

DOCUMENT RESUME

ED 213 809

UD 022 163

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**TITLE** Children in Poverty: The Truly Needy Who Fall through the Safety Net.  
**INSTITUTION** Wisconsin Univ., Madison. Inst. for Research on Poverty.  
**SPONS AGENCY** Department of Health and Human Services, Washington, D.C.; Wisconsin Univ., Madison. Graduate School.  
**REPORT NO** IRP-DP-680-81  
**PUB DATE** Nov 81  
**NOTE** 33p.

**EDRS PRICE** MF01/PC02 Plus Postage.  
**DESCRIPTORS** \*Family Characteristics; \*Government Role; \*Low Income Groups; One Parent Family; Population Trends; \*Poverty; \*Poverty Areas; Poverty Programs; Public Policy; Quality of Life; \*Welfare Services  
**IDENTIFIERS** Economic Opportunity Act 1964

**ABSTRACT**

The predicted incidence of poverty before and after government income transfers, the effectiveness of such transfers, and the distribution of children in one and two parent families are examined in this report on the trends in poverty since 1965. Included are a review of how the Reagan budget cuts will affect households with children and a discussion of alternative policies to reduce poverty. The paper suggests that the Reagan program will result in an increase in poverty incidence, particularly among households with children. The establishment of a new child support program, the expansion of the Earned Income Tax Credit, and the repeal of the consumer interest deduction from the personal income tax to raise 6 billion dollars in 1982 are cited as potentially effective welfare reform efforts. (Author/JCD)

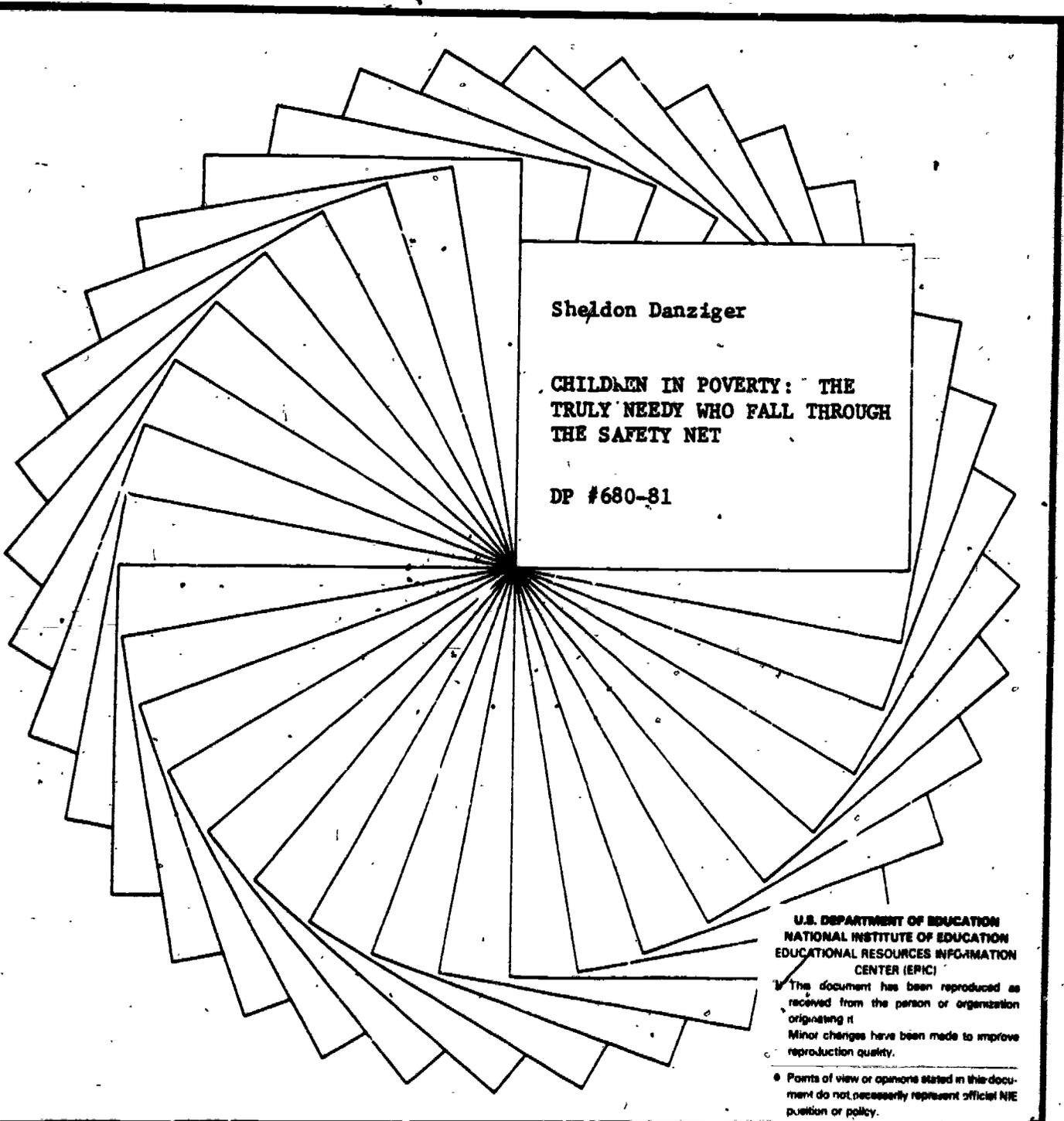
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## Discussion Papers

