

ECONOMIC SCENE

After 40 years, what are some results and lessons of America's war on poverty?

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"THIS administration today, here and now, declares unconditional war on poverty in America." With those words, Lyndon B. Johnson began the war on poverty 40 years ago today, in his first State of the Union address.

To fight poverty, Congress started Head Start, Job Corps, Medicare and Medicaid programs, and increased the generosity of other programs, including Social Security and Aid to Families With Dependent Children. Here are some of the main results and lessons from this "40 Years War" on poverty.

Progress has been uneven, with some clear early successes followed by backsliding and then another period of progress, which has so far stalled under the Bush administration. The official poverty rate fell from 19.5 percent in 1963 to 11.1 percent in 1973. Since 1973 it has remained stubbornly stable, rising in the 1970's and 1980's and falling in the 1990's. By 2000, the poverty rate returned to 11.3 percent; last year, it inched up to 12.1 percent.

The trend is not the same for all groups. For the aged, the poverty rate fell from close to 30 percent in 1963 to 16.3 percent in 1973, then to 10.4 percent in 2002. The share of children in poverty fell from 23.1 to 14.4 percent in the first decade of the war on poverty, but increased to 16.7 percent over the next three decades. For blacks, the rate fell from more than 40 percent before the war on poverty to 31 percent in 1973, and was 24 percent in 2002, still disturbingly high but much lower than it had been.

The official definition of poverty is inadequate. It omits taxes and in-kind transfers; it pretends that the cost of living is the same in every state. Two of the most costly tools the government uses to fight poverty -- the earned-income tax credit and Medicaid -- are not even counted in the official statistics. Including these transfers would lower the proportion of people below the poverty threshold and hasten the decline in measured poverty in the 1990's. But the poverty line of \$14,348 for a family of three is below what most Americans consider the minimum income required for a family to survive. Nonetheless, statistical adjustments are unlikely to change the perception that poverty fell rapidly in the 1960's, grew from 1973 to the early 1990's, and fell again in the 1990's.

It is still (largely) the economy, stupid. A rising tide continues to lift all boats, although the unemployment rate must fall to a lower level today -- say 4 or 5 percent -- than in the 1960's for poverty to decline. Still, 6 to 8 percent of the population would remain impoverished even with a booming economy because they suffer from physical disabilities or substance abuse, or are unable to work for other reasons, according to a study by the economist Richard B. Freeman of Harvard.

Demographics have a big effect. Two-parent families are much more likely than single parents to escape poverty and are more likely to be affected by economic conditions. Only 6.8 percent of married couples with children are in poverty, while a third of families headed by an unmarried woman are. The rise in one-parent families in the 1970's and 1980's, along with growing income inequality, are important reasons poverty worsened then. The decline in teenage pregnancies in the 1990's should have a positive effect on poverty in the near term.

Immigration also matters. Immigrants have a higher poverty rate, and the gap has been growing. Additionally, the rate of immigration has increased. As a consequence, the percentage of all those in poverty who are immigrants increased from 10 percent in 1979 to 20 percent in 1998.

Incentives matter. Strengthening the incentive for work in the 1990's, by expanding the earned-income tax credit and

placing time limits on welfare use -- in conjunction with tight labor markets -- reduced poverty. The employment rate of low-skilled unmarried women with children increased from 30 to 50 percent in the 1990's after decades of stagnation, according to research by David Ellwood of Harvard. Unwed mothers saw a steep decline in poverty in the last decade.

Antipoverty policy has evolved as political winds shifted and as social science knowledge advanced. Bill Clinton ran on a platform to "make work pay" and "end welfare as we know it" -- and managed to do both. Although it is tempting to conclude that the United States became less generous to the poor in the 1990's, the story is more complicated. Even as time limits restricted welfare participation, more benefits became available for those who work. Increases in the minimum wage and the earned-incometax credit, and legislation requiring states to provide Medicaid to children in poor families even if they went off public assistance, all increased the value of work. The decline in poverty in the 1990's was a result of more than a strong economy, although the boom certainly helped and its effect was probably amplified by these policy changes.

Many (including me) said the next recession would be the true test of welfare reform. Although poverty increased in the last recession and its jobless aftermath, the increase is not out of line with historical norms. This record reinforces the idea that the boom was not the only reason poverty fell in the 1990's.

David Ellwood summarizes the lessons of antipoverty policy as follows: "Cash works for those not able or expected to work, work (and work support) works for those who are expected to." Future progress will be more difficult, however, because welfare participants with the best job prospects and fewest nonwork demands on their time and energy have already joined the work force. Professor Ellwood recommends using incentives to reward responsible behaviors, like acquiring skills and providing child support. The future path of wage inequality, job growth and family structure will also critically affect the trend in poverty.

On this anniversary of the war on poverty, aides to President Bush are apparently eyeing another initiative from the early 1960's: a manned mission to the moon. Yet it is also important not to lose sight of the progress that has been made in the 40-year war on poverty, and of the work that remains closer to home.