Fighting Poverty
Lessons from Recent U.S. History

Rebecca M. Blank

The 1990's saw the expansion of the economy, major welfare reform and substantial changes in other policies designed to assist low-income families. During this time, the behavior of low-income families also changed, with plummeting use of public assistance and substantial increases in labor market involvement. This article starts by documenting the magnitude and speed of these behavioral changes during the 1990's and then investigates the role of both the macroeconomy and policy in producing these outcomes. It ends by discussing how these changes may or may not translate into improvements in long-term family well-being.

This article will address the following questions:

1. Was the 1990's war on poverty successful?
2. What lessons from the 1990's can we draw for anti-poverty policy?
3. Did we declare success too quickly?

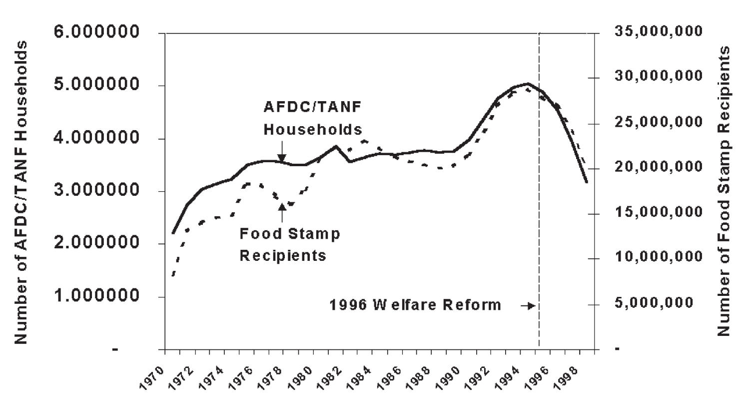
Was the 1990's War on Poverty Successful?

The success of the war on poverty can be measured in many different ways, including the change in the number of households receiving public assistance, the change in the number of people participating in the labor market or school and the change in the overall poverty rate.

The success of the war on poverty can be measured in many different ways, including the change in the number of households receiving public assistance, the change in the number of people participating in the labor market or school and the change in the overall poverty rate.

Figure 1 shows the number of households receiving cash support and the number of food stamp recipients from 1970 to 1999. The number of households receiving cash public assistance decreased steadily from 5 million in January 1994 to 2.5 million in June 1999. The number of food stamp recipients followed the same trend. These declines occurred even though the population that is most likely to

Figure 1. Total AFDC/TANF & Food Stamp Caseloads



Source: Agency for Children and Families, Department of Health and Human Services (www.acf.dhhs.gov/news/stats/3697.htm); Department of Agriculture (www.fns.usda.gov/fns)

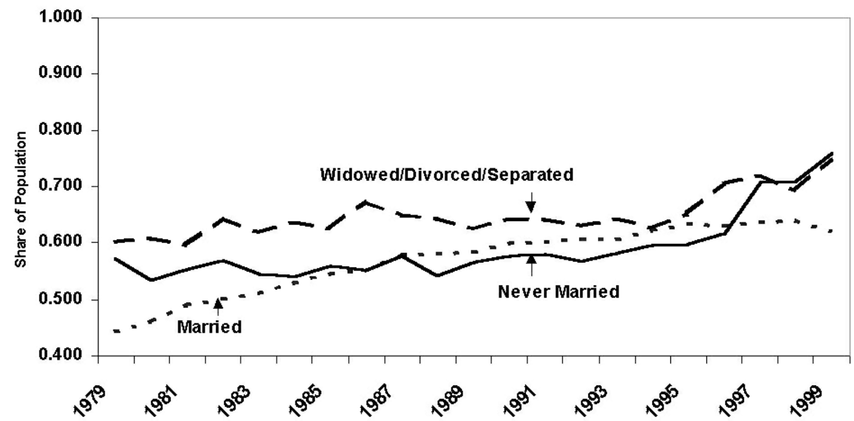
The number of households receiving cash public assistance decreased steadily from 5 million in January 1994 to 2.5 million in June 1999.

From 1979 to 1999, there were drastic increases in the rate of labor market participation / preparation (work or school) for never-married mothers (34%) and widowed/divorced/separated mothers (20%).

be eligible for welfare benefits, female-headed households with children, rose during the 1990's.

Figure 2 shows the number of women, divided into three categories, who worked or attended school full-time from 1979 to 1999. There were drastic increases in the rate of labor market participation/preparation (work or school) for never-married mothers (34%) and widowed/divorced/separated mothers (20%). Married mothers had only a steady increase in labor participation/preparation, and women without children showed no increase. The declines in caseload and increases in labor market participation do not necessarily say anything about single working mothers and poverty. Figure 3 shows the official U.S. poverty rates from 1970 to 1998 for all people and for single female-headed households. The official poverty rates rose in the early 1990's and decreased after that [22].