ED213809



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CHILDREN IN POVERTY: THE TRULY NEEDY WHO FALL THROUGH THE SAFETY NET

DP #680-81

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**Children in Poverty: The Truly Needy Who Fall Through the Safety Net**

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**November 1981**

The research reported here was supported in part by funds granted to the Institute for Research on Poverty by the Department of Health and Human Services pursuant to the provisions of the Economic Opportunity Act of 1964 and by funds provided by the Graduate School Research Committee of the University of Wisconsin-Madison. Daniel Feaster provided valuable assistance. Judith Cassetty, Sandra Danziger, Daniel Feaster, George Jakubson, Maurice MacDonald, Robert Plotnick and Eugene Smolensky provided helpful comments on a previous draft.

## ABSTRACT

The Reagan administration's program of fiscal retrenchment has resulted in budget cuts that disproportionately affect social welfare programs. Although administration policy claims to ensure the well-being of the "truly needy," a review of the evidence on the trend in poverty suggests that the administration's program both exaggerates the extent to which poverty has been reduced and understates the contributions of social welfare programs to the well-being of the poor.

This paper suggests that the Reagan program will result in an increase in poverty incidence, especially among households with children. Despite the past growth in social welfare expenditures and a general decline in poverty, among families with children poverty has declined little since 1965. In households headed by women with children, poverty remains at very high levels. After a review of how budget cuts will affect households with children, the paper discusses alternative policies to reduce poverty.

## Children in Poverty: The Truly Needy Who Fall Through the Safety Net

### INTRODUCTION

The Reagan administration has undertaken a "drastic fiscal retrenchment" to reduce government presence in the economy. Despite claims of evenhandedness, the new priorities reflect dissatisfaction with the growth of social welfare expenditures over the past fifteen years. As a result, the cuts disproportionately affect social welfare programs. The policy claims to maintain the "safety net" so as to ensure the well-being of the "truly needy." Yet a review of the evidence on the trend in poverty suggests that the Reagan program both exaggerates the extent to which poverty has been reduced, particularly the incidence of poverty for households with children, and understates the contributions of social welfare programs to the well-being of those with low incomes.

This paper suggests that the Reagan program will lead to increases in the incidence of poverty, especially among households with children under the age of 18. The evidence reveals that despite the growth in social welfare expenditures and the decline in poverty in the population at large, poverty among households with children has declined only slightly since 1965. In addition, poverty remains at very high levels for children living in households headed by women, and recently this has been the most rapidly growing type of household. After a brief review of how the Reagan cuts will affect households with children, the paper discusses alternative policies that offer promise for reducing poverty.

