

Out of sight, out of mind

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The economic boom has helped Americas poor. But much remains to be done

Out of sight, out of mind

A STROLL down Wacker Drive, in Chicago, offers an instant snapshot of America's surging economy. Young professionals stride along, barking orders into mobile phones. Shoppers stream towards the smart shops on Michigan Avenue. Construction cranes tower over a massive new luxury condominium building going up on the horizon. All is bustle, glitter and boom.

But there is a less glamorous side to Wacker Drive, literally below the surface. Lower Wacker the subterranean service road that runs directly beneath its sophisticated sister, allowing delivery trucks to make their way through the bowels of the city. It is also a favourite refuge for the city's homeless, many of whom sleep in cardboard encampments between the cement props. They are out of sight of all that gleams above, and largely out of mind.

As Wacker Drive, so America. Everywhere that is visible seems to be doing well. Nine years of economic expansion, accelerating productivity growth, soaring equity markets and record low unemployment rates seem to have created prosperity for all. The typical American family increased its net worth by 18% between 1995-98 as house prices, stocks and wages all rose. Even the poorest fifth of American families saw their household income grow by an average of 2.7% a year (after adjusting for inflation) between 1993 and 1998. The poverty rate in 1998 fell to its lowest level in the 1990s (see). Welfare rolls, long taken as the most obvious indicator the number of poor people in America, have been halved since 1996, when new federal legislation ended the automatic entitlement to welfare and obliged the poor to take jobs. "I really think people think the problem [of poverty] is solved," says Susan Mayer, a poverty expert at the University of Chicago.

If they do, they are wrong. In 1998, the most recent year for which information is available, America's official poverty rate—defined as an annual income of less than \$16,660 for a family of four—was 12.7%. That figure is not markedly lower than its peak of 15.1% in 1993, and still higher than it was during any year in the 1970s.

There are many problems with this measure of poverty. It was originally calculated, in the mid-1960s, as three times the minimum basket of food a family would need; since then it has been adjusted only for inflation, though American spending patterns have changed dramatically. Important benefits, such as the Earned Income Tax Credit (EITC), and costs, such as child care are excluded. Depending on what is included, the poverty rate could be as high as 20% or as low as 10%. But at an absolute minimum, around one in ten Americans is poor.

Child poverty is far higher. Almost one in five American children lives in poverty, a rate about twice as high as in the big economies of Western Europe. One in four black American families is poor, as are nearly 40% of black children. A study in the mid-1990s suggested that 12m Americans have been homeless at some point in their lives. And there are signs that

homelessness may be on the rise. A recent survey of 26 big cities by the Conference of Mayors shows that more than two-thirds of them saw requests for emergency shelter increase last year.

Always with us

Poverty on this scale is a striking contrast to America's new gilded age. And its persistence is sometimes a source of comfort (or *Schadenfreude*) to other, less dynamic, economies, especially in Europe. The price of American capitalism, you often hear, is a Darwinian society in which the weakest are ignored. But things are not so simple. Poverty in America cannot be blamed exclusively on either the nature of American capitalism or the lack of a social safety net. American poverty has changed dramatically in the past decades, as has the approach—and coverage—of public anti-poverty policies.

In the 1960s, when Lyndon Johnson declared his war on poverty, America's poor were older, more rural and even more overwhelmingly black than they are today. Roughly 30% of the elderly were poor in 1966. Half of the poor lived in rural counties, particularly in the South. And four out of ten black families were poor.

Increasingly generous payments from Social Security—the public pension programme set up by Roosevelt in 1935—have made dramatic inroads into poverty among the old. Today only one elderly American in ten is poor. Progress in civil rights, migration to the cities and, more recently, large-scale inward investment, have reduced rural poverty, especially in the South. Today only 22% of America's poor live in the countryside (although some of America's poorest counties are still rural ones). Instead, 43% of the poor live in city centres. In short, today's poor are younger and more urban than they were a generation ago.

Most striking, however, has been the concentration of poverty in families headed by single women. Such families are the largest and fastest-growing segment of the poor, making up over half of all poor families in 1998, compared with 21% in 1960. The poverty rate is almost six times higher for one-parent families headed by women than it is for those with two parents.

The breakdown in the traditional two-parent family does much to account for America's current poverty. Just over 30% of American children now live in single-parent families, and these account for almost two-thirds of the children in poverty. According to Isabel Sawhill, a poverty expert at the Brookings Institution, the child-poverty rate would have remained virtually unchanged since 1970 if family structure had stayed the same. Instead, the rise of single-parent families brought with it a 25% rise in child poverty.

