti-poverty device, some recommend extending the EITC to childless families and individuals as well.

Proponents of expanding the EITC typically claim that it would increase work incentives and strengthen families. There is little evidence to support this proposition. The three ranges of the EITC -- phase-in, stationary and phase-out -- have different effects upon work effort.

> A worker in the phase-in range (earnings less than $6,810) finds that both his net wage and income is 14 percent higher. The higher net wage provides an incentive to work more hours, but the fact that income is higher at the current hours of work means that there is less need to work. Thus, theoretically, the effect of the EITC in the phase-in range is uncertain, although most empirical evidence indicates that greater returns to work at low income levels stimulate greater work effort.
>
> A worker in the stationary range (income between $6,810 and $10,740) finds that his net wage is unchanged, but that his income is higher by $953 (the maximum credit), which reduces the need to work. Hence, in the stationary range the EITC provides an incentive to reduce work effort.
>
> In the phase-out range (income between $10,740 and $20,270), the worker has a lower net wage (because of the 10 percent phase-out rate). However, his income is still higher because of the credit. Both of these changes provide incentives to reduce work effort.
>
> However, there is also a fourth group; those who would not be working in the absence of the credit. For them, the EITC is simply a wage increase and their work incentives are unambiguously positive.

Since the EITC affects different groups differently, it is not clear what its impact is on labor supply. One empirical study of the EITC estimates that it reduced the "labor supply of EITC recipients by just over 30 hours a year." Since there were about 9.2 million recipients in 1988, this translates into 276 million

hours, or the equivalent of 138,000 full-time jobs. Further, since the average wage of those receiving the EITC was $4.31 an hour, the reduced work effort due to the credit resulted in a reduction of $1.2 billion in earnings. Since the EITC cost $5.5 billion in that year, its net effect in raising incomes was $4.3 billion. (This estimates does not include the impact of the $5.5 billion cost of the EITC on the private economy.)

It is worth noting that although the EITC may not raise the incomes of all recipients by the full amount of the credit, those receiving the credit are unambiguously better off, since they have more income than in its absence. Thus, if the overall well-being of poor households is considered more important than their work effort, an expanded EITC is an unambiguous improvement.

By increasing family incomes, an expanded EITC may reduce financial pressures that lead to family stress. However, some families may have incentives to split, since doing so would allow them to each claim the EITC (assuming both parents work and each has at least one child) and perhaps receive a larger total subsidy amount. While it is unlikely that there would be significant family effects of this sort, the example shows that it is not clear the direction these effects may be.

Some argue that an expansion of the EITC achieves the same objective of a minimum wage but does so directly and efficiently. Even with the enacted minimum wage increase, they argue that an EITC expansion is still necessary to help larger families with low wage jobs escape poverty. However, the degree to which EITC benefits are targeted to the poor depends on how it is structured; many proposals allow families with incomes well above poverty to receive fairly substantial benefits. The problem with restricting the bulk of the benefits to those below poverty is that the phase out rate then has to be very high.

Perhaps the most convincing argument for an EITC expansion is that it raises the well-being of participating families without causing major reductions in their own self-support. Taxpayers generally support the subsidy because it rewards those who take steps to support themselves. However, as Gary Burtless has noted, expanding subsidies like the EITC "will not save taxpayer dollars either in the short run or the long run." Thus, some argue that scarce Federal resources would be better spent by addressing the problems of the most disadvantaged and/or invested in initiatives that also lead to reductions in government spending (i.e., are cost-effective from a government-budget standpoint).

Enact a wage subsidy. The EITC is an earnings subsidy; it provides a payment based on the worker's annual earnings. One concern expressed about earnings subsidies, such as the EITC, is that they do not provide an incentive to work harder for low wage

workers who earn more than $6,810 (the level at which the maximum EITC subsidy is payable). Most proposals geared at expanding the EITC would provide incentives primarily to those with relatively low earnings. People whose earnings are above $6,810 (or whatever other level is selected) are made better off, but their reward for working longer hours is unchanged.

An alternative to an earnings subsidy is a wage subsidy. The goals of a wage subsidy are to: 1) raise the wages (and incomes) of low-wage employees; and 2) induce the employment of those not working. It would pay a worker a fraction of the gap between his wage and a target wage. For example, it may pay 50 percent of the gap between the worker's wage and $7, the target wage. The lower the wage, the larger the subsidy. A worker being paid $4 an hour would receive a subsidy of $1.50, raising his total compensation to $5.50 an hour. If he then gets a raise to $5 an hour, his subsidy drops to $1 and his total compensation rises to $6. A wage subsidy can raise the reward for work irrespective of the worker's initial level of effort. For those with wages low enough to qualify for a subsidy, the fiftieth hour of work per week is as generously subsidized as the first.

There are several drawbacks to wage subsidies. The information requirements make it more difficult to administer than an earnings subsidy, since information on both the wage and hours of work are required. (Note: for most workers, this information is available on a quarterly basis through Unemployment Insurance records.) An earnings subsidy can be computed simply by knowing the level of earnings, a number which is already available for tax purposes. In addition, as was the case with the EITC, there is no guarantee that work effort will be increased. A wage subsidy will make work effort more attractive for those not working. But for someone already working, the subsidy will raise income and thereby make work less necessary, although it does raise the return to each hour of work. As the worker's wage rises towards the target wage, the subsidy is reduced, which has the effect of raising the marginal tax rate. (Note: a worker faces an increase in his marginal tax rate when his wage increases, not when he works more hours.) Several researchers (Rea, 1974; Bishop, 1982) have concluded that, at least under some wage subsidy proposals, work and earnings reductions would slightly outweigh work and earnings increases. Finally, wage subsidies may provide employers with incentives to pay less, since they know the wage subsidy will offset part (or all) of the reduced wage.

Ensure health care protection for all workers. Estimates place the number of uninsured at between 31 and 37 million. Lack of medical insurance can cause problems for the working poor. Controlling for other differences, the uninsured are less healthy and receive less medical care than the insured; they also pay more medical expenses out-of-pocket when they do seek medical

care. In 1987, 29 percent of all poor individuals were uninsured. In fact, the rate of uninsurance is higher among the working poor than among the nonworking poor because households that receive public assistance also have access to publicly provided health insurance through Medicaid. Many low wage jobs do not offer health insurance, especially jobs in small businesses that cannot obtain low-cost group insurance coverage.

A number of approaches to dealing with this problem have been proposed. Some include: expanding Medicaid; creating public sector insurance-based programs; mandating employer coverage; providing refundable tax credits; encouraging pooling arrangements among small businesses; and adopting some form of national health insurance. The Bipartisan Commission on Health Care (the Pepper Commission) and other groups are currently studying the problems of access to care. The pros and cons of each approach are briefly described below:

- Expand Medicaid. Proponents offer several major approaches. One would establish uniform Medicaid eligibility at or near the poverty level. Another would let those with incomes above poverty but below a set ceiling to "buy in" to Medicaid on a sliding scale based on income. The third would simply require all States to offer the medically needy program, which helps those who have incomes too high to qualify for the program, but have high medical expenses.

  Proponents of expanding Medicaid note that health care coverage would be extended to many of the uninsured. Also, the changes would build on an existing structure. Opponents claim that expanding Medicaid would not necessarily guarantee access and could be quite costly. Access to health care may not be assured because: many providers are reluctant to treat Medicaid patients due to low reimbursement rates; the benefits covered vary significantly from State to State; and some eligible may not apply due to the welfare stigma. They also note that employers may react by dropping existing coverage, i.e., the government program displaces private insurance. Preliminary estimates of a Medicaid "buy-in" are in the range of $20 billion and even that does not cover the entire uninsured population.

- Create insurance-based programs at either the Federal or the State level. Several States have created special programs for those unable to obtain health coverage at reasonable rates. These programs typically allow the uninsured to purchase health insurance at a subsidized rate. This approach ensures that the poor and the sick can obtain coverage for needed expenses. However, if the rates are subsidized too generously, public costs can rise substantially and some people may even drop their existing private insurance to obtain the heavily subsidized

insurance. Employers may also decide to discontinue policies if they believe their employees can get public sector coverage. If the subsidy amount is low, only the very sick will buy into the program, leaving many individuals uninsured.

- Provide refundable tax credits that allow the poor to purchase private health insurance. Such credits could even be used to replace Medicaid for most people with a system that is market-oriented and allows them access to mainstream medical care. (At the very least, the long-term care portion of Medicaid would have to be continued in some form.) The principal drawback is the cost of the proposal, both in terms of foregone revenues and additional outlays.

- Encourage small businesses to implement pooling arrangements to take advantage of the lower rates associated with larger groups and economies of administration. While this could reduce the number of uninsured, it may not do so quickly.

- Mandate employer-provided health insurance. All employers could be required to provide health coverage to their employees (and perhaps also their dependents). Proponents note that this builds upon the existing structure of employer-based health insurance and targets the largest portion of the uninsured, while avoiding the cost of a new or expanded government program. Opponents argue that requiring health insurance coverage would increase labor costs and limit employment opportunities and wage growth, especially for low wage workers and those employed in small businesses, where health plans tend to be more expensive than those provided by medium and large firms. One estimate places the cost to employers of this option at about $27 billion. They also note that while this cost would not appear directly in the budget, the new mandate would result in revenue losses, due to the favorable tax treatment accorded employment-based health plans.

- Adopt national health insurance. The government could insure Americans against the costs of basic health services, much as Medicare currently does for the aged and disabled. The biggest advantage would be that all Americans would be covered. However, implementing a national health insurance system would radically alter the way health care is provided in this country. In addition, it would be very costly for the government to provide and could eventually result in shortages and rationing if costs rise due to increased demand.

Expand child care subsidies for low-income workers. Child care expenses are the largest work-related expense for many working poor families, and access to affordable child care is essential

for some low-income families, especially those headed by a single parent, if they are to work. In recent years, women with children have entered the labor force in increasing numbers, raising the demand for child care services.

Several proposals have been advanced to expand child care. One is to adjust the EITC by family size. (The pros and cons of this proposal as an income supplement for the working poor were discussed above.) As a child care measure, proponents argue that tax credits provide assistance directly to all low-income families with children, allowing them to select the child-care provider of their choice. The credit also provides assistance to those families which make the financial sacrifice of keeping one parent in the home. Critics of this approach argue that the subsidies are too small to assure adequate day care (because all families with children, regardless of whether or not they actually pay for day care, would receive such subsidies) and that it does nothing to improve the quality of child care arrangements. They further notes that tax credits are generally paid only once a year and are, thus, not as helpful in meeting monthly expenses, and that some poor families are not required to file returns and therefore might not be aware that they are eligible. (Some have proposed requiring employers to provide advance EITC payments, either on a monthly or quarterly basis.)

Another approach would provide funds to States to subsidize day-care centers that serve children from low- and moderate-income families. The ABC bill now being debated by Congress is representative of this approach. Proponents argue that there is an inadequate supply of affordable child care and that the Federal government should foster the development of child care programs. They also believe that center-based care is better for the development of children. Critics dismiss the idea of broad-based shortages and argue that such subsidies discriminate against parents who choose alternatives to organized day care arrangements and relies instead on government bureaucracies. They further note that far fewer families would receive benefits (due to funding constraints) and that it is not well targeted to the poor, allowing many with relatively high incomes to also receive benefits.

BACKGROUND PAPER #8

THE UNEMPLOYED

Background

A healthy and growing economy is a prerequisite for creating jobs for the unemployed and raising the standard of living for all. Despite seven years of economic growth and a declining unemployment rate, there are some who cannot find jobs, either because they live in areas with a declining labor market or because they lack the skills and experience necessary to hold a job. Unemployment creates both personal hardship and represents the loss of productive resources.

Table 1 shows unemployment rates for selected groups. The overall rate for 1989 of 5.3 percent is relatively low by historical standards. However, unemployment was high for blacks and teenagers, though it has declined for these groups as well.

Table 1: Unemployment Rates for Selected Groups (percent)

	1960	1965	1970	1975	1980	1985	1989
Total	5.5	4.5	4.9	8.5	7.1	7.2	5.3
Males							
Total	5.4	4.0	4.4	7.9	6.9	7.0	5.2
White	4.8	3.6	4.0	7.2	6.1	6.1	4.5
Black	10.7	7.4	7.3	14.8	14.5	15.3	11.5
16-19 yrs.	15.3	14.1	15.0	20.1	18.3	19.5	15.9
Females							
Total	5.9	5.5	5.9	9.3	7.4	7.4	5.4
White	5.3	5.0	5.4	8.6	6.5	6.4	4.5
Black	9.4	9.2	9.3	14.8	14.0	14.9	11.4
16-19 yrs.	13.9	15.7	15.6	19.7	17.2	17.6	14.0

Current Federal Role

The unemployed are assisted through Federal programs in two ways: short-term income support and job training. The Unemployment Insurance (UI) system provides temporary relief to workers in covered employment during periods of involuntary unemployment by replacing a portion of their previous earnings. It typically pays benefits for up to 26 weeks for those who have worked for a specified period of time and for a certain amount of wages. About 85 percent of all employed persons are covered. States operate the program within broad Federal guidelines and are responsible for most important issues: qualifying requirements, benefit levels, disqualification provisions, eligibility conditions, and the system's tax structure. In addition, State experimentation has often led to improvements in UI programs

adopted by other States as well.

Critics of the current UI system note that fewer than 30 percent of the unemployed currently receive benefits and the focus on income maintenance ignores other needs, such as skills training and relocation assistance. Some blame the decline in the proportion of unemployed who receive UI benefits on changes in the demographic structure of the labor force and changes in State UI laws. However, research evidence (Blank and Card, 1989) suggests that this is not the case. Instead, they find that "it is mainly changes in the take up rate that accounts for the decline during the past decade." In other words, among all eligible workers, a lower percentage are receiving UI benefits than used to. It is important to remember, however, that there are other programs, such as Food Stamps, which may also provide relief to the unemployed.

In 1989, there were 45 programs with a significant skill training component. The Job Training Partnership Act (JTPA) of 1982 established a structure of job training programs directed by private firms through local private industry councils. JTPA has expanded into a program that provided job training and placement services for 1.3 million economically disadvantaged individuals in the 12 months beginning July 1, 1989. JTPA also funds programs aimed at displaced workers, disadvantaged youth, migrant and seasonal workers, Native Americans, and veterans.

Administration Initiatives

The Administration has proposed a reorganization of the Job Training Partnership Act to target resources on the most economically disadvantaged. It has also developed regulations implementing the Job Opportunities and Basic Skills Training (JOBS) program of the Family Support Act, which establishes a major new work, training, and education program for those on welfare.

Options

Provide incentives to those receiving benefits from unemployment insurance programs to seek employment. The current UI system has been criticized as being itself partly to blame for unemployment. First, unemployment benefits may compare well with a worker's after-tax earnings and thereby reduce the incentive for an unemployed worker to return to work if a job becomes available. Second, the UI system may prolong unemployment by providing jobless workers with the means to extend their job search. This would be desirable if it reduced long-term joblessness by better matching workers with available jobs. However, it is undesirable if it raises expectations for unemployed workers beyond realistic goals. Finally, layoffs may become attractive for an employer during an economic downturn because the tax used to finance the

system is not always directly related to the unemployment experience of the firm. The so-called "experience rating system" was originally developed to provide an incentive for employers to limit layoffs. Employers with a lower layoff rate pay lower tax rates than those with higher layoffs. However, an employer with an especially poor record of employee layoffs that is already facing the maximum tax rate may face no incremental cost for laying off additional workers. That gives some firms little incentive to stabilize their employment patterns.

- Change the level and/or duration of benefits. Some argue that the level of benefits should be reduced the longer a persons receives benefits. (Note: the benefit period is generally 26 weeks.) The rationale for reducing benefits over time is to reinforce the idea that unemployment insurance should only be temporary and doing so provides a stronger incentive to seek employment. They cite empirical findings that show a positive association between the level and duration of UI benefits. Others argue that this would weaken the system's income support goal of assisting a worker through a spell of unemployment resulting from an involuntary layoff. Instead, they believe that benefits should be expanded. For example, Canada provides benefits for 50 weeks. They assert that this better helps those in need who cannot find employment and may actually produce better employment outcomes, as it provides more time for job search, allowing the unemployed to better match their skills with available jobs and perhaps even reducing the chances of future spells of unemployment.

- Reform the UI system to allow short-time compensation (STC) programs, which allow the payment of benefits to workers who are only partly unemployed. In some countries, workers are eligible for benefits not only if they are unemployed, but also if their employers reduces their hours of employment. This enables them to receive partial compensation for the income loss associated with the reduction in hours. Under the present UI system, it may be more attractive to both employers and employees to rely on layoffs, rather than across-the-board reductions in hours worked, since the former permits the payment of UI benefits while the latter does not. Supporters of such a plan argue that this would spread the burden during an economic downturn, by giving employers alternatives to layoffs. They cite positive experiences in other nations. Several States have tested such plans and found that they reduce the total amount of work and,hence, result in higher benefit costs. In addition, since more people claim benefits, administrative costs increase as well.

- Provide cash bonuses to UI recipients who return to work before a specified period. Under the current system,

unemployed workers receive equal payments every week and therefore have no greater incentive to return to work on twentieth week of unemployment than they do on the third week. Paying bonuses may encourage UI recipients to accept a job sooner than they would otherwise or to search more intensely for a job to find one sooner than they would otherwise. Although such bonuses may provide stronger incentives to find employment, they also pay bonuses to all those who would have found jobs before the deadline, possibly resulting in windfall payments, and may induce more people to file for benefits. (As was noted earlier, take-up rates in the UI program are surprisingly low.) It is also possible that those who find jobs simply take the place of others who would have found employment. One experiment has tested the impact of paying bonuses of $500 to those who found a job within 11 weeks of filing a UI claim and held it for at least four months. The results suggest that bonuses were effective in reducing the spell of unemployment and lowering total UI benefit payments, inclusive of the bonuses. (There are numerous variations of this proposal: the amount of the bonus could be varied; alternative benefit schedules could be developed that provide higher benefits during the first few weeks and then scale them down until they are completely phased out; or the bonuses could be paid to employers, instead of workers.)