**FROM THE WAR ON POVERTY TO THE REAGAN BUDGET CUTS**

With the passage into law of the Economic Opportunity Act of 1964, the nation declared its intent to wage war on the low levels of living endured by its poorest citizens. One goal of the War on Poverty was to provide opportunities for the children of the poor. Access to education and training and to minimum levels of food, shelter, and medical care were to remove the barriers keeping these children from economic and social progress. In his 1964 State of the Union Message declaring war on poverty, President Johnson stated:

Our chief weapons . . . will be better schools, and better health, and better homes, and better training, and better job opportunities to help more Americans, especially young Americans escape from squalor and misery and unemployment rolls.

Several months later, when he submitted the Economic Opportunity Act to Congress, he re-emphasized that the plight of the young was a primary concern:

The young man or woman who grows up without a decent education, in a broken home, in a hostile and squalid environment, in ill health or in the face of racial injustice--that young man or woman is often trapped in a life of poverty.

As a result of the War on Poverty and the effort to build the Great Society, many programs which later grew to spend billions of dollars for the benefit of the young were enacted into law. These included Head Start, the Elementary and Secondary Education Act, Basic Educational Opportunity Grants, and the Job Corps, to name a few. In subsequent years, benefit levels were increased and eligibility requirements were

liberalized in existing programs--e.g., Food Stamps, Aid to Families with Dependent Children (AFDC). The comprehensiveness of the strategies represented a reorientation of all domestic policies toward a concern with poverty. Of course, much of the growth in social welfare expenditures in the last 15 years, especially in social security benefits, was motivated by social goals other than the enhancement of opportunities for the young and the poor. Taken together, social welfare programs, new and expanded, were 11.7 percent of GNP in 1965 and 19.3 percent in 1978 (Lampman, 1980).

President Reagan's budget cuts are designed to reduce government presence in the civilian economy. Both the magnitude of the cuts and their allocation among programs represent a sharp break with the past. Their major goal is to curtail the growth of entitlements and to make room in the budget for increased military spending. Social welfare expenditures have been singled out for special attention because

our society's commitment to an adequate social safety net contains powerful, inherently expansionary tendencies. If left unchecked, these forces threaten eventual fiscal ruin and serious challenges to basic social values of independence and self-support. The Federal Government has created so many entitlements for unnecessary benefits that it is essential to begin paring them back (Reagan, 1981).

Whereas the War on Poverty reflected the view that public expenditures had to be increased to stimulate opportunities for the poor, the Reagan approach appears to be that public expenditures on behalf of the poor have to be decreased so that tax cuts to stimulate opportunities for the nonpoor can be afforded. Benefits to the nonpoor are then presumed

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to trickle down to the few remaining poor. The administration's program is based in part on the writings of Martin Anderson, now chief domestic policy advisor, who argues:

The "war on poverty" that began in 1964 has been won. The growth of jobs and income in the private economy, combined with an explosive increase in government spending for welfare and income transfer programs, has virtually eliminated poverty in the United States (Anderson, 1978, p. 37).

The data presented below show that Anderson exaggerates the extent of the reductions in poverty, and that some of the Reagan initiatives are ill-timed, at best.

#### INCOME MAINTENANCE PROGRAMS AND THE TREND IN POVERTY

Table 1 shows the importance of cash income maintenance transfers as a component of household income.<sup>1</sup> In 1978, 41.8 percent of all households received a cash transfer from one of the major income maintenance programs (all listed in note to the table). These transfers totalled over \$200 billion and constituted 10 percent of total household income. While households with children accounted for about 40 percent of all households, they received only about 23 percent of all transfers. This reflects the "pro-aged tilt" of the income maintenance system, since social security benefits account for about 60 percent of all cash transfers (Danziger and Plotnick, 1981). Thus, the aged, who constituted about 20 percent of households, received over half of the total transfers. While a household headed by a nonaged transfer recipient received, on the average, a transfer of \$3,275 in 1978, the typical aged recipient, living in a smaller household, received \$4,739.