Figure 2. Share of Population Participating in Either Labor Force or Full-time Schooling Women with Children Under Age 6



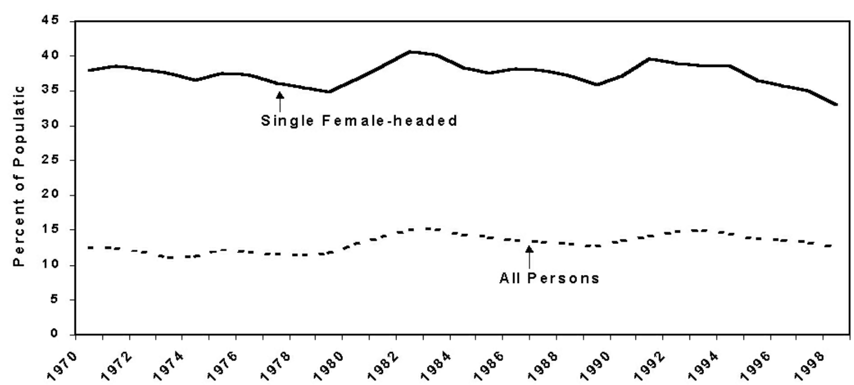
Source: Author's tabulations; March CPS data, 1979 - 99

The number of people leaving public assistance was higher than the number of people leaving poverty in the mid-1990s.

Poverty, however, is only one way to measure overall family well-being. In fact, the number of people leaving public assistance was higher than the number of

The declines in caseload and increases in labor market participation do not necessarily say anything about single working mothers and poverty.

Figure 3. Official U.S. Poverty Rates



Source: U.S. Census Bureau (http://www.census.gov/hhes/income/histinc/index.html) people leaving poverty in the mid-1990's [20]. This fact leaves us asking the question, "Were some groups among the poor actually worse off by the changes made in the 1990's?"

What lessons from the 1990's can we draw for anti-poverty policy?
Many factors were involved in contributing to the large behavioral changes we saw in low-income families during the 1990's. From these changes, we have learned three important lessons for anti-poverty policy:

1. A strong macroeconomy matters more than anything else.
2. Public assistance program design can increase work incentives.
3. Other policies, especially wage subsidies, can reinforce welfare-to-work efforts.

Lesson 1: A strong macroeconomy matters more than anything else.

As of February 2000, the current economic expansion set a record as the longest in U.S. history, lasting more than 106 months. During this time period, investment growth has been strong, the federal government eliminated its annual deficits, productivity growth has been above trend, and inflation has remained low. All of these economic outcomes have benefited workers. In addition:

- Employment growth has been high, with more than 20 million new jobs created by the end of 1999.
- The unemployment rate has been extremely low for several years, especially among African Americans, Latino Americans, females and high school dropouts.
- Wage increases among less skilled workers have been strong since 1996, although not large enough to make up for the previous two decades of wage decline among this group.

Wage increases among less skilled workers have been strong since 1996, although not large enough to make up for the previous two decades of wage decline among this group.

Can the strong economy account for the changes in low-income behavior?
This strong economy has been important in affecting declining caseloads, expanding labor force participation, and falling poverty rates. Studies have shown that between one-third and two-thirds of the caseload change in the early 1990's appears to be due to economic factors [23] [13]. Furthermore, the unemployment rate had a strong effect on the poverty rate for female-headed households and African American families.

Studies have shown that between one-third and two-thirds of the caseload change in the early 1990's appears to be due to economic factors.

While the strong macroeconomy seems to have been helpful to low-income families in the 1990's, it is difficult to measure these impacts precisely. First, most of our economic measures reflect average economic effects rather than specific economic changes. Second, the strong economy has affected economic policy as well as poverty, and it is difficult to measure the magnitude of the effect on policy or poverty only. Third, economists have a very poor understanding of how economic growth affects the more informal ways in which low-income families receive income.

Lesson 2: Public assistance program design can increase work incentives.

While strong economic growth seems to have benefited low-income families, it is unlikely that it explains the changes in welfare caseloads and labor market participation by itself. It seems more likely that economic forces have reinforced the direction of policy, and both policy and economics have worked together to change behavior more strongly than either could have accomplished alone.

A few studies that looked at post-1996 data agree that welfare policy changes have had a significant negative effect on welfare caseloads.