- State experience rating systems should be reformed to reduce incentives for layoffs. A more flexible tax schedule that would lower minimum tax rates and raise maximum tax rates would ensure that firms' UI taxes are more in line with the unemployment experience of each firm. This is analogous to automobile insurance, where safe drivers pay lower rates. Those firms with little or no unemployment would pay less in taxes, while those with high turnover would pay more. Proponents of such a proposal argue that it would provide incentives that would lessen unemployment. Critics assert that the higher taxes on some firms would simply increase the burden on firms already going through financial hardships.

- Allow benefits to be provided as lump-sum payments for those in declining labor markets to use to move to where jobs are more readily available. This would allow a better matching of employment opportunities with job seekers. However, one effect of such a proposal would be to provide a windfall to all those who would have moved anyway. Alternatively, it may encourage people to move who otherwise wouldn't have, only to find they still can't find a job.

- Allow individuals to receive unemployment insurance for a limited period, regardless of income or assets, while they are starting their own businesses. Alternatively, allow

them to receive such payments as a lump-sum, to provide seed capital for their business. This may accelerate the employment of some unemployed workers. However, it would provide windfalls to all those who would have started their own businesses in the absence of such subsidies. Further, since many new businesses fail, such a policy may induce some of the unemployed to start their own businesses, when their long-term well-being would better be served by finding employment in more traditional businesses. Careful screening and technical assistance can minimize this problem.

- Narrow the difference in unemployment benefits between those States with particularly low benefit levels. Supporters argue that this will ensure more adequate levels of support for the unemployed. Critics say States should be free to determine whatever level of benefits is best for their State. Forcing some States to increase benefits also means employers would face higher taxes on their labor force. The end result will be higher unemployment in those States forced to increase benefits.

Expand employment and training programs for the unemployed. This topic is covered in the background paper entitled "Lessons from Employment and Training Programs."

Make training expenditures tax deductible for individuals. Current tax law allows employers to deduct the cost of training expenditures; however, a worker's personal expenditures on retraining are only deductible under special circumstances, such as for education expenses that were required by an employer or those incurred to keep or improve skills for the person's existing job. Further, these expenses are deductible only to the extent that they exceed two percent of adjusted gross income.

Proponents of allowing workers to treat their training expenditures as deductible expenses on their tax returns argue that this would provide incentives for workers to train themselves and be better prepared in the event of a layoff. They also note that employer-provided training does not always provide the kind of training that will be beneficial to the worker, should he seek a job elsewhere. Critics of the proposal note that many kinds of expenditures could be considered training, most notably post-secondary education, and that allowing individuals to deduct such expenses could result in a large drain on Federal revenues. Further, they note that it is not always easy to distinguish between expenditures that are "investments" and those that are "consumption" (e.g., a college class in drama).

Tax Credit Programs. An alternative approach to increasing job opportunities is to subsidize wage rates. One such program is

the Targeted Jobs Tax Credit (TJTC). (Note: A wage rate subsidy option was discussed in the background paper, "The Working Poor." The description there focused on a subsidy to employees, whereas this section will focus on employer-based subsidies. As a practical matter, there probably isn't a big difference between the two approaches.) The TJTC was enacted in 1978 and provides a tax credit for employers who hire workers from certain groups, including the economically disadvantaged, welfare recipients, and the disabled. The credit is equal to 40 percent of the first $6,000 of wages, resulting in a maximum credit of $2,400 per individual. It is only available to employees who work at least 90 days or have completed 120 hours of work. However, only a relatively small number of employers who could take advantage of the credit actually do so. In 1987, the credit was paid on behalf of only 570,000 workers.

Proponents of targeted subsidies, such as the TJTC, argue that, by effectively lowering the cost of hiring workers, they give employers incentives to hire those who otherwise may remain unemployed. Others note that while more targeted workers may be hired, this may come at the expense of those who are not in the targeted group. In addition, a large part of the cost of such programs may simply be windfalls given to employers who would have hired workers in the target group even in the absence of the credit. This raises the question of whether the net job creation of the subsidy justifies its cost. (Some proposals have been advanced that would counter the problem of windfall subsidies, by linking credits only to employees hired above some base amount. This minimizes, but does not eliminate the problem, since employers might expand employment above the base even in the absence of the subsidy.)

Experience with the TJTC indicates other problems as well. Many employers have been reluctant to participate because of the paperwork requirements and/or fear of a tax audit. In one evaluation (using random assignment), it was found that those eligible for subsidies actually found fewer jobs than those with no subsidies. Apparently being associated with a targeted group stigmatized some as being disadvantaged, making employers reluctant to hire them.

Remove barriers to employment. Government laws, such as the Fair Labor Standards Act (minimum wage) and Davis-Bacon Act, prohibit employers from offering wages below statutory limits. Opponents of minimum wage laws argue that they drive some workers into unemployment and, by distorting relative prices, make the economy less efficient. To the extent unemployment is created, the most disadvantaged are denied the opportunity to develop skills and work experience. Others argue that repealing or weakening these laws may increase employment for some, but would come at the expense of reductions in earnings for others.

The minimum wage and Davis-Bacon Act create unemployment by artificially raising wages. Occupational licensing laws and certification requirements can also limit the number of people who can enter a field of work. Supporters of these restrictions argue that they protect the consumer from incompetent and dishonest services. Opponents claim that too often they create barriers designed to reduce entry into the occupation. The result is higher wages for those lucky enough to gain entry to the profession, but fewer total jobs. While acknowledging that some level of certification and competency assessment may be needed in occupations, such as the health care professions, where the safety and well-being of the consumer are involved, they claim that it is extended to many others where such concerns are not so serious, e.g., the taxicab business.

BACKGROUND PAPER #9

FEMALE-HEADED FAMILIES

Background

Over the last 30 years, there have been substantial changes in family structure. In 1960, only seven percent of families with children were headed by women; by 1988 this had risen to about 20 percent. Moreover, these are only point-in-time percentages; the majority of children born today are expected to spend at least part of their childhood in a single parent home. Increases in divorce, illegitimacy, and the tendency for young mothers to establish their own households (as opposed to living with their parents or other relatives) were the principal forces behind this trend. Table 1 shows the growth in the number of people living in female-headed families since 1965. While the U.S. population as a whole grew by 38 percent, the number of people living in female-headed families grew by 128 percent.

Table 1: Growth in Female-Headed Families and Poverty

Year	All Female-Headed Families	Below Poverty	Poverty Rate
	(millions)		
Persons in:			
1959	14.2	7.0	49.4%
1965	16.4	7.5	46.0%
1970	19.7	7.5	38.1%
1975	23.6	8.8	37.5%
1980	27.6	10.1	36.7%
1985	30.9	11.6	37.6%
1988	32.4	12.1	37.4%

In 1988, the poverty rate of female-headed families was 33.5 percent and 44.7 percent for those with children under 18. (Note: these percentages are different from those in Table 1, because they measure families, not persons.) Furthermore, 53 percent of all poor families were headed by women and 90 percent of these families contained children under age 18. The steady increase in the share of poor families accounted for by feamle-headed families has been referred to as the "feminization of poverty." This phenomena probably represents the largest single challenge to anti-poverty policy today.

As can be seen from Table 2, one of the most important factors influencing the poverty of families headed by a single mother is whether or not she works, and if she does, how much. Of the 7.3 million female-headed families with children under 18, over two-thirds worked in 1988, and over 40 percent worked full-time,

year-round. For those in poverty, however, about 44 percent worked some time during the year, but only 10 percent worked full-time, year-round. The poverty rate for those who worked full-time, year-round was 10.7 percent; for those who worked some, it was 59.7 percent; and for those who did not work at all, it was 80.7 percent. This suggests that policies that provide job opportunities and/or job skills can greatly improve the economic status of female-headed families with children.

Table 2: Work Experience and Poverty Status of Female-Headed Households with Children Under 18 in 1988

	Total	Below Poverty	Poverty Rate
	(thousands)		
Total	7,344	3,281	44.7%
Work Experience	5,042	1,434	28.4
50-52 weeks	3,453	486	14.1
Full-time	3,048	327	10.7
49 weeks or less	1,595	949	59.5
No work	2,289	1,846	80.7

Current Federal Role

The primary programs available to low-income single-parent families are Aid to Families with Dependent Children (AFDC), which provides cash assistance, and Medicaid, which finances health care services. This core of assistance is supplemented by: Food Stamps, which help families afford a minimally adequate diet; subsidized housing programs, which reduce shelter costs for some families; the Earned Income Tax Credit; and an array of child nutrition programs. In addition, the Child Support Enforcement program helps collect child support from noncustodial parents. The current welfare system, and AFDC in particular, has been criticized as having perverse anti-family and anti-work incentives. By providing a stable source of income to single mothers, it is alleged to promote dependency on public support. The recently passed Family Support Act, with its emphasis on work and education for those on welfare, is intended to offset these incentives.

Administration Initiatives

The Administration has developed regulations implementing the Job Opportunities and Basic Skills Training (JOBS) program of the Family Support Act of 1988, which establishes a major new work, training, and education program for those on welfare. In addition, it is implementing major changes in the Child Support Enforcement program, also authorized by the Family Support Act.

Initiatives Directed at Female-Headed Families

The options described below reflect diverse views regarding the dynamics of poverty and welfare dependency, and the appropriate role of the Federal government. There is much disagreement over the effectiveness of current programs.

Establish a national minimum benefit level. AFDC benefits vary widely from State to State, ranging from a low of $118 a month for a family of three in Alabama to a high of $663 in California. A national minimum benefit has been proposed to address low State payment standards and the variation across States. For example, the Ford Foundation has proposed creating a national minimum benefit level (AFDC plus Food Stamps) equal to two-thirds of the Federal poverty level.

Proponents of a minimum payment standard argue that it would raise the standard of living for many poor families in States that pay low AFDC benefits (predominantly in the South). This would ensure that similar families (in terms of incomes) are treated alike, and may reduce any incentives that such differentials create for poor families to move to States with more generous benefits.

Opponents claim that true federalism requires that States have the freedom to set benefit levels which reflect differences in the cost of living, labor market conditions, values, and political cultures. In addition, although the short-term well-being of poor families may be improved, research shows that higher welfare benefits reduce work effort and private earnings, which may then promote dependency upon public assistance. Not all families, even in low AFDC benefit States, need additional support. This is because they may receive benefits from numerous other welfare programs (e.g., assisted housing, WIC, child nutrition programs, etc.) or live with other household members not in the assistance unit but who, nevertheless, contribute to the family's well-being. In fact, adding just Food Stamps reduces the disparity between California and Alabama from 5.6 to one, to 2.2 to one. Adding other programs, such as Medicaid and child nutrition programs, which are also readily available to most poor families would reduce these disparities still further. The problem with a national minimum, critics argue, is that it would not distinguish between those who really need assistance from those who don't. It would provide increased benefits to everyone, regardless of how accurately these benefits are targeted. Finally, those State that would be forced to raise benefits could experience budgetary problems, which could force them to divert resources from other programs.

Redesign welfare programs to increase work incentives. The interaction of the tax system with reductions in benefits can

raise effective "tax" rates for such recipients to over 100 percent. In addition, since many recipients often participate in several programs, small changes in earnings can have dramatically different effects, depending on their earnings level and the programs they participate in. These complexities may further discourage work effort. Allowing welfare recipients to keep more of their earnings by lowering the benefit reduction rate would encourage nonworking welfare recipients to work and provide a reward to those who engage in productive behavior. However, opponents of such a policy point out that research has shown that this may actually reduce work effort among the low-income population as a whole, by extending welfare eligibility (and thus work disincentives) to those who otherwise would be off welfare.

Experimentation could be encouraged to test a wide variety of other approaches. Examples include:

- Limit the length of time that those who can work are entitled to benefits. This could be coupled with provisions to expand support services and/or guarantee a public sector job after benefits are terminated. Benefits could be restricted to a fixed period, or they could be gradually phased out over time. Time limiting benefits reinforces the idea that assistance should be transitional; however, it may impose hardship on some families in need through no fault of their own.

- Allow recipients to keep more of their earnings if they participate in work programs.

- Pay bonuses to recipients who obtain and keep jobs.

- Pay bonuses to employers who hire welfare recipients.

- Consolidate a number of welfare programs into one cash grant with one set of rules.

- Extend transitional Medicaid and child care benefits for longer than one year, perhaps by imposing greater copayments initially.

These examples illustrate the diversity of approaches that could be tested. They can reduce public costs if they succeed in encouraging more work effort on the part of welfare recipients. These gains, however, must be balanced against the windfall subsidies that go to those who would have gone to work anyway.

Strengthen existing work/education requirements. The AFDC and Food Stamp programs are the only two programs which can require at least some recipients to participate in work or education activities as a condition for receiving assistance. These requirements could be strengthened in several ways:

- Require States to serve a larger percentage of non-exempt recipients than mandated in the Family Support Act. (Under current law, States are only required to enroll seven percent of nonexempt AFDC recipients, though this rises to 20 percent in 1995.)

- Extend work/education requirements to other programs, such as public housing.

- Require public assistance recipients with special problems to participate in special activities, e.g., treatment for drug abuse or life skills management classes, as a condition of eligibility.

- The AFDC and Food Stamp employment/education programs exempt mothers with children under the ages of three and six, respectively, from participation; these exemptions could be reduced to enlarge the number of required participants.

Proponents argue that even with the Family Support Act and its modest work requirements, many on welfare who could work, choose not to do so, and that making participation in some work or education activity mandatory would limit this possibility. They also claim that such a policy would raise the dignity of family members and provide a good example for other family members. Finally, such activities have been proven to be cost-effective (using good evaluation designs) and can increase the skills of welfare recipients.

Opponents dispute many of these claims. They note that while work is an important route out of poverty, there is still rather limited evidence about how effective work activities are if implemented on a large scale and for groups previously exempt from such requirements. Further, they view mandatory requirements as unnecessary and punitive, arguing that there is a strong work ethic among welfare recipients.

Increase child support collections. Establishing and enforcing child support obligations has become an increasingly important strategy for reducing the degree of poverty and welfare dependency of single mothers and their children. Child support is awarded to only 58 percent of all women with children potentially eligible and to only 40 percent of poor women. Of those with awards, only 50 percent receive the full amount of the award, 26 percent receive a partial payment, and 24 percent receive nothing. However, increasing collection rates alone is not enough; the proportion of cases with awards and award amounts must also be increased.

The Family Support Act requires States to establish mandatory payment guidelines and directly withhold support from the wages

of the absent parent. This policy alone will not have substantial effects on the poverty rate among women and children, both because absent fathers of many poor children are unemployed or employed at very low wages and because child support collected on behalf of AFDC families is primarily used to offset AFDC expenditures. However, when combined with employment, child support can make a substantial contribution to moving families off AFDC and out of poverty. Moreover, child support enforcement has the added social benefit of emphasizing that both parents have ongoing responsibility for their children. Several initiatives could be tested:

- Increase the current $50 child support pass-through in AFDC to give poor mothers greater incentives to identify absent fathers.

- Extend work/education activities to absent parents to increase their employability and capacity to provide child support.

- Base child support payments on a percentage of the noncustodial parent's income. For example, Wisconsin set the child support obligation equal to 17 percent of gross income for one child, 25, 29, 31, and 34 percent, respectively, for two, three, four, and five or more children. The payments are withheld by an employer, along with other tax withholding.

BACKGROUND PAPER #10

CHILDREN AND INFANTS

Background

In 1988, 12.6 million children, or one in five, lived in poverty, and represented almost 40 percent of the poor. As can be seen in Table 1, the child poverty rate dropped sharply from 1959, reaching its low point in 1969, but has since returned to the higher levels of the past.

Table 1: Children (under 18) in Poverty

Year	Total Children	Poor Children	Poverty Rate
		(thousands)	
1959	64,315	17,552	27.3%
1965	69,986	14,676	21.0
1970	69,159	10,440	15.1
1975	65,079	11,104	17.1
1980	62,914	11,543	18.3
1985	62,876	13,010	20.7
1988	63,743	12,584	19.7

The increase in child poverty has sparked much concern, because a child's early years, in particular, play an important role in shaping lifelong mental, emotional, and physical abilities.

Current Federal Role

Although programs such as AFDC and Food Stamps affect the economic well-being of poor children, these are available to adults as well and are discussed in other background papers. However, a number of programs are aimed directly at improving the well-being of poor children. Some of these are described below.

The Special Supplemental Food Program for Women, Infants, and Children (WIC) provides food supplements and nutritional counseling for low-income pregnant women and children up to age five who are determined to be at nutritional risk. Eligibility is limited to families with incomes up to 185 percent of poverty, but since WIC is a grant program and not an entitlement, it is estimated that only about 46 percent of those eligible actually participate.

Head Start is a comprehensive child development program serving pre-school low-income children, usually in the year before they enter school. The program emphasizes parental involvement and control of the program's direction. Children enrolled in Head Start receive immunizations, medical care, dental care, speech

and hearing screening, and social services Head Start served 452,000 children in FY 1989 at 1,287 sites. HHS estimates that 35-37 percent of eligible three- and four-year-olds participate, but that participation rates decrease to 17-20 percent of the population if five-year-olds are included. (Most eligible five-year-olds attend kindergarten, while some are in other preschool programs.)

Administration Initiatives

The President proposed a $500 million increase in Head Start for 1991, making it possible to serve up to 180,000 additional four year olds. This would permit up to 70 percent of children in poor families to participate in the program. The President also supported a provision in last year's reconciliation bill, which extended Medicaid to all children under six and pregnant women with incomes below 133 percent of the poverty thresholds, and allowed States to serve all children under the poverty line under eight years old and all infants from families with incomes up to 185 percent of the poverty line. To improve the quality of education, the President has supported increased flexibility and choice, and targeting Federal dollars to help those most in need. In addition, he has signed legislation increasing by 300,000 the number of individuals to be assisted by the WIC program.