Table 1

## Cash Income Maintenance Transfers as a Component of Household Income, 1978

Characteristics of Household Head	Number of Households (millions)	Percentage of All Households	Mean Census Income	Percentage of Income from Cash Transfers	Percentage Receiving Transfers	Percentage of Total Transfers
<b>No Children</b>						
Nonaged Male	25.35	30.8%	\$19,320	5.4%	28.4%	19.5%
Aged Female	9.48	11.5	9,586	8.1	28.0	5.4
Aged	15.59	18.9	9,818	46.2	96.0	52.2
<b>Children</b>						
Nonaged Male	25.67	31.2	22,147	3.1	23.3	13.0
Nonaged Female	5.76	7.0	8,792	21.5	55.6	8.0
Aged	0.53	0.6	14,855	31.4	92.0	1.8
All Households	82.38	100.0	16,518	10.0	41.8	100.0

Source: Computations by author from March 1979 Current Population Survey.

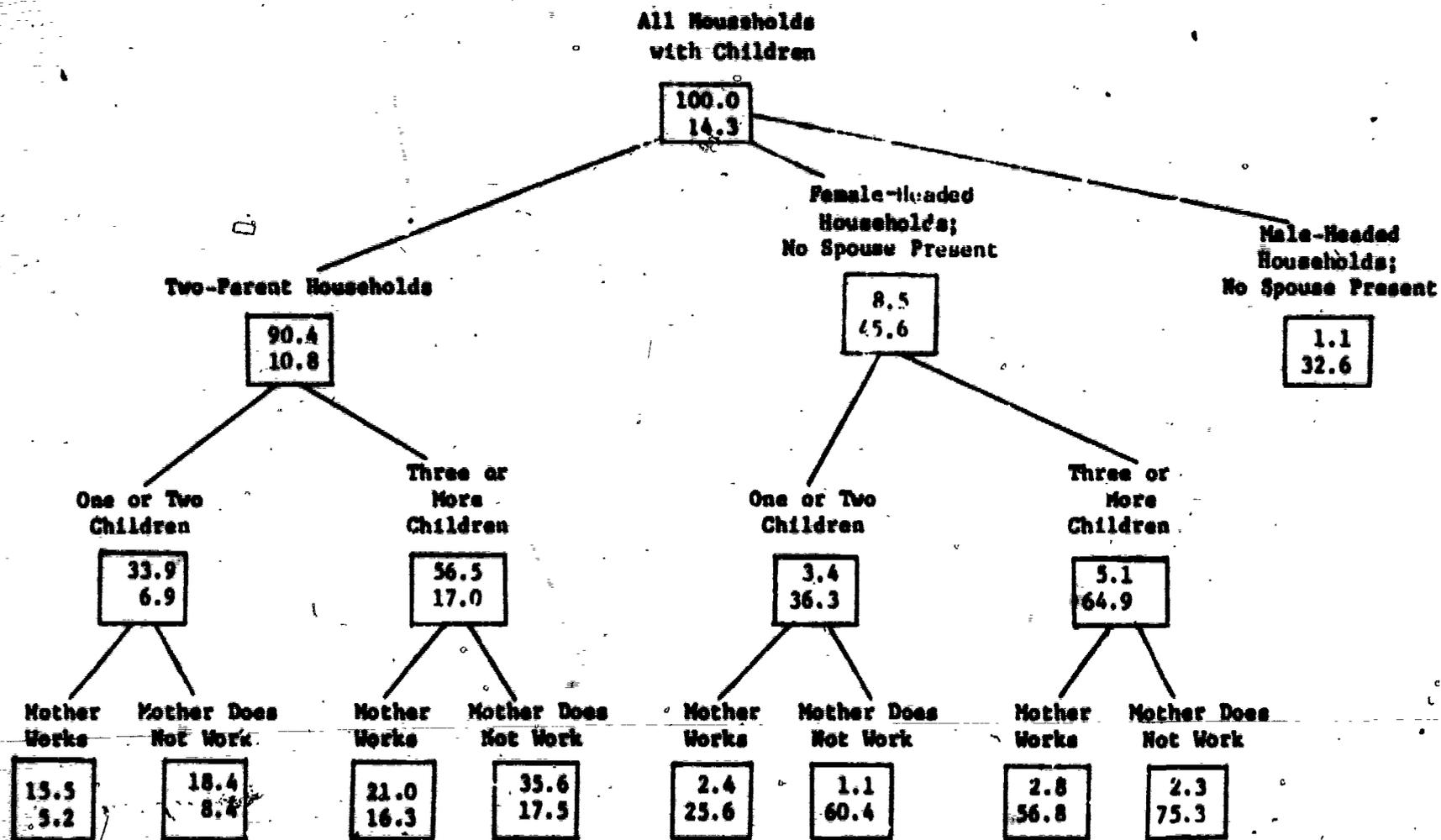
Note: Cash income transfers reported in the CPS include Social Security, Railroad Retirement, Aid to Families with Dependent Children, Supplemental Security Income, General Assistance, Unemployment Compensation, Workers' Compensation, Government Employee Pensions, and Veterans' Pensions and Compensation. Census income includes, in addition to cash transfers, money wages and salaries, net income from self-employment, property income, and other forms of cash income such as private pensions and alimony. Nonaged are persons less than 65 years of age; aged are 65 years or older.