Policy changes in the early 1990's included waivers allowing states to experiment with alternative rules for Aid to Families with Dependent Children (AFDC) and food stamps. A variety of studies suggest that these waivers overall decreased caseloads [23, 10], increased work and reduced poverty rates [21].

In 1996, the federal government replaced the long existing AFDC with the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), which provides states with the Temporary Assistance for Need Families (TANF) block grant. The new welfare system:

- Allows states almost total discretion in setting the rules for eligibility and benefits.
- Enacted time limits, which allow families to receive public assistance for no more than 60 months over a lifetime.
- Strengthened the incentives for states to increase their welfare-to-work efforts.
- Abolished eligibility for most types of public assistance among different populations.

Can TANF account for the changes in low-income behavior?
It seems that the extreme welfare policy changes would have significant effects on low-income behavior. However, for a variety of reasons, these results are difficult to measure. First, most data comes from the transition period in which the programs were being implemented. However, a few studies that looked at post-1996 data agree that welfare policy changes have had a significant negative effect on welfare caseloads [10, 21]. Second, the states are experimenting with a variety of approaches to reduce caseloads and increase work. Third, it is difficult to distinguish between the legislation that states have passed and the way they are implementing the changes. Finally, as noted above, economic and policy changes seem to have a mutual effect on each other.

The evidence from the Minnesota Family Investment Program (MFIP) suggests that employment, earnings, and family income increased substantially for program participants, while poverty fell.

Are there any effective state programs?
Some states have experimented with innovative financial incentive programs designed to increase work behavior while not reducing income. The Minnesota Family Investment Program (MFIP) substantially decreased the benefit reduction rate for public assistance recipients, thus allowing them to keep more public assistance income as they went to work, but mandated participation in work/welfare programs. Table 1 summarizes some of the key results from this program. The evidence suggests that employment, earnings, and family income increased substantially for program participants, while poverty fell. Many states are reluctant to follow Minnesota's example because the program did not save money for the government. However, the program clearly provides evidence that it is possible to both reduce poverty and increase work behavior.

Table 1.
Impacts of Combined Financial Incentive/Employment Mandate Programs on Single-Parent Welfare Recipients

	SSP		MFIP	
	Applicants[a]	Long-term Recipients[b]	Applicants[c]	Long-term Recipients[c]
Employment				
Treatment Group	53.7	40.8	56.3	51.7
Control Group	41.8	29.0	52.1	36.1
Impact	11.9**	11.8**	4.2*	15.6**
Annual Earnings				
Treatment Group	$7,671	$3,435	$6,405	$4,207
Control Group	$5,638	$2,198	$6,631	$3,191
Impact		$1,237**	-$226	$1,016**
	$2,033**			
Annual Family Income				
Treatment Group		$14,710	$15,167	$16,607
Control Group	$18,438	$12,730	$14,223	$14,676
Impact	$15,764	$ 1,980**	$ 994	$ 1,931**
	$ 2,674			
Poverty Rates				
Treatment Group		77.5	67.5	71.4
Control Group	57.2	89.8	72.1	85.2
Impact	68.5	-12.2**	-4.6*	-13.8**
	-11.3**			

**Significant at 1 percent level; *Significant at 5 percent level.
All data are reported in 1998 US dollars, based on the Consumer Price Index. Canadian dollars are converted to US dollars at the rate of 0.75 $US/$Can.

[a]From Michalopolous, et. al. (1999). Data are averages measured in quarters 8-9 after random assignment and are from a 30-month client survey (employment and earnings), as well as Income Assistance and SSP program records (income). Family income in both SSP columns equals earnings from all family members plus cash assistance less federal and provincial taxes. Poverty rate is calculated from the low-income cut-off defined by Statistics Canada.

[b]From Lin, et. al. (1998). Data are averages measured over quarters 5-6 after random assignment and are from an 18-month client survey (employment and earnings), as well as Income Assistance and SSP program records (income).

[c]From Miller, et. al. (1997). Data are averages measured over quarters 5-7 after random assignment (employment and earnings) and are from Unemployment Insurance records (employment and earnings) as well as welfare program records (income). Family income in both MFIP columns equals earnings of head plus cash assistance, including cash value of Food Stamps. Poverty rate is calculated from the official U.S. poverty rate.

Among people benefiting from the 1996 and 1997 minimum wage increases, 58% were women, almost half worked full-time, and most live in low-income families.

Increases in the minimum wage and the expansion of the EITC reinforced each other to increase families' earnings. A single mother with one child experienced a 26% increase in her income, and a single mother with two children experienced a 40% increase.

Lesson 3: Other policies, especially wage subsidies, can reinforce welfare-to-work efforts.