Options

Ensure that all pregnant women have access to prenatal care and well-baby care. Since the mid-1960s, the United States has achieved significant reductions in infant mortality, but this progress has recently slowed and the U.S. rate remains one of the highest among developed nations. In 1988, the provisional infant mortality rate per 1,000 births was 9.9 percent and nearly twice that for black infants.

The recent expansion of Medicaid to include pregnant women and children under six in families with incomes up to 133 percent of the poverty line will help ensure access medical care; however, some advocate expanding Medicaid eligibility still further, to those with incomes up to 185 percent of poverty. They point out that mothers with health insurance (either private or Medicaid) are more likely to seek prenatal care and that this will improve birth outcomes. They further argue that investments in prenatal care are cost-effective, since some studies show that each dollar spent on prenatal care can save over three dollars as a result of the reduced incidence of low-birthweight infants.

Others caution that it would be more prudent to examine the effects of existing expansions. There may be unintended effects that minimize the effectiveness of such proposed expansions. For example, large increases in the eligible population may make it more difficult for States to raise their reimbursement rates,

leading more physicians to refuse to accept Medicaid patients. Another possible effect is that some employers may drop or decide not to offer maternity coverage, if they realize that it is available to many of their employees at little or no cost through the State Medicaid program. Further, it is not clear that extending assistance to higher income groups will be cost-effective. While it is obvious that prenatal care is a good investment, it must be recognized that the methodologies used to do these cost-benefit estimates are not especially rigorous. Moreover, even if the cost-benefit estimates are accurate, they are for low-income women and infants eligible for Medicaid, and it is unlikely that the results would hold up for populations that would become eligible under these new proposals. They generally have higher incomes and could differ in other ways enough to affect the conclusions. Further expansions of Medicaid will add to both Federal and State costs; some States may react by reducing spending elsewhere in Medicaid or other programs which aid low-income people.

Extend WIC eligibility to a greater number of nutritionally at-risk women and children. Several studies have found that WIC has had a positive effect on reducing the incidence of low birthweight among infants, a condition associated with poor pregnancy outcomes and increased probability of infant mortality. WIC advocates also contend that the program's health screening services allow for the early detection of potentially disabling illnesses and health problems. The most frequently cited statistic is that WIC saves $3 in future medical costs for every $1 it spends for food. The asserted "cost-effectiveness" of the program, combined with the fact that it serves less than the total eligible population, has led many to call for further expansions.

While it seems clear that WIC has had positive effects, some question the need for expanding it further. Although only about 46 percent of those eligible for WIC actually participate, it is important to note that the program is serving about 78 percent of pregnant women and nearly 100 percent of infants who have incomes below the poverty level. Thus, participation is much greater in the lowest income/highest risk categories. Further, States are required to inform those not eligible for WIC of other programs and alternatives available to them, e.g., Food Stamps and AFDC. Thus, WIC already serves those who are most in need.

It is also not clear that the cost-benefit ratios cited by advocates of the program are accurate. The methodologies used to evaluate the program have been imperfect (e.g., no real control groups). There are several reasons why WIC may not be as effective as many believe. First, although WIC provides vouchers worth about $35 per month for food, the assistance may be fungible with cash that otherwise would have been used to buy food (including WIC food items). Thus, it is unlikely that food

purchases rise by the full amount of the WIC allotment, though the composition of food purchases may shift towards more nutritious foods, thereby positively affecting health outcomes. Second, WIC foods may be shared by the whole family, minimizing the effectiveness on the group being targeted. The real effectiveness of the program may be in getting participants into the health care system, something which recent Medicaid expansions may accomplish, thereby significantly lowering the cost-benefit ratio of further expansions of WIC eligibility.

The $3 saved for every $1 spent so often used is originally based on one study, with numerous shortcomings. The ratio is derived for only pregnant women. WIC serves other groups, such as post-partum women and children up to age five, and this cost-benefit ratio does not apply to them. The data for this study was collected during the early stages of the program (1973-78), and only in a few sites (9) in one State, Massachusetts. Therefore, these results cannot be extended to the full program. Moreover, the women analyzed in the study were not representative of all women eligible for the WIC program. For example, WIC participants in the study sample had higher incomes and were healthier than those in the non-WIC comparison groups. In a review of studies and their evaluation designs, the GAO concluded that "the information is insufficient for making general or conclusive judgments about whether the WIC program is effective or ineffective overall."

More recent conclusions from The National WIC Evaluation indicate that WIC affects the quality, but not quantity, of food consumed. The beneficial effects "were small of magnitude, and none were statistically significant other than a few in infancy." WIC was also associated with an improvement in prenatal health care. Results from the study dealing with food and expenditure recall data suggest that the value of the WIC package is almost completely substituted for food purchases that would have been made anyway and that there is no sharing of food. According to the study: "These findings do not imply a lack of impact for the WIC program...Participants in WIC buy more WIC-type foods (presumably more nutritious) than non-participants, even though no significant difference in total food expenditures were found between the WIC and non-WIC groups."

Expand Head Start. The Ford Foundation recently recommended a major expansion of the Head Start program, noting that only 20 percent of all eligibles participate: "Our ultimate goal is to make Head Start available to all families who need and want to use it. The specific long-range objective is to provide enough slots for the 80 percent of poor three- and four-year-olds who are now denied the service; to make at least one-half of these slots full-day programs for children with working parents; to expand family-support, referral, and home visiting services to very low-income parents, especially teen mothers, with children

below age three; to increase funding for improved staff compensation and training in early childhood development; and to address the needs of children whose knowledge of English is limited."

Advocates of preschool programs contend that they improve childrens' social preparation and intellectual performance when school begins. This means there is less need for special education programs or repeating grades. They also claim that preschool improves the lives of children many years later, increasing the likelihood that they complete high school, go to college, become employed, and even reduce their rates of delinquency, teen pregnancy, and welfare dependence. Expanding Head Start could achieve other purposes as well, including: providing high-quality child care, making it possible for parents to work; increasing access to social and health services, such as immunization; and providing employment and training for parents of participating children.

Advocates of expanding preschool programs cite cost-benefit results from model preschool programs showing that such investments pay off over the long-term. For example, economist Alan Blinder has asserted that a dollar spent on preschool "saves $4.75 in subsequent spending on special education, public assistance, and crime." However, these results should be interpreted with great caution, especially if linked to proposals that would expand Head Start. Ron Haskins notes:

> Research has shown that both model programs and Head Start have immediate positive impacts on tests of intellectual performance and social competence but that this impact declines over the first few years of public schooling. The evidence for improvement on long-term measures of school performance such as special education placement is substantial for model programs but thin and inconsistent for Head Start. There is limited but provocative evidence that model programs may have positive effects on life success measures such as teen pregnancy, delinquency, welfare use, and employment, but there is virtually no evidence linking Head Start attendance to any of these variables. Benefit-cost studies show that model programs can produce long-term benefits that exceed the value of the original program investment, but it would be premature to argue that Head Start is cost-beneficial.

He specifically addresses the findings from the Perry Preschool program, perhaps the most often cited example of the success of preschool programs. Haskins again cautions:

> By any measure, the Perry Preschool effort is remarkable. But the evidence summarized in this review shows there are two facts that must prevent reviewers from basing policy

> recommendations on the Perry study. First, none of the other model programs...produced results as dramatic as those produced by the Perry project on teen pregnancy, crime, welfare, and employment. Second, even if there were stronger evidence from a number of model preschool programs, it would still be necessary to show that these could be generalized to the type of projects that would characterize a program of national scope. As we have seen, the results from Head Start projects are uncertain for the special education effect, and there is virtually no evidence on teen pregnancy, crime, welfare, and employment.

He also notes that the Perry project involved significant home visiting and that "it is unreasonable to expect that extending preschool programs of the Head Start type to more low-income children would produce benefits of the magnitude found in the Perry project."

Some could argue that if Head Start programs have not shown results like those in the Perry project, then Head Start programs should be expanded so that they are more intensive. However, this would also increase costs and would presumably lead to reductions in the number of children that could be served. Moreover, the Perry project is just one case; it would be a mistake to generalize results to the nation as a whole.

Provide choice in education. A great deal of attention has recently focused on the quality and effectiveness of elementary and secondary public schools. We currently spend about four percent of our Gross National Product on elementary and secondary public education, making it the most prominent investment in the human resources of the country. It has become clear over the past 20 years, however, that spending more money does little by itself to guarantee better schools. Once other aspects of the school environment are taken into account, school expenditures have little relationship to educational achievement. Parental background and home environment are crucial determinants of achievement, but so are effective teaching and certain aspects of school organization.

Schools are increasingly emphasizing basic skills, particularly among low-achieving students. A number of States have adopted State-wide minimum competency tests, to identify students and schools that require special attention and to ensure that schools provide students with an identified set of basic skills. In addition, many school districts are making efforts to involve private employers much more closely in the school system, both by setting up opportunities for students to get valuable work experience, and by soliciting advice from employers on the skills needed by students. Some school districts are also exploring such changes as expanded school hours, a longer school year, and greater parental involvement in school decisions. The key is to

provide schools with flexibility to use the educational methods most effective for their students, but also to demand that schools be accountable for the resulting skill-levels for their students.

The Administration is particularly supportive of efforts to improve the quality of schools by providing students and their families with greater choice over which school they can attend, thus expanding competition among schools and increasing parental involvement in the education system. However, reforms that allow extensive parental choice of school are still very new and there is much to be learned about their long-term effects and how to implement them most effectively. Current experiments are being closely watched by school districts across the country.

Reduce the incidence of teen pregnancy. The estimated teenage pregnancy rate for women age 15-19 was 108 per 1,000 women in 1983 (the latest year for which pregnancy estimates are available), up from 95 per 1,000 women in 1972. Teenage birth rates have steadily declined since the mid-1950s and have recently leveled off; the difference arising primarily due to the use of abortion. However, the rates for teenage births out-of-wedlock have been increasing, as teens who become pregnant are less likely to marry. By the end of their teen years, about 20 percent of white women and 45 percent of black women will have become pregnant. Most of these pregnancies will result in out-of-wedlock births--about one in two for white teens (an eightfold increase over the past three decades) and about nine of ten for black teens.

Teen pregnancies are associated with other adverse social and individual consequences. For example, teen mothers face greater risks during pregnancy (for both mother and child), are less likely to complete school, have lower incomes, and are more likely to be dependent on welfare (more than half of all women on AFDC started as teenage mothers). The costs to society are large as well. One study (Center for Population Studies, 1986) estimated that in 1985, public costs for AFDC, Medicaid, and Food Stamps amounted to $16.5 billion for families begun by parents when they were teens.

Efforts to reduce teen pregnancy have focused on two principal approaches: 1) discouraging adolescents from having sexual relations; and 2) providing birth control for those who are sexually active. While a number of Federal programs provide services to teens, little is known about effective interventions to prevent unwanted teen pregnancies.

Family allowances. A widely used mechanism for increasing the incomes of families with children is a children's or family allowance. Such allowances generally provide cash payments to all families with children, regardless of income. Some sort of

family allowance plan has been adopted in most industrialized nations. The size of the grant can vary with the age and number of children, and it can be operated as a direct spending program or through the tax system.

Proponents of family allowances assert that they would reduce the extent of poverty experienced by families with children (the largest single group among the poor) and would be less of a work disincentive than AFDC, since the implicit tax rate would be considerably lower. There would be less stigma associated with a family allowance program, since benefits go to rich and poor alike, and the administrative cost would be lower than that of welfare programs, since there is no means test. Finally, because benefits would be available without regard to family composition, such a program would not provide incentives for families to split, as some believe is the case with the existing welfare system.

Family allowances have been criticized on several grounds. First, they would be costlier than income-tested programs. In addition, a large proportion of benefits would go to the nonpoor, yet poverty may persist if the allowances aren't large enough to lift families with little or no income above the poverty level. The added benefits might lead to a reduction in work effort and could even provide an incentive for families to have more children (though studies in other nations have not shown this). Finally, a family allowance program would further complicate the transfer system with yet another program.

BACKGROUND PAPER #11

THE ELDERLY

Background

The poverty rates among the elderly have fallen more rapidly than for any other group. Starting at 35.2 percent in 1959, the percentage of elderly in poverty dropped to 12 percent, or 3.5 million people, by 1988. The elderly are now less likely to be in poverty than the average American. This is especially significant in view of the fact that the elderly have historically had poverty rates well above the average for the nation. The main factors responsible for this reduction include: expansions in Social Security in the 1960s and 1970s; the establishment of the Supplemental Security Income (SSI) program in 1972, which itself provides an income almost at the poverty level; and the rapid expansion of private pensions. In-kind programs such as Medicare, Medicaid, and Food Stamps are also important.

There are other signs of improved economic well-being among the elderly. A larger proportion now than ever before maintain their own households. Another indicator of improved economic well-being is the decline in labor force participation rates among men over 65, which fell from nearly 50 percent in 1950 to just under 16 percent in 1985. The availability of Social Security and private pensions appears to be the dominant reason for this trend; only about a quarter of retirees say they have left the work force cite disabilities as a reason. Finally, according to the Survey of Income and Program Participation, the median net worth for the aged as a group is $60,266, of which about 39 percent represents accumulated home equity.

Despite these improvements, poverty rates remain high for some groups, such as minorities and women living alone. In addition, because the elderly are living longer, the risks of illness, institutionalization, and high medical bills has grown. It is estimated that there are five million aged who require help with daily tasks, such as bathing. Most of them are cared for by families and friends, but the combination of an aging population and the increased tendency for women (who have traditionally cared for their elderly parents) to enter the labor market will put a heavy strain on society's ability to care for those who need help.

Current Federal Role

Almost all of the elderly receive Social Security and Medicare benefits, two public social insurance programs to which people contribute throughout their working years. Social Security, while providing benefits regardless of income, does provide a higher rate of return to those who have a history of low earnings. (All current retirees receive benefits well in excess

of their contributions, even after adjusting for the contributions of their employers and interest that could have been earned on those contributions. This is because payroll taxes were relatively low in the early years of the program. However, the size of these windfalls, for the elderly as a group, will diminish over time.) If it were not for Social Security, nearly half the elderly, rather than the current 12 percent, would live in poverty.

A number of welfare programs are also available to those who are poor, most notably the Supplemental Security Income (SSI) program, Food Stamps, and Medicaid. SSI, in particular, guarantees a minimum base of financial support to the aged (and also the blind and disabled). In 1989, the SSI benefit was $368 a month for a single person (74 percent of poverty) and $553 for a couple (88 percent of poverty). Adding just Food Stamps to the basic SSI benefit would raise the monthly benefit of individuals to $434 and for couples to $638. This is about 88 percent of poverty for individuals and about 102 percent of poverty for couples. A number of States also supplement the basic SSI benefit. In addition, all elderly persons with incomes below poverty can now qualify for Medicaid as well, which pays for their health care needs. (An increasing proportion of Medicaid expenditures have been on nursing home care for formerly middle-class older people who "spend down" and qualify for assistance.)

Administration Initiatives

Although the Medicare Catastrophic Coverage Act was repealed, several important Medicaid expansions for poor, elderly remain in place. One provision addresses the problem that arises when one spouse enters a nursing home and seeks Medicaid coverage, while the other spouse remains at home. Before the law, couples often had to deplete or "spend down" their life savings so that one could qualify for Medicaid nursing home coverage. Under the new law, the "at home" spouse will be allowed to keep at least $815 per month of the couple's income. In addition, he or she will also be allowed to keep $12,000 in assets, or one half of the couple's resources, whichever is greater, up to a maximum of $60,000 (in addition to the couple's home). Another provision requires State Medicaid programs to pay the Medicare premiums, deductibles, and coinsurance for all Medicare enrollees with limited assets and incomes below the Federal poverty level. This provision will be phased in completely by 1992.

Options

Raise SSI benefits. The Ford Foundation recently called for an expansion of the SSI program: "We recommend the following initiatives to improve basic income support for the impoverished aged: an increase in Federal SSI benefits to assure minimum poverty-line incomes for those elderly without other sources of

income; an easing of restrictive limits on liquid assets ($2,000 for individuals and $3,000 for couples in 1989) in order to qualify for SSI; a more effective outreach program to increase participation among those eligible for SSI.

Supporters of increasing the basic SSI benefit argue that it would substantially reduce poverty among the elderly and disabled. Opponents note that the call to raise SSI benefits to the poverty line overlooks the fact that many of the elderly receive benefits from other sources. As already noted, the basic SSI benefit for individuals is 74 percent of the poverty level and for couples it is 88 percent of the poverty level. The effect of the exclusion of income of $20 a month of any unearned income (e.g., Social Security) has the effect of narrowing the difference between the SSI benefits levels and the poverty line by four percentage points. State supplementary benefits further close the gap. In several States, these benefits alone raise income levels to above the poverty line. At a minimum, one must also add the value of Food Stamps and account for the fact that Medicare and Medicaid take care of many of their health needs. In addition, they may receive housing or energy assistance or benefit from other special programs for the aged.

Proponents of liberalizing the assets test argue that many who are truly poor, but happen to have some assets (e.g., savings for an emergency), may not be able to qualify for assistance. Opponents of such a change argue that those who apply for welfare should be expected to use their own assets to meet day-to-day expenses before the Federal government is asked to provide them with income assistance. Further, the program excludes certain resources completely or partially. In particular, the value of things that most people own that are related to basic needs is not counted toward the overall limits, i.e., a home, household furnishings, personal effects, and a car. In reality, an individual can own resources of considerable value and still be eligible for SSI.

Repeal the Social Security earnings test. The Social Security earnings (also called retirement) test is a provision that reduces benefits for recipients who earn income above a certain amount. Currently, beneficiaries age 65-69 can earn up to $9,360 a year. For earnings in excess of this amount, $1 of benefits is lost for $3 of earnings. The test does not apply to those 70 and over. (A delayed retirement credit of three percent increases Social Security benefits for those who continue to work past age 65, but it does not result in an actuarially fair increase in future benefits; the credit is being increased slowly to eight percent by the year 2007, which is actuarially fair.)