Table 1 also shows that the demographic group with the lowest mean census income is nonaged female-headed households with children. Their total cash income, \$8,792, is about one-half the average for all households, despite the fact that 55.6 percent of these households receive transfers, which account for 21.5 percent of their cash income. This suggests that existing programs do reach the needy, but that average benefit levels are low.

Figures 1 and 2, for 1965 and 1978, present the distribution of children across household types, classified by number of parents, number of children, and employment status of the mother. Households without children are not included. The top number in each box is the percentage of all children who live in that household type; the bottom number is the officially measured incidence of poverty for these households.<sup>2</sup> Between 1965 and 1978, poverty in households with children declined from 14.3 to 13.2 percent. This decline represents a change in incidence of 7.7 percent.<sup>3</sup> Over this period, the incidence for all households declined from 17.2 to 13.0 percent, a decline of 24.4 percent.

The data shown fail to reflect two important points. First, there are large variations in poverty across racial and ethnic groups. In 1978, 9 percent of white, 33 percent of black, and 20 percent of Hispanic households with children were poor. Second, Smeeding (1982) suggests that if in-kind transfers for food, housing, and medical care were counted as income, the incidence of poverty would be about one-half that shown by the official measure. However, the large differences in poverty by household type would remain.

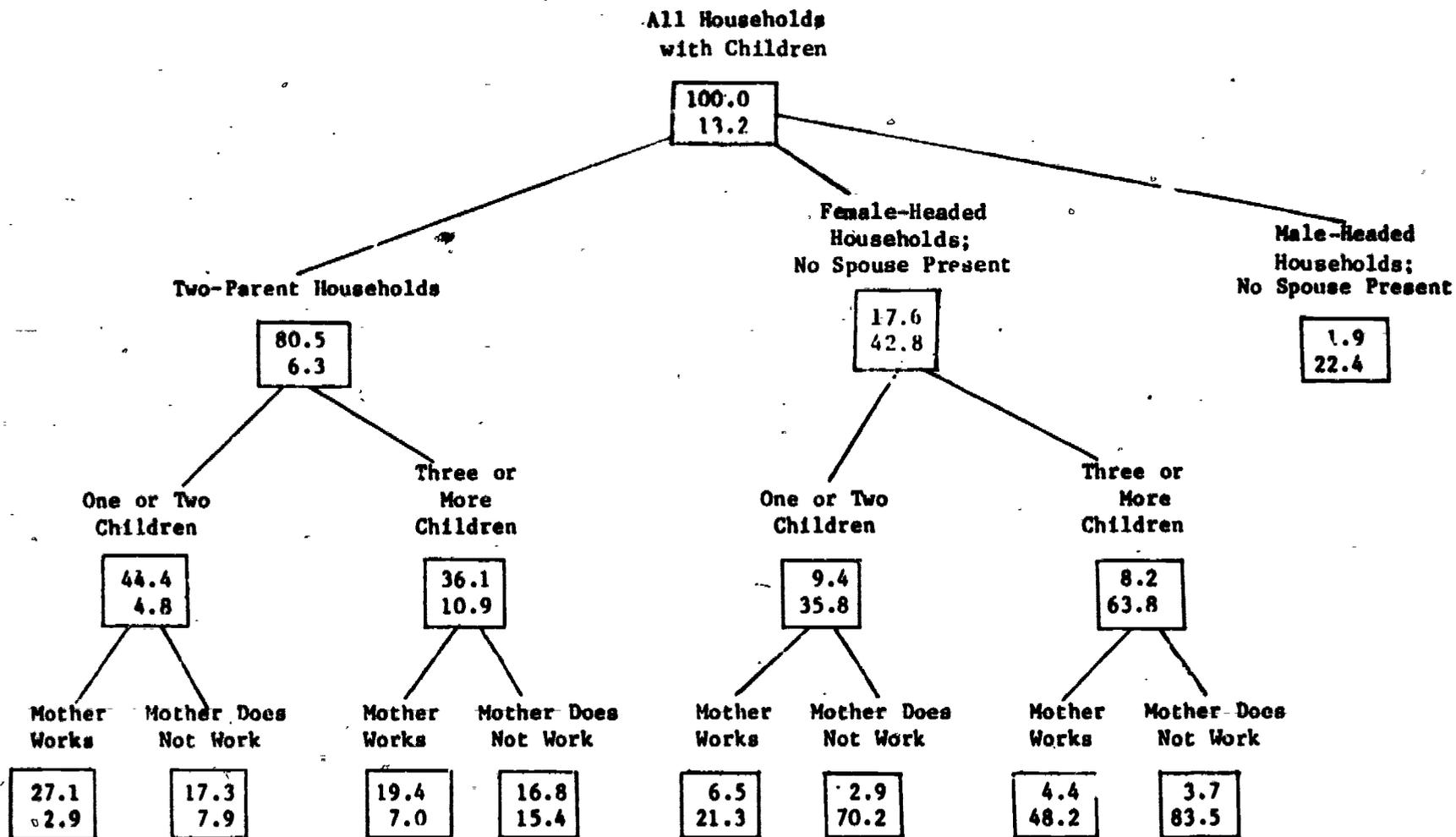
Figure 1: The Distribution of Children Across Household Types and the Incidence of Poverty, 1965



Source: Computations by author from 1966 Survey of Economic Opportunity.

Note: The top number in each box is the percentage of all children who live in the household type; the bottom number, the incidence of poverty for households in that category.

Figure 2: The Distribution of Children Across Household Types and the Incidence of Poverty, 1978



Source: Computations by author from March 1979 Current Population Survey.

Note: The top number in each box is the percentage of all children who live in the household type; the bottom number, the incidence of poverty for households in that category.

While the incidence of poverty for households with children fell less than the incidence for all households, there were large differences between two-parent and one-parent households with children. The incidence for two-parent households is below the aggregate incidence in each year, and the 42 percent decline from 10.8 to 6.3 percent was more rapid than the aggregate. However, the percentage of children living in this type of household declined from about 90 to about 80 percent. Those living in one-parent, female-headed households doubled, from 8.5 to 17.6 percent, and those in one-parent, male-headed families rose, from 1.1 to 1.9 percent. (Because these male-headed households contain so small a proportion of all children, detailed data relating to them are not shown, and the rest of the discussion will not address them.)