TANF was not the only policy change designed to assist low-income families in the 1990's. The minimum wage increased four times during the 1990's, from $3.35 in 1990 to $5.15 in 1997 (See Table 2). The EITC was also expanded several times. Furthermore, there has been a substantial increase in public child care subsidies, and health insurance coverage of low-income families by the Medicaid program has expanded steadily.

All four of these policy changes benefited low-income families in the following ways:

- Among people earning between $4.25 and $5.15 per hour prior to the 1996 and 1997 minimum wage increases, 58% were women, almost half worked full time, and most lived in low-income families [9], suggesting that this population benefited the most from the increase in the minimum wage.
- Table 2 shows the maximum subsidy from the EITC for single mothers with one child and single mothers with two or more children in 1989 and 1998. The maximum subsidy from the EITC rose by 90% for families with one child and by 214% for families with two or more children.
- Table 2 shows how the increases in the minimum wage and the expansion of the EITC reinforced each other to increase families' earnings. A single mother with one child experienced a 26% increase in her income, and a single mother with two children experienced a 40% increase.
- Throughout the 1990's, a growing number of children in low-income families were automatically eligible for Medicaid.

Table 2.
Effects of Changing Policy on Earnings of Single Mothers
(All numbers in 1998 dollars)

Policy Change	1989	1998	Percent change
Minimum Wage	$4.41	$5.15	16.8
Maximum EITC Subsidy			
Single Mother (one child)	$1,197	$2,271	89.7
Single Mother (two children)	$1,197	$3,756	213.8
Earnings			
(Single mother working full-time at minimum wage)			
Single Mother (one child)	$9,856	$12,571	25.6
Single Mother (two children)	$9,856	$14,056	40.4
Ratio of Earnings to U.S. Poverty Line			
Single Mother (one child)	0.89	1.16	
Single Mother (two children)	0.76	1.03	

- Many welfare recipients can now retain their Medicaid eligibility for at least one year after they go to work and leave public assistance.

Did we declare success too quickly?
The 1990's saw a large decline in welfare caseloads and a substantial increase in work behavior among low-income families. These changes seem to be a result of a variety of events that all came together at the same time: a strongly expanding economy, substantial revisions in public assistance that emphasized work and reduced benefit eligibility, and major policy changes that increased the returns to work and the subsidies to support work, particularly among single mothers. However, before concluding that the war on poverty has been won, a number of stipulations to these results must be noted:

- It is not clear how sustainable these changes are in the long run or how reliant they are on the remarkably strong economy.
- The long-term effects of less public support and more hours of employment on the economic well-being of low-income families are still uncertain. Evidence suggests some of the poorest families may have lost ground during the past decade.
- To the extent that employment involves child care and other work expenses, aggregate income and earnings changes may seriously overstate the changes in disposable income.
- Research is just beginning to address the effects of welfare-to work programs on the well-being of children. The results of these studies will be important in evaluating the advantages and disadvantages of strong work-incentive programs aimed at single mothers.

A large decline in welfare caseloads and a substantial increase in work behavior among low-income families seem to be a result of a variety of events that all came together at the same.

The long-term effects of less public support and more hours of employment on the economic well-being of low-income families are still uncertain.

Summary
Recent history demonstrates the extent to which both the macroeconomy and public policy can influence the behavior of low-income families and reinforces the lesson that both work incentives and job availability do matter. As in most cases when a number of forces come together to create major economic and behavioral changes, chance is an important ingredient. The economic evidence suggests that America's good fortune in the 1990's was at least partly due to the luck of certain economic events and forces occurring in the right order and at the right time. Certainly the length and strength of this economic boom was not foreseen when welfare reform was passed in the mid-1990's. Nor were the large EITC expansions enacted in 1993 with the explicit idea of legislating time-limited public assistance a few years later.

In the absence of the robust economy, the legislated changes in 1996 would likely have had much weaker effects. However, in the absence of the 1996 reforms, the magnitude of caseload decline and labor force increases is likely to have been much smaller. Having accomplished dramatic short-run changes in behavior during the 1990's, the on-going challenge in today's war on poverty will be to build on these results. This means helping less-skilled workers maintain the labor market connections they have developed in recent years, even if the economy slows down. It also means working to assure that those employed at low wages are able to earn enough to build a stable economic life for their family and perhaps even experience improvements in their economic well-being over time if they persist in their employment and work efforts.

Having accomplished dramatic short-run changes in behavior during the 1990's, the on-going challenge in today's war on poverty will be to build on these results. This means helping less-skilled workers maintain the labor market connections they have developed in recent years, even if the economy slows down.