Proponents of eliminating the earnings test argue that it would accomplish the following: eliminate a major work disincentive; increase the economic well-being of the elderly; keep skilled

labor in the work force; eliminate incentives for hiding earnings; eliminate substantial administrative costs; and lead to increases in general revenues as work effort among the elderly is increased. Opponents claim that there would be substantial short-term costs and that the biggest beneficiaries would not be the poor elderly, but those with substantial earnings.

Catastrophic cost protection under Medicare. The current Medicare program is divided into two parts, Part A (Hospital Insurance) and Part B (Supplemental Medical Insurance). Part A pays for most hospital care for the elderly as well as for some skilled nursing home and home health care. Part B pays a large portion of outpatient physician services and related items. Medicare does not pay for prescription drug costs. Although Medicare pays for a large share of the health care costs incurred by the elderly, it does include provisions for cost-sharing and some beneficiaries can be liable for very high medical bills in the event of a serious illness. To protect themselves from such costs, many of the elderly purchase private "Medigap" policies, which pay for those things Medicare doesn't cover. Most of the poor elderly are covered by Medicaid, which protects them. However, a minority has neither.

In response to the current gaps in Medicare coverage, Congress passed Medicare Catastrophic Coverage Act in 1988. It not only provided protection from astronomical hospital and doctor bills, but also provided new benefits, e.g., for prescriptions drugs. It was to be financed by the elderly themselves through two premiums, one flat and one income-related. Not long after, however, many of the elderly themselves objected to the Act, principally because of extra costs due to the income-related premium. They also noted that the new law provided them for protection they already had through Medigap. As a result, this Act was repealed. This means there are about seven million elderly who have no coverage other than Medicare.

Although Congress will be reluctant to create another catastrophic program, several options are available to provide protection for those now not covered. Possibilities include: changing the laws governing Medigap policies to allow insurers to offer low-cost catastrophic-only policies (which they now can't do); and accelerating the development of total-coverage prepaid health plans for Medicare beneficiaries (e.g., HMOs). The advantage of such options is that they may make important protection available to those without coverage from catastrophic hospital and physician costs. Such plans, however, would not help pay for drug or nursing home costs, which some view as the true catastrophic costs.

Provide long-term care insurance. Long-term care (LTC) refers to a range of medical and supportive services provided to persons unable to care for themselves because of chronic illness or

functional impairment. The elderly and disabled are the primary groups needing LTC services. An array of services are provided under the rubric of LTC: 1) basic services, such as help with cooking and maintaining a home; 2) health-related services, such as assistance with bathing and occupational therapy; and 3) skilled services, such as skilled nursing care (administering medications). These services can be provided in many settings, including hospitals, nursing homes, and the home, and they can be provided either informally by relatives and friends or formally by individuals paid for their services.

As the population continues to age, the demand for LTC will increase. Since such care is expensive and because Medicare pays very little, new options are being explored to help the elderly defray such costs. One such option is long-term care insurance, which would insure people against such costs. Existing LTC policies generally cover extended nursing home stays with indemnity policies, paying a fixed amount per day for covered services. Premiums are age-related and most include a deductible or a reduced benefit for a period of time to guard against unnecessary utilization. Some policies include home health benefits as well.

Numerous options have been advanced to address the long-term care needs of the elderly. The options described below represent a range of public and private sector responses. They can be viewed individually or in various combinations.

The development of wide-spread long-term care insurance is hampered by several problems. Insurers fear adverse selection (where only those most likely to need care can buy insurance) and "moral hazard" (insurance-induced demand). These problems make the pricing of such policies very difficult. Moreover, insurers fear the open-ended liability associated with such policies. A further problem is lack of interest by consumers. Many think they may not need such coverage or assume that Medicare will cover it. Since Medicaid acts as insurer of last resort for the middle class, there may be too little incentive for them to purchase private long-term care insurance. As one researcher noted, "to put their hopes on the private insurance mechanism, public officials have to hope their constituents will be dumb enough to make an irrational investment to reduce their potential consumption of tax dollars." Nevertheless, there are about two million long-term care policies currently in force.

Several problems, some already mentioned, would arise if the Federal government subsidized such insurance: 1) moral hazard; 2) high cost; 3) care provided informally by family and friends would be reduced; 4) financial responsibility would be shifted from States and the private sector to the Federal government; and 5) the taxes needed to finance the program would take resources away from the private sector and adversely affect the economy.

Other long term care options. There are numerous other options that could help provide for the potential long term care needs of the elderly. These are briefly discussed below.

Informal help could be promoted through direct payments or tax incentives for expenses associated with caregiving. Public costs could increase considerably if many of the people that respond to these incentives were already providing such care without subsidies. If the incentives could be targeted to those who otherwise would be institutionalized, public costs would be reduced.

IRA-like instruments could be created that provide preferential tax treatment for savings set aside for long term care expenses. For the savings to be meaningful, individuals would have to begin savings early. From the government's budgetary perspective, the savings in long term care expenditures through public programs would have to be offset against the revenue loss associated with these new IRAs.

Three out of four elderly-headed households own their own homes and over 80 percent have paid off their mortgages. Reverse annuity mortgages and sale leaseback arrangements convert the value of a home into a lifetime stream of income, which could be used to meet long term care needs. The elderly may be reluctant, however, to enter into such arrangements. The income stream produced could result in reductions in certain assistance programs (e.g., SSI and Food Stamps). In addition, there is a strong desire among many to leave their homes to their children.

Life care communities combine residential living with the availability of medical, nursing, and social services in specialized facilities on the premises. They are based on lifetime contracts between the resident and the community. Older people typically pay an initial lump sum fee and monthly fees.

Social HMOs take responsibility for providing both normal Medicare benefits and social services. They provide case management, home health, and chore services, as well as some nursing home care. Concerns have arisen that they may displace voluntary caregiving and that since enrollment is typically voluntary, adverse selection could occur.

BACKGROUND PAPER #12

DISABLED AND EMPLOYABLE

Background

Surveys estimate there are between 20 and 50 million Americans who have a disability. The range of disabilities varies widely, from 650,000 perons in wheelchairs to more than 24 million with hypertension. Because many disabilities limit the range of work options available and because some of the disabled have suffered discrimination in the workplace, disabled individuals suffer a disproportionate incidence of poverty. In 1988, 28 percent of nonworking poor household heads reported they were ill or disabled. Conversely, among those household heads who report that they cannot work because they are ill or disabled, fully 42 percent are poor.

Current Federal Role

The primary program explicitly designed to assist disabled low-income households is Supplemental Security Income (SSI), a Federal program available to individuals with low incomes who are certified unable to work. In addition, those whose disability occurred on the job are typically able to receive workers' compensation, while those who have worked in the past are often eligible for Social Security Disability Insurance payments. There are also several Federal programs that provide funds for work rehabilitation programs for the disabled.

A large number of disabled Americans are able and willing to work. Unfortunately, inaccessible workplaces and discrimination against disabled individuals have prevented many from realizing their full economic potential. Major progress in theis area occurred with the passage of the Rehabilitation Act of 1973, which led institutions receiving Federal funding to make their buildings accessible to disabled individuals. However, survey results still indicate that several million disabled individuals who want to work are unable to find employment.

Administration Initiatives

The Administration supports the Americans with Disabilities Act, designed to lower barriers to employment, public services, and public facilities for the disabled.

BACKGROUND PAPER #13

THE UNDERCLASS

Background

Much attention in recent years has focused on inner city concentrations of poverty, illiteracy, limited workforce attachment, long-term welfare dependency, family instability, crime, drug abuse, and general isolation from mainstream society. Although these problems are often associated with inner city ghetto areas, they can be found in high poverty suburban and rural areas, including Native American reservations.

Because there is no clear definition of the "underclass," it is difficult to measure its size. While it may be relatively easy to count the number of poor, unemployed, and uneducated, it is not so easy to determine the number of people who share all of these characteristics. Researchers at the Urban Institute using census data have identified neighborhoods where school dropout rates, number of female-headed families with children, welfare dependency, and joblessness among adult males are especially high (one standard deviation above the mean for the nation). Their research indicates that between 1970 and 1980 the number of people living in underclass areas grew from 752,000 to 2,484,000. Other social indicators suggest that this trend has continued through the 1980s. It is important to remember that not all those living in underclass areas exhibit the characteristics of those in the underclass, but, as Richard Nathan points out, "the environment is not conducive to completing school, living in a stable family, or having a steady job."

The hypothesized existence of an "underclass" has important implications for an anti-poverty policy. It suggests that poverty cannot be eliminated solely by providing either additional resources (transfer payments) or opportunities (jobs). There must also be a change in attitudes by those in this culture of poverty to resemble more closely those of mainstream America. If the attitudes and values of this subset of the poor cannot be changed, then there is little hope that any anti-poverty policy could be fully effective.

Richard Nathan cautions that: "The cultural isolation, danger, and depth of severity of the social environment is hard to exaggerate. The people who need help often are resentful, alienated, and prone to hostile acts. This makes the politics of response much more difficult than in an earlier period when a war on poverty included helping the old and the sick, i.e., a much larger number of persons that society defines as 'the deserving poor'"

Bush Administration Initiatives Affecting the Underclass

Although the Administration has proposed a number of initiatives to aid the poor, only one directed specifically at underclass areas is currently operational. It is the Department of Labor's Youth Opportunities Unlimited (YOU) program, which is to be tested in up to 40 high-poverty inner city and rural areas. The program involves "challenge grants" to areas that offer a comprehensive package of services and a specific objective for low-income, at-risk youth, such as high school completion. The major element in the proposal is additional Federal funding of $50 million, and a requirement for leveraging other funds, public and private.

The Domestic Policy Council has tentatively endorsed the Low Income Opportunity Board's proposal to undertake a limited number of demonstrations in high-poverty areas, called low income opportunity zones, involving expanded waiver authority across the welfare system to test radical innovations in the welfare system. This approach differs from the YOU program in several important respects. The low income opportunity zones are more far-reaching because they are not limited to at-risk youth, but allow for targeting the whole low-income population/area. They also provide broad waiver authority to allow truly innovative reforms. There is only so much that can be done by coordinating existing programs, which is the main focus of the YOU program.

Secretary Kemp has proposed a number of initiatives in a housing and community development package, called Homeownership and Opportunity for People Everywhere (HOPE). This package includes two initiatives targeted specifically to depressed areas. It would set up 50 enterprise zones, in which businesses would be exempt from capital gains taxes and would get tax incentives for hiring low-wage workers. It would also create 50 "Housing Opportunity Zones" which would remove regulatory and tax barriers to the construction and rehabilitation of homeownership housing for low- and moderate-income families in distressed urban areas.

Initiatives Directed at the Underclass

The following options illustrate the range of ideas that can be targeted to depressed areas. Many are controversial and their impact is uncertain; thus, encouraging experimentation may be a prudent first step. Nevertheless, the problems facing these areas are so serious that much more than marginal changes in the welfare system must be tested. Especially important are those interventions that can change attitudes and expectations throughout the community.

Incentive Programs: Businessman Eugene Lang started the "I Have a Dream" Foundation, which pays for the college tuition of a class of students graduating from a Harlem elementary school if

they graduate from high school on time. The program also includes counseling and student activities. All of the 51 students who remained in the area are expected to graduate from high school and 40 are expected to attend college. More important than the promise of a free education, it appears that the most important ingredient was changing their attitudes, giving them hope for the future. Similar programs, public and private, have sprung up across the country, but as David Ellwood points out, "It is obvious this is a unique and special story without any clear message for policy, since the government cannot create millions of Eugene Langs." Ellwood concludes that the lesson from this example is that "somehow we need to let people know they can make it, that there are real options, that they are special, and that there is hope for the future."

Employment Opportunities: A basic problem in depressed areas is high unemployment. Several approaches have been suggested to stimulate employment. Enterprise zones provide tax and regulatory relief to promote job creation. Proponents say that these zones create new activity by providing incentives for work and investment. Critics argue that these zones simply reward those who otherwise would have created businesses in the zones anyway or induce some to move their businesses from outside the zone to inside it. They point to research indicating that tax rates are not the primary reason for business location or expansion.

Some advocate experimenting with jobs programs in especially depressed areas where there are few other economic opportunities. Experience with public sector employment programs suggests that such programs often displace jobs that would have been created anyway and provide little in the way of meaningful training to program participants. However, some high-poverty areas may have so few economic opportunities that the issue of displacement is not as serious.

Other approaches emphasize linking inner city residents with employment opportunities, either by giving them housing vouchers to allow them to live in areas where employment opportunities are more abundant or by improving transportation services.

Empowerment: The poor could be given greater control over their lives. Several public housing projects are now successfully managed by tenant associations, which have markedly improved the quality of life in such projects. The question that remains unanswered is how feasible this would be for the nation's public housing stock as a whole. Educational vouchers could be given to parents so that they may enroll their children in any school, leading to healthy competition between schools that translates into better education for the children. In Chicago, local councils comprised of six parents, two community residents and two teachers have been created to take power away from the

central-district education system and run the schools. Some fear that such plans would hurt public education, but others note that public education has already failed and that new approaches should be tried.

Mutual Obligations: Some advocate an approach of mutual responsibility, in which welfare recipients are expected to fulfill some obligation (e.g., work or attend school) in exchange for which the government provides some benefits or services (e.g., public assistance, training, or employment). This was one of the fundamental principles of the Family Support Act. Some who support such requirements do so in the belief that values have gone astray and that changed policies can reverse them.

The idea of mutual responsibility can be extended to other groups as well. For example, Isabel Sawhill has recommended "providing vouchers to young people which would provide help with college, training, or finding a job but which would be conditional on their completing school, remaining drug free, staying out of trouble with the law, and not parenting a child before they are able to support it." This kind of initiative could be targeted to poor teens in high-poverty areas (to keep costs down). While the benefits of this proposal can be enormous, if it induces a change in behavior, it also provides windfall benefits to those who would have acted responsibly anyway. While some may believe that these people too deserve to be rewarded, it is not the fundamental objective of the proposal.

These are just a few of the many approaches that can be tried.

BACKGROUND PAPER #14

THE HOMELESS

Background

One of the most visible problems in the 1980s has been homelessness. Not only is homelessness a social problem, it is also a barrier to effective participation in the labor market. Reliable estimates of the homeless population are difficult to obtain, and few national estimates have been made. An extensive study, done by the Urban Institute, estimated that 500,000 to 600,000 persons were homeless in the U.S. over a given week in 1987, and about one million experienced homelessness at some point over the year.

Many factors are responsible for the increase in homelessness. Changes in large metropolitan housing markets are often cited, along with the inadequate supply of community-based mental health treatment and other support services for the mentally disabled, drug abuse, spouse abuse, and other problems. Rising rents and land prices and the rejuvenation of downtown areas have displaced low-income populations. The availability of boarding houses and rooms for rent, typically used by poor single adults, has diminished in most cities. For example, in New York City, as many as 30,000 rooms in Single Occupancy (SRO) hotels and boarding houses were lost in the 1980s to redevelopment. In some areas, rent control, restrictive building codes, and zoning regulations have restricted the supply of low-income housing.

The homeless population is generally composed of at least three distinguishable groups. First, there are those who have a history of mental illness. The trend to de-emphasize institutional treatment of mental illness in the 1960s and 1970s left some of the mentally disabled without shelter. While there are a range of estimates, most studies indicate that around one-third of the homeless population are severely mentally ill. This group is often the most difficult to reach and is least likely to make use of temporary shelters and care facilities.

Second, there are homeless families, primarily low-income women and children who have lost access to an apartment and who are not able to locate or afford an alternative apartment in their area. This group constitutes about a quarter of the homeless and tends to be homeless for the shortest period of time, before they are relocated in permanent housing.

Finally, the remainder of the homeless are predominantly single men between the ages of 20 and 50. About 20 percent of the homeless work regularly, others work intermittently; some receive Food Stamps or small payments from State assistance programs. Many have ongoing problems with alcohol or other drugs.

The Urban Institute's Martha Burt has said that "as high as 50

percent or 60 percent (of the homeless) may have so many disabilities that they will never be able to take care of themselves." Table 1 summarizes the survey results outlining the extent of these problems.

Table 1

	Number	Percent
Personal Problems	405,000	71%
Mental Hospitalization	104,000	20%
Chemical Dependency	200,000	35%
Jail (five or more days)	319,000	56%
State/Federal Prison	148,000	26%
Two or More of These Problems	239,000	42%

These statistics clearly suggest that simply building more housing is not the sole answer.

Current Federal Role

Although the homeless are eligible for numerous public assistance programs, such as Food Stamps, AFDC, SSI, and Medicaid, homelessness was mainly seen as a State and local responsibility. However, the McKinney Act, passed in 1987, was the first legislation to authorize major direct Federal expenditures for emergency food, shelter, counseling, and other services for the homeless. Given the geographic concentrations of homelessness, some argue that an expanded Federal financial role is needed, because States and localities do not have the resources to deal with the problems.

Administration Initiatives

The current Administration has declared itself an active partner with State and local governments as well as the private sector in solving the problems of homelessness. The President has pledged to fully fund the programs for the homeless in the Stewart B. McKinney Homeless Assistance Act. The FY 1991 budget includes Federal funding of $819 million. An additional $166 million is specifically aimed at the homeless in non-McKinney programs, excluding entitlement funds. Also, the Interagency Council on the Homeless is examining the effectiveness of the current McKinney program structure with an eye to proposing reforms to simplify program administration and facilitate the provision of intensive comprehensive services to this population. In addition, the President's HOPE initiative includes a $738 million shelter plus care component that would provide housing assistance for the severely mentally ill and substance abusing homeless to be matched by services provided by State and local governments.