The fact that a greater percentage of children are living in female-headed households, a group for whom the official incidence of poverty remains above 40 percent, forms the core of the current poverty problem. Their number now, and the recent upward trend in the size of this group, refutes the view that poverty has been "virtually eliminated."<sup>4</sup> Indeed, the poverty problem is even more severe for black and Hispanic children. A breakdown of the data in Figure 2 for female-headed households reveals that the percentages of children living in this type of household were 12, 43, and 20 percent respectively for whites, blacks, and Hispanics, and that the incidences of poverty were 31, 58, and 61 percent. Given these high incidences of poverty, despite increased social welfare expenditures, for such a large percentage of children, it seems inappropriate even to employ the term "safety net."

The figures reveal two patterns that are similar in each year for both one- and two-parent households. First, households with three or four children are about twice as likely to be poor as those with one or two children, and households where the mother does not work in the paid labor force are about twice as likely to be poor as those where the mother works. Thus, the increases in the percentage of children whose mothers work and the decreases in the percentage living in households with three or more children contributed to the observed decline in poverty.

Table 2 shows for 1978 the predicted incidence of poverty before and after government transfers, and the antipoverty effectiveness of transfers, for families who have children and are headed by a parent capable of working. The poverty incidences are derived from a set of logistic regressions that provide comparisons across demographic groups for households with the same personal characteristics. A separate regression was estimated for each of the six types of household heads shown and for pretransfer and official poverty. The coefficients were then used to predict the incidence of poverty for a household head who is between the ages of 35 and 54, has completed 8 to 11 years of school, lives in a metropolitan area in the Northeast region, is not disabled, and heads a family of three or four. The female head is divorced or separated; the male head is married.<sup>5</sup>

The results complement the data shown in Table 1 concerning the contribution of transfers to mean incomes. Transfers substantially reduce poverty for female heads of household with children and for non-white and Hispanic male heads. In addition, Plotnick (1979) has shown

Table 2

The Predicted Incidence of Poverty and the Antipoverty  
Effectiveness of Transfers, 1978

Household Head <sup>a</sup>	Pretransfer Poverty <sup>b</sup>	Official Measure of Poverty <sup>b</sup>	Percentage Change Due to Transfers <sup>c</sup>
<u>Married Male</u>			
White	6.85%	6.68%	-2.5%
Nonwhite	12.72	9.75	-23.3
Hispanic	9.23	5.59	-39.4
<u>Divorced or Separated Female</u>			
White	52.22	39.38	-24.6
Nonwhite	65.40	54.96	-15.4
Hispanic	73.29	61.09	-16.6

Source: Derived from regressions estimated by author from March 1979 Current Population Survey.

<sup>a</sup>Head is 35-54 years of age, has completed 8 to 11 years of school, lives in a metropolitan area in the Northeast region, is not disabled, heads a family of three or four persons.

<sup>b</sup>Pretransfer poverty is computed by subtracting income derived from government cash transfers from census money income. The official measure of poverty is based on census money income and includes government cash transfers.