So are “the poor”, as most Americans suppose, mainly single mothers on welfare? Until the mid-1990s, this supposition was correct. Many poor families were headed by single women who did not work, relying instead on federal welfare payments. That has now changed. America's welfare regime was dramatically overhauled in the late 1990s; today, recipients must work and no one can spend more than five years on welfare. The level and availability of public assistance for the non-working poor have fallen sharply.

At the same time, public assistance for the working poor has soared. David Ellwood of Harvard University points out that changes in the law since 1984 have increased funds available to low-income working families almost tenfold, from less than \$6 billion in 1984 to over \$50 billion in 1999. About half this rise comes from the Earned Income Tax Credit (EITC). Introduced in 1975 and expanded three times since then, this refundable tax credit tops up the earnings of poor Americans: it can be worth as much as \$3,800 a year, or \$2 an hour, to low-income workers with children. At least ten states have their own EITC programmes that add between 4% and 46% to the federal credit.

Public health insurance for the poorest (Medicaid) has also expanded greatly. Medicaid used to be limited mainly to those on welfare. Now states have to provide coverage for all poor

children. Add in other new federal programmes, such as tax credits for child care and a general child tax credit—as well as vastly increased spending by the states on the working poor—and it is clear that incentives for the poor to work have multiplied. Mr Ellwood reckons that, in 1986, a single mother with two children who received \$8,459 in welfare would have gained only \$2,000 more from taking a full-time job at the minimum wage, and would have lost her family's health insurance. In 1997, by contrast, the woman would have gained over \$7,000 from working full-time, would have kept her children's health insurance and would be above the poverty line.

Why they fail

Unsurprisingly, these changed incentives have altered the pattern of poverty. Over 60% of poor families have at least one person in the labour force some of the time. This share is higher than at any time in the past 20 years. Among never-married mothers—those most likely to have been affected by welfare reform—the shift has been particularly acute. According to Gary Burtless, an economist at the Brookings Institution, 62% of these mothers now work, up from 36% in 1984. Yet despite the recent rise in wages across the board, and despite the massive rise in federal assistance, many poor single wage-earners have still not been able to lift their families out of poverty.

One obvious reason is low wages. The recent uptick in earnings at the bottom is a blip in an otherwise long downward trend in the market for low-skilled labour. Single mothers, who are disproportionately low-skilled, face a triple disadvantage: they have only one worker, they earn low wages and they pay all the costs of raising a child. Some scholars, such as Harvard's William Julius Wilson, place part of the blame for family breakdown on the poor job prospects for unskilled men, which make them less attractive to keep around as husbands and fathers.

Economists attribute most of the stagnation in the wages of the low-skilled to rapid technological change, which has increased the demand for (and emoluments of) skilled workers and has made life harder for those without skills. Tougher competition from abroad, weaker unions and a minimum wage that, despite recent increases, is much lower now in real terms than it was two decades ago, have made a difference too. Although today's white-hot labour market has dragged ever more poor people into work, it has only halted, rather than reversed, this decades-long decline in low-skilled earning power. The poverty rate among high-school dropouts is 12 times the rate for college graduates.

But low wages may have less effect on poverty than the fact that the poor are not working full-time. Despite the boom, and despite the government's incentives, only 13% of poor adults worked full-time in 1998. This was, admittedly, a 30% jump from the year before, but it is still a relatively small share. In a recent study, Ms Sawhill finds that the heads of non-poor families work an average of over 2,000 hours a year, while the typical head of a poor family works less than 1,000 hours a year. If all poor heads of families worked at least 2,000 hours a year, she reckons, the poverty rate would be cut in half.

Why don't the poor work more? Some may not be able to. Not everyone can get or hold down a job, even in a booming economy. A stroll among the panhandlers of Wacker Drive shows that many of them suffer from mental illness, disability or drug or alcohol abuse. Studies of welfare reform in the states show a similar picture: there is a hard-core group of mothers who are simply incapable of keeping a job, often because of substance abuse. Unfortunately, although alcoholism or drug addiction make people incapable of working, they do not qualify them for public assistance. The seriously mentally ill are eligible to receive both cash and medical treatment, but many are unable or unwilling to seek the benefits to which they are entitled. "It's difficult to get people confined to a mental institution and a lot of them are just roaming around the streets and the shelters," says Peter Rossi, a professor of sociology at the University of Massachusetts.