Options

Require States to assure that the mentally ill receive appropriate care. State and local governments were supposed to help the deinstitutionalized mentally ill at community mental health centers supported through Federal block grants. Unfortunately, many were negligent in their responsibilities, leaving many of the mentally ill homeless and on the streets. Anna Kondratas has recommended that the Federal government amend the 1963 law to require States to "provide adequate mental health care in the communities before releasing patients from State institutions."

Provide McKinney assistance through a block grant. The McKinney Act authorizes numerous programs through various categorical grants. Proponents of this alternative approach argue that it results in the misallocation of resources through micromanagement and leads to excessive red tape. A block grant would give State and localities the flexibility they need to design creative approaches for dealing with homelessness. Critics note that a block grant would be difficult to construct and that a politically "fair" allocation formula would reallocate funds to areas where need is less.

Make the homeless a higher priority in public housing.

Give the homeless vouchers for group homes and single-room occupancy hotels. Vouchers have proven themselves effective as a means of general housing assistance, but are rarely of use to the homeless, unless someone assists them in locating housing and negotiating with landlords hesitant to rent to this population. Providing the homeless with vouchers could increase the availability of low-income housing. On the other hand, existing providers may reap large windfalls without changing the overall stock of such units.

Improve assistance provided to homeless families by targeting more comprehensive, intensive services to this population through a system of case management.

BACKGROUND PAPER #15

HOUSING AFFORDABILITY

Background

The high cost of housing is a problem faced by many households. According to the CBO, 28 percent of U.S. households in 1985 spent more than 30 percent of their income on housing costs. Nearly 70 percent of very low-income households (those with family income less than or equal to 50 percent of the area's median) experienced such affordability problems. (This number is somewhat misleading, because it ignores the value of in-kind assistance many of these households receive, such as Food Stamps.) In addition, about 10 percent of all households, and 20 percent of very low-income households, lived in substandard or crowded conditions.

While it may appear that these problems are due to a widespread housing shortage, other indicators suggest that this is not the case. For example, the rental vacancy rate for 1987 was 8.5 percent, the highest in two decades. The problem is clearly cost, not availability of housing.

Current Federal Role

The Federal government provides housing subsidies for low-income families through several programs administered by the Department of Housing and Urban Development and the Farmers Home Administration (FmHA) in the Department of Agriculture. Both rental and homeownership subsidies are provided. The number of households receiving housing assistance has increased substantially since 1980, when there were 4.2 million households receiving such help. By 1990, the number of assisted households is estimated to reach 5.6 million, an increase of 1.4 million. Nevertheless, housing assistance is not an entitlement and not all those eligible receive such assistance. According to CBO, about 38 percent of very low-income renters receive some form of housing assistance.

There are two main types of rental housing assistance: project-based, where subsidies are earmarked for specific publicly or privately owned units; or tenant-based, where the subsidies are assigned to families or individuals to be used in private units of the household's choice, provided that such units meet designated housing quality standards. These programs typically reduce tenants' rent payments to 30 percent of their income after certain deductions, with the government paying the rest.

A fundamental tenet of the Administration's housing policy, backed up by several major studies, is that the housing problem in the U.S. is an affordability problem -- not a supply problem. It is true that in some markets, the supply of affordable rental

units is tight. Generally, this is a relatively short-run problem while demand for the units exceeds supply. In most cases, the industry responds with an increase in supply. However, in those places where this is not the case and supply remains short, there are usually locally created impediments, such as rent control or local moratoria on new construction. Housing vouchers provide low-income households with more choice, including the chance to live in better neighborhoods with better schools. Vouchers also cost about half as much as new construction, allowing more families to be subsidized for a given level of funding.

Administration Initiatives

The Administration has proposed a major new program, Homeownership and Opportunity for People Everywhere (HOPE) to expand housing opportunities for the poor. This proposed legislation includes tax incentives to encourage greater construction and rehabilitation of low-income housing and to encourage savings for downpayments; opportunities for residents of Federally subsidized housing projects to have more voice over their housing, through tenant management and potential tenant-purchase plans; and 50 Housing Opportunity Zones that would establish Federal-local partnerships in metropolitan jurisdictions to remove barriers to affordable housing.

Options

Make housing assistance an entitlement. Since only 38 percent of very low-income households receive rental assistance, approximately 8 million households remain unserved. Proponents of making housing assistance an entitlement argue that this would help them reduce the share of their income currently being devoted to housing and would result in the more equitable treatment of households in similar economic situations. Opponents argue that the costs of this proposal would be prohibitive and create work disincentives by raising welfare benefits.

Expand tenant management. Public Housing resident management is already showing some promising results. Examples include Kenilworth-Parkside, in Washington, D.C., Carr Square, and Cochran Gardens, in St. Louis, and public housing communities in Nashville, Boston, and Chicago. The expectation is that with tenants in control, maintenance will be better, more rents paid on time, the number of people on welfare in the public housing project will decrease, and generally, a greater sense of pride will be felt. While resident management is widely supported, some point out that most Public Housing projects currently do not have the technical expertise to take over the management of their own projects.

Sell public housing to residents. The Administration has proposed a HOPE Grant Program, which will enable public housing residents to purchase their homes. By giving families in public housing a chance at home ownership, they will have greater incentives to maintain their properties.

Critics argue that the proposal has a number of weaknesses. They note that only few residents have the financial capability to buy units and those that do are not likely to be poor, but those who have steady jobs and can afford the ongoing costs of homeownership; thus, the program will have only a minor impact in increasing homeownership among the poor. Further, allowing them to buy their units, instead of encouraging them to move into middle-class housing, would reduce turnover and worsen the already long waiting lists for Public Housing. Many low-income homebuyers may not have the resources to withstand future cost increases, such as those associated with unexpected major repair and replacement needs. Indeed, experience from earlier homeownership demonstrations, which resulted in relatively high default rates, shows this to be the case. Critics also object on equity grounds. Housing programs are not entitlements and already create inequities in that some people get assistance, while others in similar circumstances do not. A homeownership program may exacerbate this inequitable treatment as the government would not only provide subsidized housing, but would turn over a valuable asset as well.

BACKGROUND PAPER #16

ECONOMIC DEVELOPMENT

Background

The nation's economic expansion has resulted in lower joblessness and increased family incomes. However, not everyone has shared in these economic gains. Some communities have suffered local economic shocks, others have experienced an influx of poor legal and illegal immigrants seeking economic opportunities in this nation, while some have growing inner city populations that are increasingly isolated from the economic mainstream.

Economic development programs seek to foster the development of private enterprises that bring jobs and/or needed services to depressed communities. Although most economic development programs operate at the State and local level, the Federal government has, in the past, developed targeted programs on a relatively large scale. The Economic Development Administration (in the Department of Commerce), the Appalachian Regional Commission, and the Department of Housing and Urban Development have had numerous programs aimed at promoting economic development. These have included a variety of grants, loans, and loan guarantee programs to foster the development of private firms in areas of high unemployment. Some of this assistance has been targeted directly to firms, while some has gone to localities to develop the needed infrastrcuture (e.g., roads) to create a climate attractive to private sector development.

One Federal program that played an important role in economic development in the 1970s and 1980s is the Urban Development Action Grant. It was designed to provide public funds to help attract investment to depressed areas. Supporters argue that the program generated new jobs and was an economic benefit to these areas. Critics of the program argue that it subsidizes business ventures that would otherwise not be economically viable, thereby diverting capital from more worthy projects. They also claim that it subsidizes some projects that would have been undertaken in the absence of Federal financial assistance. Thus, its main effect is not to create new jobs or investment, but to shift it from one part of the economy to another.

Current Federal Role

The Administration has proposed create 50 enterprise zones, which would provide tax incentives for job creation and entrepreneurship. These include a 5 percent refundable tax credit for the first $10,500 of wages, up to $525 per worker, to qualified workers for wages earned in an enterprise zone. The credit phases out between $20,000 and $25,000 of toal wages. It also includes a zero capital gains rate for investment in tangible property used in an enterprise zone business. These and other incentives are intended to encourage potential local

entrepreneurs and outside investors to invest capital in the zone.

Critics of enterprise zones argue that the tax incentives may result in the same kinds of problems that the direct grant programs had, i.e., they subsidize businesses and jobs that would have been created anyway or artificially induce businesses from outside the zone areas to move in.

June 20

Document No. _____ CA

THE WHITE HOUSE OFFICE OF CABINET AFFAIRS
STAFFING MEMORANDUM

Date: June 13, 1990 **Due by:** _____

Subject: Domestic Policy Council Meeting, Wednesday, June 20, 1990 at 2:00 P.M. in the Roosevelt Room. (PRINCIPALS ONLY)

From: Kenneth P. Yale
Executive Secretary, Domestic Policy Council

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☑	☐
Agriculture	☑	☐
Commerce	☐	☐
Defense	☐	☐
Education	☑	☐
Energy	☑	☐
HHS	☑	☐
HUD	☑	☐
Interior	☑	☐
Justice	☑	☐
Labor	☑	☐
OMB	☑	☐
State	☐	☐
Transportation	☐	☐
Treasury	☐	☐
USTR	☐	☐
Veterans	☑	☐

	Action	FYI
CIA	☐	☐
CEA	☑	☐
CEQ	☐	☐
EPA	☑	☐
GSA	☐	☐
NASA	☐	☐
National Science Foundation	☐	☐
ONDCP	☐	☐
OPM	☐	☐
OSTP	☑	☐
SBA	☐	☐
UN	☐	☐
Cicconi *(For WH Staffing)*	☑	☐
_____	☐	☐
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_____	☐	☐
_____	☐	☐

COMMENTS: The Domestic Policy Council will meet on Wednesday, June 20, 1990 from 2:00 to 3:00 PM in the Roosevelt Room to discuss the Administration's Low Income Opportunity Strategy. Attached are (1) an agenda, (2) a paper entitled, "Options for a Low-Income Opportunity Strategy," and (3) the background and discussion paper entitled, "A Low-Income Opportunity Strategy," which was previously distributed to you for the May 21, 1990 meeting. Please note that these documents are sensitive in nature and should be treated as close hold documents. Please refrain from making additional copies.

Please inform Honor Willson (456-2800) by COB Monday, June 18, as to whether or not you plan to attend this meeting.

THE WHITE HOUSE

WASHINGTON

June 13, 1990

MEMORANDUM FOR THE DOMESTIC POLICY COUNCIL

FROM: KENNETH P. YALE KY
Executive Secretary

SUBJECT: Meeting of the Domestic Policy Council, Wednesday, June 20, 1990 at 2:00 P.M. in the Roosevelt Room

The Domestic Policy Council will hold a meeting **for principals only**, on Wednesday, June 20, 1990 from 2:00 to 3:00 P.M. in the Roosevelt Room. The subject of this meeting is the Administration's Low Income Opportunity Strategy. Richard Schmalensee, Member, Council of Economic Advisers, will make the presentation.

At a meeting on May 21, the DPC directed the Low Income Opportunity Board to develop an options paper to serve as the basis for further discussions of the Administration's low income opportunity strategy. Attached is a paper entitled, Options for a Low-Income Opportunity Strategy, which the Attorney General requested be distributed to you a week in advance, to provide adequate time for full review before the meeting on June 20.

Also attached for your use is the background and discussion paper entitled, A Low-Income Opportunity Strategy, which was previously distributed to you for the May 21 meeting and is included here for easy reference. **It should be noted that these papers are sensitive in nature and should be treated as close hold documents. Please refrain from making any additional copies.**

Please inform Honor Willson (456-2800) by C.O.B. Monday, June 18, as to whether or not you plan to attend this meeting.

Attachments

THE WHITE HOUSE

WASHINGTON

DOMESTIC POLICY COUNCIL

Wednesday, June 20, 1990

2:00 P.M.

Roosevelt Room

AGENDA

1. Low Income Opportunity Strategy

CLOSE HOLD

OPTIONS FOR A LOW-INCOME OPPORTUNITY STRATEGY

In response to a request from the Domestic Policy Council (DPC) to the Low Income Opportunity Board (LIOB) on May 21, this paper presents a set of policy options designed to serve as the basis for further DPC discussions of the Administration's low-income opportunity strategy. The LIOB has attempted to select a set of options that reflect the range of available policy alternatives, though additional innovative proposals might be revealed by further reflection and discussion. Our schedule did not permit detailed analysis of the likely effectiveness or the budgetary and program impacts of the proposals discussed below, so these presentations are necessarily broad. Thus, this paper should be treated as an interim report. The LIOB seeks guidance as to which, if any, of the approaches presented here merit more detailed analysis.

This paper is intended as a sequel to the background paper prepared by the LIOB and discussed by the DPC on May 21. That paper presented an overall vision and a set of strategic principles to guide the Administration in developing its low-income opportunity agenda. The central message of the prior paper was that an effective anti-poverty system would provide economic empowerment for American families, enabling them to participate fully in the mainstream of the economy.

Continuing Efforts

Before turning to specific options for new initiatives, it is useful to note several important areas in which the Administration is already pursuing an active agenda. Continuing efforts to achieve the Administration's objectives in these areas will complement any additional new efforts that are undertaken.

1. A National Drug Control Strategy to fight drug abuse and drug-related crime.

2. Efforts to reform the education system and achieve the national education goals.

3. Providing work opportunities for adults on welfare through the implementation of the JOBS program.

4. Reform of public housing, through tenant management and homeownership initiatives.

5. Expanded services to the homeless, particularly those efforts that bring the homeless back into the mainstream of the economy.

6. Economic development in low-income areas, through enterprise zones, and the redirection of Community Development Block Grant funds.

7. Expanded job training for disadvantaged youth and adults, including reorganization of the Job Training Partnership Act and the new Youth Opportunities Unlimited program for at-risk youth in high-poverty areas.

8. The President's ongoing encouragement of greater volunteer and private sector service to local communities, especially the Points of Light Initiative.

Options Presented

The remainder of this paper presents and briefly discusses nine options that would establish new directions for anti-poverty policy within the Administration. These options are not intended to be mutually exclusive.

1. Building on current efforts
2. Large-scale community intervention in high poverty urban and rural areas
3. Better serving low-income families through current programs
4. Increasing State program flexibility with anti-poverty incentive agreements
5. Improving job opportunities for disadvantaged workers
6. Improving education incentives for teenagers
7. Improving the nutrition of America's children
8. Strengthening families
9. Designing an entirely new anti-poverty system

Sullivan 2+4 8

OPTION 1: BUILDING ON CURRENT EFFORTS

The Administration can build upon and expand current innovative efforts. This could include the following:

- Expand the Earned Income Tax Credit (EITC), which increases the rewards to work among low-income earners with children. The EITC enjoys widespread support as a low-bureaucracy anti-poverty program that assists the working poor. The EITC could be adjusted by number of children in the family, expanded to workers without children, or the amount of the credit could be increased.

- Propose health care initiatives based on the current HHS review of alternatives relating to improved access to health care, with particular attention to the need for adequate insurance for the uninsured. Many observers identify health care as an important problem for the working poor.

- Expand the Administration's current housing initiatives, designed to help many low-income families move toward self-sufficiency. This includes expanded funding for the proposals in HOPE (Homeownership and Opportunities for People Everywhere), which promotes homeownership and affordable housing for low-income Americans, and expanded economic development programs, such as enterprise zones.

- Continue to expand Head Start. Head Start's work with poor families can be broadened to include a greater emphasis on parenting skills, drug abuse, and economic empowerment.

- Improve health services for infants and pregnant women. This may include expansion of WIC and other nutrition programs, drug abuse initiatives targeted at pregnant women and mothers, and immunization programs for children.

- Increase efforts to target program dollars to the most disadvantaged populations and areas. This may involve reconsidering Federal matching formulas and reallocating Federal moneys to the most needy areas, as we have proposed in the Community Development Block Grant.

- Review existing programs to find ways to promote volunteerism and individual giving. For instance, HHS' Administration on Aging could expand programs that promote intergenerational volunteer and community efforts to bring needy children together with older adults who can act as role models, tutors, and friends.

Pros:

- Can generally be prepared and announced relatively quickly, since these build on existing programs where analysis is already completed. (Health care is the exception.)
- Expands efforts the Administration has already recognized as effective; may be more effective than trying newer and riskier programs.
- Targets problems widely recognized among the public as important (health insurance, infant health, housing affordability).

Cons:

- Could be perceived as less bold than announcing a new agenda.
- Most of the proposals in this option involve expanded funding; because these programs are already available, proposed expansion would focus public and Congressional debate on dollars rather than on the underlying effort to promote self-sufficiency and reduce poverty.
- Only addresses those problems which are targeted by existing initiatives; does not improve the anti-poverty system in areas where it is currently weak.

OPTION 2: LARGE-SCALE COMMUNITY INTERVENTION IN HIGH POVERTY URBAN AND RURAL AREAS

Provide assistance for institutions, organizations, and citizens in high poverty urban and rural areas to come together and form a "Community Trust" for each area. Each Trust would establish performance goals for its community and design a plan of action to accomplish these goals. An effective system to monitor and evaluate the effects of any changes would be a required component of the plan of action. The basic premise of the Community Trust is that the multiple problems that exist in high-poverty areas must be addressed simultaneously by the citizens and institutions of those communities. Programs designed by the Trust should focus on promoting personal responsibility and self-sufficiency, along with social and economic development.

Each Community Trust would be governed by a representative Board composed of individuals residing in the community, representatives of both State and local government (including the welfare, education, health care, and criminal justice systems), and representatives from the private and nonprofit sectors.

The Federal Government would provide three types of assistance: (1) Technical assistance in establishing such a Trust and developing and implementing an effective plan of action; (2) Funds to implement an approved plan of action (which would be contingent over time upon achieving the performance goals), including matching funds to State, local, and private sector money. Federal, State and local contributions to the Trust would be based in part on each community's budget share of existing government service programs; and (3) Extensive waivers from certain Federal requirements on programs, allowing areas to retarget Federal funding in an approved plan of action. The Federal government would also act as a central clearinghouse for the evaluation results from these efforts. Note that such an effort could either rely primarily on the redirection of existing Federal funds already committed to an area, or could involve additional Federal dollars. Some new money may have to be part of these projects, due to the severity of problems in these areas, as well as to overcome political objections associated with giving such Trusts greater flexibility over program funds.

Pros:

- Allows for a coordinated, large-scale approach to large-scale community problems. The proposed Community Trusts can be thought of as similar to coordinated environmental efforts, such as the Chesapeake Bay cleanup project, where all involved groups work to attack all aspects of the project at once as part of a single plan.

- Requires active involvement by the private and non-profit sectors, as well as by community residents.

- Additional funding and flexibility for existing funds may lead to innovative approaches otherwise not possible; provides for the possibility of major institutional change in the welfare, education, and criminal justice systems.

- Promotes local responsibility for developing and implementing social and economic change; would lead to solutions consistent with local needs.

- Expands our knowledge base of what is effective in dealing with the multiple social and economic problems faced by high-poverty areas.

Cons:

- Targeting high-poverty areas can be risky; multiple and linked social and economic problems in these areas have no easy solutions. Some community efforts may fail.

- We have little experience with creating and operating such a multi-level, public/private, quasi-governmental organization; there may be substantial implementation problems.

- May be difficult to cost out, and can involve significant money if major community and program changes are proposed. The number of such initiatives will necessarily be limited.

- Based on experience, it is likely that a request for extensive funding flexibility on the part of State and local governments over Federal program dollars will be opposed by Congressional committees overseeing affected programs.

- Equity issues could arise in choosing between areas. For instance, a large number of Indian Reservations may be eligible for this program, but only a few would be funded.

- Some may see Community Trusts as an effort to recreate the old Community Action Agencies, which were an ineffective mid-1960s anti-poverty program. While Community Trusts are substantially different, care needs to be taken to avoid the political pitfalls of this earlier program.

OPTION 3: BETTER SERVING LOW-INCOME FAMILIES THROUGH CURRENT PROGRAMS

Propose steps to improve the effectiveness of Federally-funded programs that serve low-income families, including welfare, education, employment and training assistance, and social services (drug treatment, counseling, legal aid, child care, etc.). This could include:

(1) Unifying eligibility requirements and streamlining application procedures across programs.

(2-a) Establishing "one-stop shopping," providing a centralized office for programs, so that clients need only visit one location. This typically also involves establishing centralized processing and needs assessment, so that eligibility is simultaneously determined for welfare, education, employment assistance, and other services.

(2-b) Encouraging effective case management, so that services are client-centered, with each person receiving the type of assistance that is most effective in moving him or her toward mainstream employment.

(3) Establish a more coordinated Federal system for responding to States on multi-agency issues and operational concerns, so States would deal with a single "lead" Federal agency.

(4) Developing client participation and feedback mechanisms, such as beneficiaries councils, to empower and involve clients in effective program operation.

Pros:

- o Should significantly decrease administrative costs by reducing the duplication and complexity of program administration.
- o Provides better services to those in need.
- o May reduce welfare costs if integration of welfare services with employment and education services results in more welfare clients becoming self-sufficient.
- o May promote greater communication, cooperation, and coordination among organizations responsible for providing different services to the same population.
- o Some of the poor may be deterred from applying for benefits due to the complexity of the existing system; program

unification and simplification may increase access to benefits and thereby reduce poverty.

Cons:

- Program unification alone will not get at any of the underlying causes of poverty; it simply makes the welfare system run more efficiently.

- May be strongly opposed by those who view this as a serious threat to employment and "turf" among existing program bureaucracies. Congressional committees are also typically extremely protective of "their" programs and opposed to changes that link programs.

- Administering a centralized system with a range of very different programs may be difficult to do well. Simply co-locating programs in one place does not guarantee an increase in useful coordination between programs.

- Where current eligibility requirements are inconsistent, Congress is likely to avoid reducing eligibility or benefits and may select the most expansive definition. This would increase program costs.

- Simplifying and unifying welfare services may increase participation, thereby increasing costs and possibly increasing welfare dependency.

OPTION 4: INCREASING STATE PROGRAM FLEXIBILITY

Create greater State flexibility in the planning and delivery of anti-poverty programs by developing "Anti-poverty Incentive Agreements" with interested States. These agreements could take several forms:

(1) Allow Incentive Agreements that provide States with new Federal funds that could be used in early intervention programs designed to prevent long-term poverty and dependency, such as comprehensive family services, education, training, and employment support. If these programs are effective, both State and Federal governments will reduce their long-term assistance costs. If full cost recovery does not occur through reduced dependency, States would agree to repay at least part of the initial Federal money by financing a higher share of the cost of long-term entitlement programs. Such an agreement would redirect funds over the long term from support programs to early intervention programs that move people toward self-sufficiency, with the upfront financing risk shared jointly between the State and Federal governments.

(2-a) Waive current Federal regulations for a wide range of entitlement programs (e.g., AFDC, Medicaid, Food Stamps) and discretionary programs (e.g., WIC, Child Welfare Services, special education services, LIHEAP) for States that want to try innovative new approaches. The Federal government would require rigorous evaluation of these programs and Federal budget neutrality over the life of the waivers.

(2-b) A more radical form of this proposal would consolidate a selected group of Federal programs into a block grant, allowing State and local governments to design and run their own programs, with the Federal government enforcing performance standards.

(3) Create new Federal grant programs which direct funding to areas of concern. For instance, a new block grant could be established for States to use in programs that invest in target groups, such as poor children. Moneys can be used to either expand and supplement existing programs or to initiate new programs. While some funding may come from diversion of funds away from existing programs, new block grants will probably require some new funding.

Pros:

- Adopts a "bottom up" approach to solving problems, allowing States and localities to use Federal funding to design anti-poverty initiatives based on their specific problems.

- o Supports the Administration's policy on Federalism by encouraging State creativity and program innovation.

- o Gives the Federal government an opportunity to evaluate and learn more about what works and what doesn't in reducing poverty.

- o Could result in improved program coordination and service delivery.

Cons:

- o Multiple committee jurisdictions in Congress over programs makes it difficult to pass legislation that would combine funds from a wide variety of programs either through waivers or new program structures.

- o States may resist consolidated programs, because they do not want to face the political problems involved with making allocation decisions among anti-poverty programs.

- o May face strong political opposition from advocacy groups who fear benefit reductions as States restructure their anti-poverty systems.

- o States have been reluctant to implement rigorous evaluation and experimental design methodologies in the past.

- o Option 2-b could revive erroneous suspicions that block funding is being used as a smokescreen to cut Federal dollars. This would increase opposition to expanded waiver authority.

OPTION 5: IMPROVING JOB OPPORTUNITIES FOR DISADVANTAGED WORKERS

Design the Nation's employment and training programs to focus greater attention on bringing less-skilled and economically disadvantaged workers into mainstream employment. The primary labor market problem of the 1990s is the potential shortage of workers with good work skills and good training. This provides a window of opportunity for government and the private sector to work together in creating new opportunities for unemployed and lower-skill workers, particularly workers currently outside the economic mainstream. This is best done through training efforts that link clear performance and behavioral standards during training with job guarantees in the private sector upon successful course completion. Among the initiatives that would promote these efforts:

(1) Restructure the Employment Service (ES) so that it targets the most disadvantaged workers. ES is a Federally funded program of employment-assistance offices located in every State. In many States, the ES operates primarily as a placement service for the most employable workers. ES could be required to retarget its services to include job and life-skills counseling, assessment, and linkage to training and remedial education programs, as well as linkages to jobs. (This may also allow the ES to encourage disabled workers to enter the labor market with the implementation of the Americans with Disabilities Act.)

(2) Redesign the Targeted Jobs Tax Credit (TJTC) to apply to newly hired workers from targeted disadvantaged populations who have recently completed approved training courses. The current TJTC offers a partial tax credit for wages paid to new workers from disadvantaged groups. This often subsidizes employers who would have hired these workers anyway. Allowing the TJTC only for workers completing approved training courses would assure better targeting.

Pros:

- Promotes public and private sector involvement in the provision of education and training services to low-skill workers, which many believe is the major labor market challenge of the 1990s.

- Encourages structured job training programs, which many believe are the most successful way of reaching disadvantaged workers.

- Targets services and funding more closely on the most disadvantaged population.

- o May reduce unemployment by providing assistance to those experiencing the greatest amount of long-term unemployment.

Cons:

- o Even a reformed TJTC could provide windfall benefits to employers who would have hired workers and participated in on-the-job training programs anyway.

- o May not provide a large enough incentive for firms to participate in training and hiring programs for seriously disadvantaged workers.

- o Evaluations of the TJTC as currently designed indicate that it has not increased employment opportunities for the target population; a redesigned TJTC may not do any better.

- o May be strongly opposed by the existing ES bureaucracy within States.

- o Would require the ES to take on a much more difficult task than the placement efforts they currently run; there will be fewer immediate "successes", and this may weaken political support for ES efforts.

- o Targeting the work of the ES more closely on disadvantaged workers and expanding its mandate may create a demand for increased funds.

- o There are currently no useful performance measures for a reconstructed ES.

OPTION 6: IMPROVING EDUCATION INCENTIVES FOR TEENAGERS

A major correlate of long-term poverty is inadequate education. Young people who drop out of school often face low life-time earnings, have a limited ability to provide for their children, and find involvement in the underground economy an attractive alternative. Even those who finish high school in areas with poor schools often have inadequate basic skills. Along with improved public education, an important thrust of current Administration policy, teenagers must believe that good performance in school will increase their future job opportunities. Initiatives to foster this could include:

(1) Promise scholarships for college or other training upon graduation from high school to all poor students who have met certain academic and behavioral standards. This can be designed as a national form of the Eugene Lang "I Have a Dream" program, including targeted encouragement and services starting in the middle-school years (6th, 7th, and 8th grades), and involving both children and their parents.

(2) Encourage schools and the private sector to strengthen school-to-work programs, apprenticeship, and intern opportunities for low-income students.

Pros:

- Could be targeted on teens in high-poverty areas, a population with high rates of poor school performance, teen pregnancy, unemployment, and other negative outcomes.
- Makes a public guarantee of "educational opportunity" for those who succeed in high school.
- May raise educational skills and high school completion rates, increasing earning opportunities for workers and increasing the availability of good workers to the private sector.
- May save money over time, if long-term dysfunctional behavior is decreased.

Cons:

- Will require up-front budget resources; long-term savings will occur only if programs are successful. (Some of the money could come from existing programs, however, such as Talent Search, Upward Bound, and Pell Grants.)

- May seem inequitable to near-poor families who are ineligible for special educational assistance and other services.

- May provide assistance or services to those whose who would have completed school and gone on to further education even in the absence of these programs.

- Post-secondary education has traditionally been a State responsibility (although the Federal government provides a majority of the funding for scholarships and financial aid to students in higher education.)

OPTION 7: IMPROVING THE NUTRITION OF AMERICA'S CHILDREN

Implement a set of programs that guarantees access to adequate nutrition for all at-risk children in America from the prenatal period through high school. Good nutrition in the prenatal period and throughout childhood provides significantly better school performance and lifetime improvements in health. Nutritional assistance for at-risk populations during pregnancy improves birth outcomes. This would promote one of the objectives developed at the Education Summit, "Children will receive the nutrition and health care needed to arrive at school with healthy minds and bodies, and the number of low birthweight babies will be significantly reduced through enhanced prenatal health systems."

A substantial percentage of at-risk children have improved diets as a result of the current array of Federal nutritional assistance programs. In order to assure nutritional assistance to all at-risk children, however, there are several areas where modifications in programs could be useful:

(1) Better coordination and integration of services to pre-school children across health, nutrition, and education programs. This would include programs such as the Special Supplemental Food Program for Women, Infants, and Children (WIC), the Child Care Food Program, Head Start, the Maternal and Child Health Services Block Grant, and Early Periodic Screening and Diagnostic Treatment.

(2) Not all pregnant women, infants, and pre-school children eligible for WIC services receive them. (WIC supplements the purchase of highly nutritious foods and facilitates access to health and family counseling services for pregnant women and children up to their 5th birthday; research has shown that it has positive nutritional and health effects.) Efforts could be designed to increase WIC availability and participation among all eligible at-risk children.

(3) Modify the Child Care Food Program and other programs to increase the nutritional assistance available to children in informal child care settings. Currently, children in informal child care do not have access to the Child Care Food Program.

(4) School lunch program eligibility could be linked with welfare program eligibility, so that children in families eligible for welfare programs (such as SSI, AFDC, or Food Stamps) are automatically enrolled by the welfare office in their school's free school lunch and breakfast programs. At present, such families have to fill out additional eligibility forms.

(5) The Federal Government could subsidize an enriched school lunch for pregnant teenagers for high schools in areas with high teen pregnancy rates.

Pros:

- Provides a comprehensive framework for meeting the nutritional needs of low-income children, filling the holes in existing programs.
- Can be considered an investment strategy in children, promoting improved health and productivity in their adult years.
- Provides assistance to children, typically a politically popular effort.

Cons:

- These proposals would require funding increases. The expansion of WIC and the Child Care Food Program may be particularly expensive.
- Existing nutrition programs serve a substantial majority of the target population. Those not served, particularly in WIC, tend to be higher income and less at-risk than those who do participate. It is not clear that expansions in these programs would improve nutrition among the neediest.
- Expanding nutrition programs may be considered counterproductive to efforts at empowerment. Empowerment emphasizes expanded choice and responsibility; special nutrition programs provide poor households with a pre-selected set of services.

OPTION 8: STRENGTHENING FAMILIES

Since 1984, the majority of AFDC families on the rolls at any point in time became AFDC eligible as a result of out-of-wedlock birth, rather than because of the dissolution of an intact family. Some 60 percent of all out-of-wedlock births are second or subsequent births to a woman who has already had one child out-of-wedlock. These families face the great obstacles to economic self-sufficiency, and are at high risk of long-term welfare dependence. This option focuses on reducing the risk of pregnancy among high-risk populations, as well as helping those who are already single parents. Among the steps that could be taken:

(1) Require all recipients entering AFDC or Food Stamps as never-married parents to develop an Individual Independence Plan that leads to workforce participation. When appropriate, provide family support services and family counseling.

(2) Establish demonstration programs to assess the effectiveness of different approaches aimed at both young women and men in areas with high teen pregnancy rates. These projects should add to our knowledge base about what works in reducing teenage pregnancy and subsequent AFDC dependency.

(3) Build on the success of drug prevention programs which empower young people to say no to drugs, to also resist peer pressure to engage in premarital sexual activity.

(4) Provide counseling services to help teenage parents (both male and female) develop good parenting skills, and provide child care and educational support services that allow them to finish school and find employment.

(5) Allow States to expand Medicaid eligibility for the family planning services available under current law to women of child-bearing age in families with income below 133 percent of the poverty line.

(6) Channel incremental Title X funds (family planning services funded through the Public Health Service Act, consistent with the Administration's current legislative proposal) to high-poverty, high out-of-wedlock birth areas.

Pros:

- Targets young persons at risk of long-term welfare dependence. Will produce welfare savings if successful.
- Emphasizes personal and family responsibility.

- o Focusses resources on the population that is most at risk of teenage pregnancy.

- o Strengthens the ability of teenage parents to complete their education and become economically self-sufficient.

Cons:

- o Requires additional Federal dollars.

- o Family planning efforts alone target only a small part of the problems faced by those in areas with extensive social problems.

- o May cause political problems among groups that are opposed to birth control, among groups that suspect family planning and counseling may increase abortion, and among those who interpret birth control as promoting promiscuity.

OPTION 9: DESIGNING AN ENTIRELY NEW ANTI-POVERTY SYSTEM

The foregoing options suggest incremental reforms, that leave the underlying structure of the present system of anti-poverty programs largely unchanged. It is possible to think more broadly, however. This option proposes to pursue an effort to entirely restructure the anti-poverty system, so that it more closely achieves the principles presented in the LIOB strategy paper.

The strategy paper prepared for the DPC presented a vision of what a successful anti-poverty system would achieve: few long-term poor, low unemployment, effectively functioning families and communities, adequate care for those who cannot work, etc. The preceding options only provide reforms to the present anti-poverty system, but do not attempt to fundamentally transform the anti-poverty system so that it fully promotes economic self-sufficiency and empowerment. In the short time frame under which this paper has been written, the LIOB has not had the opportunity to think this broadly. At the request of the DPC, it could do so.

Pros:

- o In thinking freely and without constraint, new and creative ideas can sometimes emerge which can be usefully incorporated into more short-term and politically realistic strategies.
- o Having a sense of the "ideal system" can sometimes be useful in deciding where to concentrate reform efforts in the short-run.
- o Articulating a vision of an "ideal system" can provide political momentum for short-term reforms.

Cons:

- o This sort of exercise may be entirely idealistic and produce nothing useful for immediate policy development.
- o May waste political capital explaining and defending an unachievable vision rather than fighting for short-term reforms.
- o May be a less efficient use of the time and resources of skilled people, than directing their efforts to design an immediately usable anti-poverty strategy.

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CLOSE HOLD

A LOW-INCOME OPPORTUNITY STRATEGY

In November, 1989, the Domestic Policy Council (DPC) asked the Low Income Opportunity Board (LIOB) to write a comprehensive, long-term anti-poverty strategy for the Administration that would serve as an "intellectual roadmap" through the universe of anti-poverty options. The LIOB was instructed to avoid programmatic detail, but not bold thinking, in developing a strategy to guide future policy decisions.

This paper presents the first stage of such a strategy. It begins with a description of what an effective anti-poverty policy would achieve, presents the successes and failures of current anti-poverty efforts, provides a set of principles to guide future policy decisions, and presents a set of strategic options. DPC acceptance of the principles and selection from among the options presented here will establish a framework within which the LIOB can proceed to develop and implement the next stage of this strategy: a long-term legislative and administrative agenda.