For others, the constraints are less visible. Take Anthony, a 38-year-old black man who spend

his days holding out a Wendy's Biggie Soda cup in downtown Chicago. He claims he applied to be a burger-flipper six months ago. Unfortunately, McDonald's was not keen on his prison record—two years in Joliet state penitentiary for breaking into a liquor store—and the manager never called back. One long-term cost of America's love affair with incarceration will be a growing number of ex-convicts with even slimmer chances of finding a job than they had before they went to prison.

The second big hurdle is the logistics, and costs, involved in working. Transport is one. Throughout America, the fastest job growth has been in the suburbs; but low-skilled workers now tend to live in cities. Ohio's seven biggest cities, for instance, saw only 636 net new jobs in their centres between 1994 and 1997. In the suburbs, by contrast, 186,000 jobs were created. Public transport rarely connects the two. "In a lot of places, the bus literally stops at the border" says Bruce Katz, an urban specialist at Brookings.

The chronic shortage of affordable housing exacerbates this problem. There is very little cheap housing in the suburbs where the jobs are. Worse, there is an increasing shortage of any housing at all. Since the 1970s the number of low-income renters has increased by over two-thirds, while the number of low-cost rentals has fallen. This is partly the result of government policy; Congress drastically reduced the amount of money it appropriated for low-income housing in the 1990s, and has only recently begun to increase it.

It is also a side-effect of a booming economy. As rents have risen across America, landlords are increasingly tempted to gentrify their low-income properties. At the least, a lack of affordable housing implies a long commute for the working poor. At worst, it means homelessness, which makes full-time work even harder. A recent study of the homeless by the Department of Housing and Urban Development suggests that almost half of them were homeless for the first time, and 44% had worked at least part-time in recent months. As John Donahue of the Chicago Coalition for the Homeless puts it, "We've created a lot of \$6-an-hour jobs and not much \$6-an-hour housing."

Another huge constraint is the cost and availability of child care. In surveys, by far the most frequent reason unmarried women give for not working is that they are "taking care of home or family". Over 11% of poor people live in families that have to pay for child care (many others rely on relatives for informal child care). These families pay, on average, around \$2,400 a year. Since the federal child-care tax credit is not refundable, it does little for those who do not earn enough to pay federal income tax. According to Ms Sawhill, over 1.5m Americans live in working families that are made poor because they have to pay for child care.

Poverty traps

Even if these hurdles are overcome, another arises. Public incentives, such as the EITC, are phased out as incomes rise. Some women who successfully leave welfare for work find that, beyond a certain point, work does not pay. A woman earning as little as \$10,000 can face a marginal tax rate of 100% as federal and state taxes kick in and benefits such as Medicaid and the EITC disappear, says Barbara Wolfe, a professor at the University of Wisconsin. "No one else in this country faces such high tax rates," she says.

Obstacles like these, together with the limits to low-skilled earnings, do much to explain why poverty has not fallen further in this boom. Another, more troubling, reason is that many poor families are not getting the public assistance to which they are legally entitled. Participation in food-stamp programmes has fallen much faster than the poverty rate. As a result, only 40% of working poor families eligible for food stamps actually receive them, and only about one-third of children eligible for Medicaid benefits get them. This is because poor families, once they are off welfare, are less visible and less tied in to public-assistance programmes. The result, however, can be that they fail to shake off poverty. Using a broad measure of poverty that includes the value of tax credits and non-cash assistance, the Centre on Budget and Policy

Priorities, a Washington think-tank, calculates that the average amount by which poor families fell below the poverty line was \$245 higher in 1998 than in 1995. That depressing figure might, presumably, be improved if existing government assistance reached the people it should.

The broader question is whether America's new strategy of targeting assistance overwhelmingly to the working poor should be judged a success. On the positive side, poor people are responding more powerfully to the incentives to work than many experts predicted. The economic boom ensures that they are able to find jobs. On the negative side, it is still much too hard for the poor to find, and hold down, full-time jobs.

No one yet knows what the long-term effect will be on the children whose mothers have been made to go back to work; 20 states now require women to work when their children are under year old. But perhaps the biggest, and as yet unknown, factor is how this approach will fare when the economy slows, as one day it will. To test the effectiveness of America's anti-poverty efforts, it may be necessary to count the number of people sleeping rough on Lower Wacker at the end of the next recession.