In preparing this document, ten outside experts were asked to send short statements of their suggested long-term strategies; these comments are briefly summarized in Appendix B. In addition, 16 background papers on major poverty-related issues are included as Appendix C.

I. What would an effective anti-poverty strategy do?

The LIOB believes that the principal goal of an effective anti-poverty system should be to provide economic empowerment for American families -- to enable them to participate fully in the mainstream of the economy. Achieving this goal would not mean that no American would ever be poor, but rather that all those who do experience poverty would have real opportunities to become economically self-sufficient.

For most of the poor, an effective welfare system consistent with this goal would operate not as a safety net, but as a trampoline. It would help the poor achieve the dignity and self-respect that flow from economic self-sufficiency, and it would function as a long-term safety net only for those unable to achieve self-sufficiency.

It is useful to think about the societal outcomes that would be produced by an effective anti-poverty system -- a system that must be seen as much more than traditional welfare programs:

- Low unemployment; few working poor. Those who are willing and able to work can find employment on terms that do not leave their families poor.

- o Few disadvantaged children. All children receive good health care, attend well-functioning schools, and have a sense of being part of and responsible to the larger society.

- o Communities work. Cities and neighborhoods are healthy, both economically and socially. Local institutions -- including schools, public service providers, and the health care and criminal justice systems -- operate effectively.

- o Families function effectively. Family members recognize and carry out their responsibilities to provide economic and personal support to each other; children receive support from both parents, even if those parents live apart.

- o Little welfare dependence. Public assistance mainly provides short-term aid to those who are poor and focuses on giving people the tools to escape poverty.

- o Adequate care of the needy who cannot work. Individuals unable to achieve economic self-sufficiency, such as the elderly or the permanently and severely disabled, have the resources to live adequately.

- o Private sector efforts complement government efforts to reduce dependency and promote self-sufficiency. Many profit and nonprofit organizations, as well as individual citizens, work to help disadvantaged Americans.

II. Where are we now?

Our present anti-poverty system often does not function effectively -- certainly not effectively enough to produce the outcomes described above.

A. The current face of poverty

Table 1 provides a picture of who is currently poor, indicating how both the composition and incidence of poverty is distributed across particular demographic groups. Several points regarding the poor deserve particular emphasis:

- o Poverty among children was sharply higher in the 1980s than in the previous decade. In 1988, almost one child in five lived in a poor family. These figures are much higher than in most other developed nations. This problem is closely related to the growth in families headed by women, who are less likely to work, often have only low-wage jobs available

TABLE 1: WHO ARE THE POOR?

A. Composition of Poverty for Specified Demographic Groups

	Percentage Distribution			
	1959	1969	1979	1988
Total	100.0	100.0	100.0	100.0
Age				
Elderly (65 & over)	13.9	19.8	14.1	10.9
Adult (18 to 64)	41.7	40.0	46.1	49.6
Children (under 18)	44.4	40.1	39.8	39.5
Household status				
Female-headed family	17.8	28.5	36.6	38.7
All other families	69.8	50.9	41.1	38.6
Unrelated persons	12.5	20.6	22.3	22.6
Race/ethnicity				
White	72.1	69.0	66.0	65.1
Black	25.1	29.4	30.9	29.6
Hispanic	--	--	11.2	16.9

(Note: Persons of Hispanic origin may be of any race.)

B. Incidence of Poverty for Specified Demographic Groups

	Poverty Rate (percent)			
	1959	1969	1979	1988
Total	22.4	12.1	11.7	13.1
Age				
Elderly (65 & over)	35.2	25.3	15.2	12.0
Adult (18 to 64)	17.0	8.7	8.9	10.5
Children (under 18)	27.3	14.0	16.4	19.7
Household status				
Female-headed family	49.4	38.2	34.9	37.4
All other families	18.2	7.4	6.3	7.3
Unrelated persons	46.1	34.0	21.9	20.6
Race/ethnicity				
White	18.1	9.5	9.0	10.1
Black	55.1	32.2	31.0	31.6
Hispanic	--	--	21.8	26.8

(Note: Persons of Hispanic origin may be of any race.)

to them, and cannot rely on a spouse for additional earnings. More than half of all poor children live in such families. In addition, only 44 percent of poor female-headed families receive any child-support payments from absent fathers. There is a large social and economic cost to allowing so many children to grow up in economic need, including lost productivity and employment, higher crime, and higher future government expenditures on health care and public assistance.

- o Homelessness has grown in the last decade, striking both single individuals and families. In addition, housing affordability and housing quality are growing problems for many of the poor who are not homeless.

- o Poverty among the elderly has fallen to all-time lows. Elderly persons are now less likely to be poor than the average individual. The expansion of private pensions, Social Security, and SSI has helped many older persons escape extreme economic need. Long-term health care remains a widespread concern, however.

- o A significant portion of the poor actually work full-time but remain poor. Sixteen percent of all poor families have at least one full-time, year-round worker. As the demand for less-skilled labor continues to fall, low-skilled workers may face declining wages and fewer jobs.

- o Long-term poverty and long-term dependence on government assistance continue. Although most spells of poverty and welfare use are short-term, long-term poverty is especially prevalent in urban and rural areas isolated from the economic and social mainstream. Poor people who live in these areas often suffer from the breakdown of the entire range of social institutions, from the family, to the schools, to the overcrowded criminal justice system. As a result, these individuals face multiple barriers to economic self-sufficiency and participation in mainstream society.

B. Problems with current anti-poverty efforts

- o Traditional anti-poverty programs have not performed effectively. The focus of most existing programs has been to provide income supplements, either in cash or in-kind, not to foster economic self-sufficiency. In addition, some believe that AFDC has created incentives for parents to live apart, rather than strengthening family life.

- o The nation's schools are not providing an adequate education. U.S. students rank below students from comparable countries in educational achievement. Fifteen percent of today's youth do not complete high school and

even among those who do, basic skills are often poor. An estimated 20 million adult Americans are functionally illiterate. These educational problems are particularly acute in areas of concentrated poverty.

- o Non-working individuals often face disincentives to work. Disincentives are created by the structure of welfare programs, declining wages for low-skilled labor, and growth in the underground economy. Work incentives may improve because of recent expansions in Medicaid to cover pre-school children in low-income families, as well as expected expansions in child care assistance, the minimum wage, and the Earned Income Tax Credit.

- o The system of anti-poverty programs is fragmented and often inefficient. Eligibility rules are not standardized and different programs are poorly coordinated with each other. This inflates administrative costs, creates inequities, and reduces program accessibility.

C. Poverty in the midst of a growing economy

- o Economic growth has had a smaller effect on poverty in the 1980s than in past decades. Despite eight years of sustained economic growth, poverty rates have not fallen as rapidly as historical experience would have predicted. This is partially because the demand for less-skilled workers has not grown as rapidly as the overall economy. It is also due to the changing composition of the poor, especially the growth in female-headed households.

- o Slower labor force growth in the 1990s means that the main challenge will not be to create jobs, but to assure that workers have the skills to fill the jobs available. As the baby boom ages and as the rate of labor force entry among women slows down, the U.S. will face potential shortages of workers, particularly skilled workers. Disadvantaged children and adults should have access to training and education opportunities that will allow them to take advantage of this strong labor market. The growing need for workers has also created strong private sector interest in bringing disadvantaged workers into the economic mainstream.

III. How do we get there from here?

The LIOB proposes the following strategic principles to guide the Administration in developing its legislative and administrative agenda and in evaluating economic empowerment policies.

1. The government must maintain a healthy, growing economy.

Economic growth has done more to reduce poverty and economic need over the past century than any specifically designed anti-poverty policy. Employment and wages will grow in an environment where inflation is low, and in which high levels of saving, investment, and innovation spur productivity growth. Effective government policy should foster economic health in all regions of the country; special assistance for business formation and employment growth may be necessary in concentrated areas of poverty. Economic growth raises the demand for skilled labor, which creates incentives to invest in America's workforce.

2. Employment should be the central operational objective of an economic empowerment strategy. Employment is the best way to reduce poverty and welfare dependence among families with an able-bodied, non-elderly adult. Getting a job -- even a low-skilled job -- provides work experience, encourages good work habits, and may lead to a better job in the future.

Now is the time for the public and private sectors to work together to bring disadvantaged Americans into the economic mainstream. As slower labor force growth in the 1990s raises the potential for labor shortages, opportunities for those outside mainstream employment should increase.

Because of the decline in the demand for low-skill labor and the decline in wages for these jobs, an employment strategy will either have to raise skills or provide earnings supplements to family heads whose skills do not allow them to earn enough to escape poverty. Welfare programs must ensure that adult recipients have the incentives and opportunities to prepare themselves for meaningful employment. Institutions that remove individuals from the mainstream of society (such as prisons, mental health institutions, foster care, or drug rehabilitation programs) should actively prepare individuals for participation in the economic and social mainstream.

In the long run, the key to taking advantage of these labor market trends is to ensure that America's youth is educated and prepared to work. The education system must provide all children the basic skills and good work habits that will help them become self-sufficient adults.

3. Anti-poverty policies should target three groups: 1) poor children; 2) the working poor; and 3) the long-term poor who face multiple barriers to economic self-sufficiency and participation in mainstream society.

Poverty among children is at unacceptably high levels today; this will produce high social and economic costs in the future. Greater investment in children today can decrease these costs and contribute to economic growth. Policies targeted on child poverty could include greater investment in education, expanded child health programs, and initiatives that raise the skills and earnings of parents.

An economic empowerment strategy requires assisting those who are not working to move toward employment. It also implies that individuals who work full-time, year-round should be able to support their families. Work incentives are enhanced if work is an effective cure for poverty. Policies targeted on the working poor could include expanded opportunities for employment and training, reduced taxes for low-income workers, and incentives for employers to hire disadvantaged workers.

Those who live in deteriorating neighborhoods with concentrated poverty, drug-abuse, crime, poor education and transportation systems, and other problems, often end up isolated -- both economically and socially -- from the American mainstream. While most studies indicate only about 10 percent of the poor live in areas with concentrated social problems, individuals in these areas are particularly likely to be poor for long periods and to become dependent on the welfare system. Policies aimed at economic empowerment of these individuals would require coordinated efforts across multiple agencies and levels of government in order to address the many problems they face.

4. <u>The design, implementation, and evaluation of the entire range of programs and policies that affect low-income Americans should be coordinated, so that the accessibility and effectiveness of the overall system is enhanced</u>. Social programs, including anti-poverty programs, should be administered in an efficient and cost-effective manner.

It is important to consider the anti-poverty impact of the entire range of Federal, State, and local programs. Coordination across Departments and levels of government is essential, so that schools, public assistance programs, the criminal justice system, drug abuse programs, the health care system, housing programs, and economic development policies all work together. Since most of these programs are at least partially funded by the Federal government, but are run by State and local officials, program coordination requires effective program design and administrative leadership from Federal, state, and local officials. Thus, <u>a national low-income opportunity strategy is required</u>, one that pays close attention to how programs work together.

The problem of long-term poverty illustrates the importance of making the entire system of public programs work together. The severe problems that plague high-poverty inner-city neighborhoods cannot be solved by any single program. Rather, the programs that serve low-income Americans must be viewed as a package of opportunities; reforms should focus on restructuring this package and delivering it in an effective manner. Simplification and targeting remain key objectives for the package as a whole, as well as for individual programs.

5. Anti-poverty programs should enforce the mutual obligations and responsibilities of individuals and public institutions.

Governments are responsible for running schools that work, maintaining a healthy economy, preventing crime, and assisting those who find themselves in need. Similarly, an individual should be expected to take advantage of available opportunities for education and employment, to obey the law, and to support and nurture his or her children so that they too can become responsible citizens.

An effective anti-poverty system must publicly acknowledge and enforce these obligations, and it must hold accountable both institutions and individuals that do not fulfill them. This implies, for instance, challenging young urban men who have dropped out to return to the labor market and stiffening the consequences faced by men who provide no support to the children they father. It is more difficult to levy penalties on government-run institutions that do not function effectively, since this often ends up hurting clients. However, individuals who work for these institutions should be evaluated in terms of the quality of services they deliver and the performance of the programs they administer.

6. Social programs and institutions should empower individuals and communities. Public programs should seek to give individuals greater control over their lives, enhancing personal autonomy and dignity.

An ineffective, paternalistic system cannot produce self-sufficient adults. Institutions and programs should be redesigned to empower individuals, both by fostering participation and responsibility and by developing the skills necessary for effective decision-making. Parents should be encouraged to be active in their children's development, community members to participate in crime enforcement activities, and public housing residents to be active in managing their units. A strong emphasis on choice and responsibility can foster the attitudes and values that are central to economic self-sufficiency.

7. Financing and decision-making need to be appropriately shared between local, State and Federal entities.

Decisions that are more effectively and appropriately made by local and state communities should not be usurped by the Federal government. The economic and social structure of communities varies widely, and anti-poverty programs should be tailored to these differences. For instance, rural areas have very different problems and needs than urban areas; the structure of job training, education, and service delivery systems should vary across these areas. (Allowing greater local and state discretion may conflict with the goal of giving greater discretion and empowerment to individuals, although the two are not necessarily mutually exclusive.) On the other hand, there are roles for which the Federal government is uniquely qualified. The Federal government must hold state and local institutions accountable for effective delivery of services and programs, particularly those supported by Federal funds. The Federal government can also be important in assuring program coordination and effective evaluation. Those aspects of programs which are most effective when designed and administered in a centralized manner should be run by the Federal government.

8. The private sector is an essential partner with government in economic empowerment efforts.

Businesses, non-profit organizations, and other private sector groups can be effectively involved in assisting the poor toward self-sufficiency. Because of a shrinking pool of entry-level workers, employers will have incentives to invest more in training low-skilled workers. Charitable organizations already provide considerable help to disadvantaged groups, such as the homeless, and often deliver services more effectively than government bureaucracies. These efforts need to be encouraged and the partnership between the public and private sectors strengthened, with each sector doing what it does best.

9. The public system of anti-poverty programs should encourage innovation and experimentation, particularly among state and local governments that want to design programs to fit their populations.

Our knowledge of what works has been greatly enhanced by the implementation and evaluation of a wide variety of experimental programs. There are still many areas of important social policy where we do not know as much as we should about what constitutes effective policy. In these areas, state and local experimentation can build a base of

needed information. This implies expanding the flexibility (through broadened waiver authority) for states and localities to test new ideas about anti-poverty programs. The Federal government has a role in encouraging such experimentation, assuring effective evaluation, and providing centralized dissemination of the knowledge gained. However, it may be difficult to encourage experimentation without allowing greater flexibility in Federal funding arrangements.

IV. Where do we go from here?

Appendix A summarizes the initiatives this Administration has already adopted or proposed that will strengthen the Nation's economic empowerment efforts. These initiatives fulfill many of the promises made by the President during the campaign. This is an impressive list, ranging from school reform to assistance for the homeless. A number of these initiatives have already been enacted; as these are implemented, they should yield substantial benefits.

While currently proposed or enacted initiatives provide useful changes to the existing system of low-income opportunity programs, however, they largely reflect an uncoordinated approach to the problem of poverty, with specific proposals tailored to address specific concerns. There has not been an attempt to set an overall anti-poverty agenda, one that deals comprehensively with the entire range of issues and institutions. This is in contrast to the efforts of this Administration in areas such as drug enforcement, where a National Drug Control Strategy has been developed to encompass the full range of programs and issues relating to education, treatment, interdiction, and law enforcement. Another coordinated effort is occurring in education reform, where strong national goals have been established.

The LIOB believes that <u>it is now time to do the next stage of thinking regarding the low-income opportunity/economic empowerment agenda of the Administration</u>. The principles presented above can provide a framework for that thinking, but adoption of these principles will not, by itself, contribute directly to the development of an effective low-income opportunity policy. Development of a coordinated economic empowerment agenda would require the DPC to choose among the strategic options presented below.

V. Strategic Options

The DPC directive to the LIOB was not to recommend specific programmatic changes, but to develop an overall strategic approach. Two issues need to be resolved before the Administration can move from the principles outlined in this document to the development of a long-term low income opportunity agenda.

ISSUE I: How should any future anti-poverty efforts be targeted? This strategy paper suggests three high-priority groups: poor children, the working poor, and the long-term poor. (Note that targeting per se does not imply additional resources. Depending on the DPC's instructions, a targeted strategy could be made budget neutral by redirecting resources from lower-priority programs. Note also that principle 3, above, may need to be recast, depending on the resolution of this issue.)

Option 1. Should the Administration select target groups for its anti-poverty efforts?

Pros:

- Establishing target groups is a way of assuring that marginal dollars are spent in the most effective manner.
- These three groups are frequently mentioned as the groups deserving special policy attention.

Cons:

- Targeting creates political problems, particularly among groups that may not be included. Specifically not included in the recommended target groups are the elderly or the disabled.
- It may difficult to get targeted efforts enacted; pressures always arise to expand programs to cover more (and potentially less needy) groups.
- Targeting may lead to a focus on only particular issues, and prevent comprehensive reform of the anti-poverty system.

If Option 1 is answered with a "yes," it is necessary to define which group will receive the highest priority.

In addition to selecting the highest-priority group, the DPC may wish to consider whether the two groups not selected should

comprise a second-priority tier or should be assigned the same priority as all other poor -- including the elderly.

Option 2a. Select poor children as the major target group of the Administration's anti-poverty efforts over the near future. Give priority for incremental funding to efforts aimed at poor children and their families. Possible initiatives could include: 1) further educational reform in low-income areas; 2) providing health insurance to more children; 3) further strengthening child support collections; and 4) improving parents' employment and earning opportunities.

Pros:

- Decreasing poverty among children can be viewed as an investment strategy and is consistent with the President's emphasis on the need to increase investment in America's future. In this sense, targeting children may be viewed as helping everyone in the long run. For instance, if today's children do not become productive workers, the financial viability of the Social Security system may be at risk.

- The concern of this Administration for children and families fits well with this priority grouping.

- Children are part of working poor and long-term poor families, so that focusing on children will also contribute to alleviating the worst poverty problems among all three high-priority groups.

Cons:

- Focusing primarily on children may give the impression that the Administration is ignoring the problems of other low-income groups.

- Attention must be given to the effects of such programs on the entire household, to assure that programs for children do not have undesirable effects (such as work disincentives) for the parents.

Option 2b. Select working poor as the major target group of the Administration's anti-poverty efforts over the near future. Give priority for incremental funding to efforts aimed at working poor individuals and families. Possible initiatives could include: 1) earnings subsidies to low-wage workers; 2) tax reductions for low-wage workers; 3) health insurance for the uninsured; and 4) expanded employment and training opportunities.

Pros:

- o Improving the reward to work strengthens work incentives generally.
- o Helping the working poor attain economic self-sufficiency sends positive signals to others who are poor, showing that those who "play by the rules" can escape poverty.
- o Helping the working poor may not be a very costly strategy, since many already have earnings that bring them close to the poverty line.

Cons:

- o Focusing on the working poor may mean less funding is available to other low-income groups, groups which are likely to be even poorer.
- o Policies aimed at the working poor often benefit those who are not poor as well.
- o Many policies that increase the reward for work have "notch effects" at the point where the reward ends; this may decrease the incentives to earn above this level.

Option 2c. Select the long-term poor as the major target group of the Administration's anti-poverty efforts over the near future. Give priority for incremental funding to efforts aimed at long-term poor individuals and families. Initiatives for the long-term poor would require targeting money and programs to areas of concentrated poverty and increased inter-Departmental and inter-governmental coordination. Initiatives might include such things as: 1) changing the structure of service delivery; 2) assisting economic development; and 3) implementing major reforms in the schools to increase skills and graduation rates.

Pros:

- o Americans see inner cities, in particular, as symbolic of the poverty problem; thus, targeting individuals in high-poverty areas could be viewed as tackling the heart of the issue.
- o Fits well with existing Administration initiatives aimed at high poverty areas (e.g., anti-drug programs and enterprise zones.)
- o In a time of limited budget resources, anti-poverty dollars may help more people if spent in areas with large poverty populations.

Cons:

- o Some may perceive the long-term poor as too narrow a focus, since it would target only a relatively small percentage of the poor.

- o Since targeting the long-term poor probably means targeting geographic areas of concentrated poverty, this may create administrative problems for State, county, and local service agencies. In addition, equity issues could arise by drawing lines around a specific area and providing differential services to people within the boundaries.

- o Targeting the long-term poor, particularly without much additional funding, can be risky because the problems are so serious. There are few who are confident that we have effective strategies to deal with this group.

ISSUE II: What should be the profile of anti-poverty efforts within the Administration? This is an important decision at this stage of the process because it will shape the discussion of recommended programmatic reforms. A higher profile strategy may lead to greater resource commitments and greater political risk, but it may also produce a broader and more effective effort that promises greater increases in economic empowerment.

Option 1: Pursue a public, high-profile strategy. Make the alleviation of poverty and the problems associated with poverty a public theme of the Administration; publicly articulate the strategy outlined in this paper. The Administration would publicly define its approach to alleviating poverty through economic empowerment. Among the possible ways to do this are the following:

- o The President could make a major speech presenting the vision and principles in this document and indicate what steps have been and are being taken to develop and advance this agenda.

- o A major national gathering or a series of regional gatherings could be held, bringing together State, local and Federal officials, as well as representatives from the private and nonprofit sectors, to develop a coordinated national economic empowerment strategy. Such a gathering could be used to generate new programmatic ideas to support this strategy and could set in motion steps to increase coordination between agencies and programs.

- The chairperson of the LIOB could be given primary responsibility for the coordination of Federal efforts to limit poverty. This could include responsibility for developing a national anti-poverty strategy; enhancing coordination in the arrray of public assistance programs; encouraging private sector efforts; developing an evaluation strategy to measure the performance of the entire welfare system; and developing a research agenda for future demonstration projects and evaluation research.

The LIOB could operate as a central coordinating group for this effort and be directed to develop, for the DPC's approval, specific program and policy initiatives that are consistent with the principles in this document. Under these circumstances it would be crucial that a strong LIOB chairperson be appointed and that resources for staff assistance be provided. (The LIOB is currently operating without a chair; its one staff person could not handle all the staff work associated with the expanded LIOB role proposed in this option.)

Pros:

- By forcefully articulating an anti-poverty agenda, the Administration can seize the initiative on this issue. Such leadership may provide the opportunity to develop and pursue major reforms, rather than pursuing a series of uncoordinated, incremental changes in existing policies.

- Because business is increasingly concerned with potential shortages of skilled labor, Administration leadership in this area could open up new opportunities for private sector efforts in training, education, and job support.

- Builds on the emphasis the President has placed on family and children's issues.

- A major Administration anti-poverty emphasis is consistent with its other efforts to increase investment in America's future. Problems such as welfare dependence, school dropouts, teenage pregnancy, unemployment, and substance abuse may grow if not addressed now.

- Having a clearly defined rationale for a particular anti-poverty agenda makes it easier to oppose proposals the Administration thinks are misdirected.

Cons:

- Because of past suspicions regarding executive branch efforts at anti-poverty reform, Administration statements that articulate an anti-poverty strategy may be viewed as

purely rhetorical and may not be given serious public attention.

- o Adopting a major public commitment to economic empowerment will create significant pressure to announce new initiatives and to increase spending. Anti-poverty initiatives are often judged by the amount of additional spending proposed; the Administration will be subject to criticism if it does not propose to expand spending significantly.

- o The Administration can only pursue a limited number of major public agendas at once, without stretching itself too thin and losing credibility.

- o Providing leadership and staff support for the LIOB to develop new initiatives will require some increase in current resources.

Option 2: Establish and pursue a strong anti-poverty agenda within the Administration through internal negotiation and decision-making, without major public emphasis. Distribute this strategy paper (after revision to reflect DPC decisions) widely throughout the Cabinet agencies and OMB, and direct them to give priority to policy decisions that are consistent with its principles. As in Option 1, the role of the LIOB would be critical in this case, as the internal coordinating agency for anti-poverty efforts. This would require that the Administration appoint a strong chair for the LIOB and provide funding for staff support. Direct the LIOB, with the assistance and involvement of its member agencies, to develop for the DPC's approval specific program and policy initiatives that are consistent with the principles in this document.

Pros:

- o Avoids raising unrealistic expectations and avoids public attention while policies are being developed.

- o This process would provide the Administration with a set of specific recommendations with which it could pursue its anti-poverty agenda in the years ahead.

- o The LIOB is an established group that has functioned effectively in the past in an internal coordinating role. It can be a strong central group to spearhead Administration economic empowerment efforts.

Cons:

- Commissioning the LIOB to return with specific program recommendations may create pressures for additional spending.

- Pursuing a low-key internal economic empowerment strategy probably implies that no major changes in anti-poverty efforts will occur. This approach essentially involves a commitment to smaller-scale, incremental changes.

- Providing leadership and staff support for the LIOB to develop new initiatives will require some increase in current resources.

Option 3: Develop no further initiatives; pursue the existing agenda. Continue to pursue Administration initiatives that have been proposed (see Appendix A), but do nothing further to define or pursue a comprehensive long-term economic empowerment strategy. Additional future anti-poverty initiatives would arise out of agency deliberations or existing efforts on education, drug-abuse, and other areas and would be evaluated in light of the principles set forth above. Under these circumstances, the LIOB should probably remain without ongoing responsibilities (other than processing waiver requests), though other tasks might be assigned to it when specific issues arise.

Pros:

- The Administration may have already taken on as large an issues agenda as it can reasonably cope with in the near future. This option minimizes commitments of energy and resources to this area.

- Avoids potential political risks associated with high-profile strategies.

- Deciding that the agenda is too full right now does not mean the Administration cannot revisit these decisions at a later date.

Cons:

- Would not achieve any of the advantages listed under Options 1 or 2 above. Makes it very unlikely that significant moves toward economic empowerment and expanded low-income opportunity will occur for some years.

APPENDIX A:
CURRENT ADMINISTRATION LOW INCOME OPPORTUNITY EFFORTS

The Administration has already adopted, proposed, or seen enacted into law a variety of initiatives. These include:

Targeting Programs for Children

- Extension of Medicaid coverage to all children under six and pregnant women with incomes below 133 percent of the poverty thresholds; States are allowed to serve all poor children under eight years old and all infants from families with incomes up to 185 percent of the poverty line.

- Additional funding for WIC, enabling an increase of 300,000 in the number of individuals to be assisted by the program.

- Additional funding for Head Start of $151 million. A $500 million increase proposed for 1991, enabling the program to serve up to 180,000 additional four-year-olds.

- Joint work between the President and the Nation's Governors to establish national goals for the education system. Proposed initiatives include providing seed money to encourage States to experiment with innovative choice-based programs, recognizing excellence in schools and teaching, and targeting Federal education dollars to those most in need.

- A proposal to create a new and refundable income tax credit, the Child Credit, for families with an employed parent or parents of young children.

- A proposal to make the Dependent Care Tax Credit refundable.

Encouraging Economic Self-Sufficiency

- Implementation of the Job Opportunities and Basic Skills Training (JOBS) program of the Family Support Act, which established a major new work, training, and education program for those on welfare.

- Implementation of the Department of Labor's Youth Opportunities Unlimited (YOU) program of the Family Support Act, which provides a major new work, training, and education program for those on welfare.

- An increase in the minimum wage to $4.25 an hour by 1991, with a lower training wage for newly-employed teenagers.

- A proposal to reorganize the Job Training Partnership Act to target resources on the most economically disadvantaged.

- Support for the Americans with Disabilities Act, which is designed to lower barriers to employment, public services,

and public facilities for the disabled.

- A major new program, Homeownership and Opportunity for People Everywhere (HOPE) to expand housing opportunities to the poor. This proposed legislation includes tax incentives to encourage greater construction and rehabilitation of low-income housing and to encourage savings for downpayments and opportunities for residents of Federally subsidized housing projects to have more voice over their housing through tenant management and potential tenant-purchase plans.

- Important Medicaid expansions for the poor elderly include: protecting spouses from impoverishment when the other spouse enters a nursing home and seeks Medicaid coverage, and requiring State Medicaid programs to pay the Medicare premiums, deductibles, and coinsurance for all Medicare enrolles with limited assets and incomes below poverty.

Developing Opportunities for Economic/Community Development

- A proposal to create 50 enterprise zones, providing tax incentives for job creation and entrepreneurship.

- A proposal to create 50 Housing Opportunity Zones to establish Federal-local partnerships in metropolitan jurisdictions to remove barriers to affordable housing.

- A proposal to target Community Development Block Grant funds to those most in need.

Maintaining Effective Support for Those Most in Need

- Full funding proposed for the Stewart B. McKinney Homeless Assistance Act, and an additional $166 million aimed at the homeless in non-McKinney programs.

Expanding Knowledge and Evaluation

- Reestablishment of the Low Income Opportunity Board.

- A plan to evaluate the implementation of the Job Opportunities and Basic Skills Training (JOBS) program.

- Proposed reevaluation of the methodology used to measure poverty.

- A proposal to expand Food Stamp waiver authority to provide States greater flexibility for welfare reform experiments.

Simplifying the Welfare System

- An planned interagency review to propose ways to streamline eligibility policies and procedures across the welfare system.

APPENDIX B:
SUMMARY OF PAPERS SUBMITTED BY OUTSIDE EXPERTS

Stuart Butler

Butler recommends focusing on three target groups: the underclass, working poor, and poor children. He notes several problems related to the persistence of poverty: the welfare system contains disincentives for self-sufficiency; the breakdown in families; the centralization of the welfare system, which has discouraged innovation and flexibility; and the inefficient way in which Federal funds are distributed to aid State and local governments. He proposes four basic steps. First, changing the tax code to assure that work is more advantageous than welfare, potentially including expansions in the EITC and the personal exemption, and the creation of refundable tax credits for medical insurance. Second, restructuring Federal aid to States for anti-poverty programs so that all such programs involve a State match, one which is based on the fiscal capacity of the State. Third, decentralizing the welfare system to give States more flexibility to develop radical alternatives to the existing system. Finally, developing an empowerment strategy for the inner city, which would include housing vouchers, educational choice, contracting with community-based organizations for basic services, and establishing enterprise zones.

David Ellwood

Ellwood believes that progress against poverty can be achieved only by returning to "the principles of work and family and independence and viewing the origins of poverty and policies to alleviate them in light of them." He notes that over five million people live in poor families despite having a full-year, full-time worker. He believes that people who work shouldn't be poor and proposes a combination of wage and tax policies to raise family incomes above poverty, along with an expansion in medical coverage for low-income families. Specifically, he recommends a further increase in the minimum wage, an expansion of the EITC, more support for day care, and some form of guaranteed medical care. For single mother families, he proposes to reform child support by: requiring that both parents' Social Security numbers are identified at birth; basing child support payments on a simple formula; automatically withholding such payments from wages; and guaranteeing a minimum child support benefit, where the government would make up any difference between the absent parent's feasible payment and the minimum benefit.

Irwin Garfinkel

Garfinkel believes that the fundamental problem with U.S. anti-poverty policies is that they rely too much on welfare. He

targets single mother families for "nonwelfare" alternatives. The fundamental feature of his plan is a new child support assurance system (CSAS), which has three components: 1) a legislated standard based on the absent parent's income and number of children; 2) automatic wage withholding; and 3) an assured child support benefit under which the child would receive a guaranteed minimum benefit, with the government making up any difference between the absent parent's payment and the legislated minimum. He also favors converting exemptions in the income tax exemptions for children into refundable credits, to better target the benefits to the poor. Eventually, Garfinkel envisions doing the same with adult exemptions, and increasing their size by eliminating the Food Stamp program. He also supports universal national health insurance. Finally, he recommends replacing the current AFDC program with a system of work relief, where the amount of time able-bodied welfare recipients could receive benefits would be limited. For those unable to secure jobs (including all parents of poor children, not just mothers), he would have a public sector jobs program.

Edward Gramlich

Gramlich identifies the working poor and single mother families as the key target groups for an anti-poverty agenda. He proposes an expansion in the EITC for the working poor and a national minimum welfare benefit level (where AFDC plus Food Stamps would be at least 60 percent of the poverty line). To give low benefit States incentives and assistance to raise benefit levels, he suggests a revision in the current Federal-State matching process, where the Federal government would pay the entire combined (AFDC and Food Stamp) benefit up to 60 percent of the poverty line, 75 percent of the combined benefit up to 80 percent of poverty, 80 percent of the combined benefit up to the poverty line itself, and nothing thereafter. He also favors strengthening the child support enforcement system by: requiring States to establish paternity in all cases; nationalizing the withholding system; basing support orders on a simple percentage system; and not counting support payments as income for welfare purposes. Gramlich points out that something needs to be done about ensuring health insurance for the poor, but does not offer a specific reform proposal. Finally, he supports expanding the AFDC-UP program so that it covers more two-parent families.

Jack Meyer

Meyer advocates expanding human capital programs for the poor and giving them greater incentives to help people help themselves. He argues that government should increase funding for programs that work, noting that programs like Head Start, WIC, and the Job Corps fall in this category. He also believes that the welfare system should be reoriented by increasing basic benefits (including universal health insurance), but also by limiting the

duration such benefits can be received, as long as training, education, and support services are provided to ease the transition from welfare to work. For those who work, he proposes an expansion in the EITC, so that its benefits would be adjusted for family size. He emphasizes the need to reorient child welfare policies toward early intervention, especially for foster care. He also calls for more risk taking on the government's part, so that it can invest in ideas like youth entrepreneurship. Finally, Meyer contends that empowerment should be an important policy, where community leaders and the poor themselves have more control over decisions in the public assistance system.

Charles Murray

Murray targets the underclass, but provides few options. He emphasizes the empowerment theme, promoting choice in education. In addition, he calls for changes in housing markets, such as banning rent control for new housing.

Richard Nathan

Nathan calls for an incremental approach, aimed primarily at the underclass and poor children. He emphasizes the importance of implementing the new JOBS program, noting that it could bring together family, education, and jobs services in the inner city. He also urges other institutional strategies, such as "putting social workers in schools as a way to identify family problems and serve as a clearing house for solutions." He also proposes a targeted children's initiative, that would provide grants to States that target money to distressed areas with innovative new approaches.

June O'Neill

O'Neill notes that the incomes of the poor can be increased in three ways: 1) economic growth; 2) improvement in skills; and 3) income transfers. She believes there is little the government can do to generate productivity increases, though it should refrain from undertaking counterproductive actions which can harm the economy. Similarly, she believes most government job training programs (with the possible exception of Job Corps) have been ineffective. Although noting that transfer programs have provided important relief for some in need, she notes that they may have negative, unintended, side-effects. O'Neill believes that the government may make a difference in two areas: education and changing the philosophy of welfare. In the area of education, she sees the principal Federal role as one of encouraging innovation by sponsoring experiments and providing leadership. In terms of changing the philosophy surrounding welfare, she advocates limiting the duration of assistance and strengthening requirements to participate in job search or some

other training or education program.

Isabel Sawhill

Sawhill offers a broad range of proposals aimed at the working poor, poor children, and the underclass. She believes that work effort should be rewarded, and recommends expanding the EITC and subsidies for child care and health insurance. She also believes children should be given more opportunities early in life through early prenatal care, preventive health care, enriched preschool programs, and developmental day care. She also suggests strengthening the child support system by making greater efforts to establish paternity and establishing a universal child support tax to be levied on the income of every absent parent. For single mothers, the government should invest more in education and training programs. Sawhill also believes that the current welfare system should be simplified by consolidating and cashing out many of the existing programs. She also favors income-relating social insurance programs, such as Social Security, by including the benefits in taxable income. Finally, she advocates giving greater incentives for local governments to restructure assistance systems, as long as such experiments are evaluated and the results and disseminated.