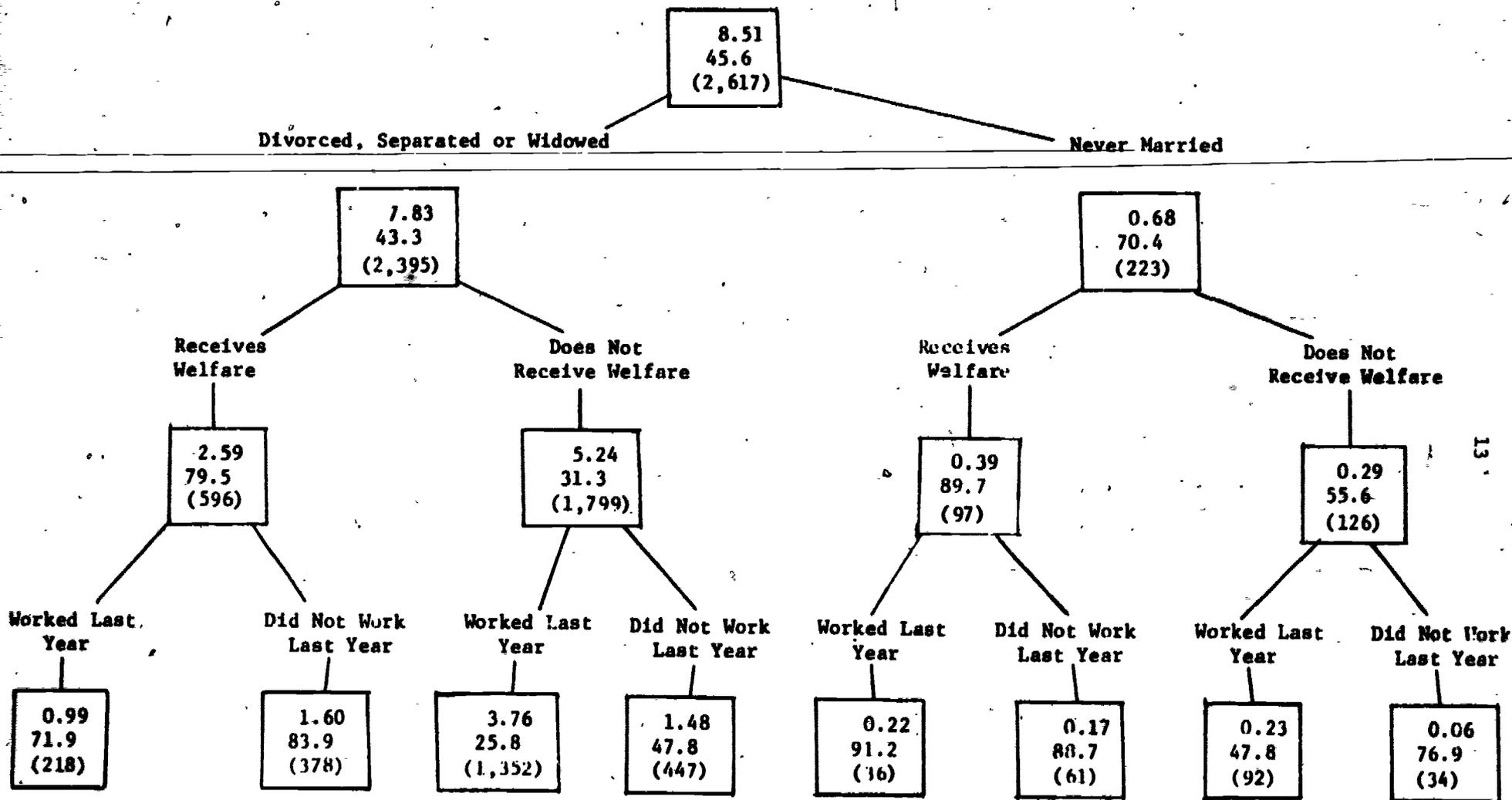
<sup>c</sup>Defined as (Official - Pretransfer/Pretransfer) x 100.

that over three-quarters of welfare transfers and one-half of social insurance transfers are received by the poor. These results challenge the Reagan administration's assertions that current programs are not well-targeted on the truly needy.

Figures 3 and 4 for 1965 and 1978 further classify female-headed households with children by marital status, welfare reciprocity, and employment status. Poverty declined from 45.6 to 42.8 percent for all of these households, but in 1978 it remains above 80 percent for several of the categories. Among female-headed households, those in which the mother was never married, received welfare, and did not work last year generally have the highest incidences of poverty in both years. For example, 94.9 percent of those who never married, received welfare, but did not work in 1978 were poor. Between 1965 and 1978, the number of divorced, separated, or widowed female heads with children increased by 94 percent, while the number of never-marrieds increased by 378 percent; welfare reciprocity increased from 26 percent of all female heads to 38 percent; and the percentage of female heads who worked remained constant at about 65 percent. Thus, despite increased welfare reciprocity and the maintenance of work effort, poverty among households headed by women declined only slightly.<sup>6</sup>

Clearly, poverty remains a problem despite the growth in social welfare benefits. The next section reviews the Reagan cuts and speculates on their effects on the poor.

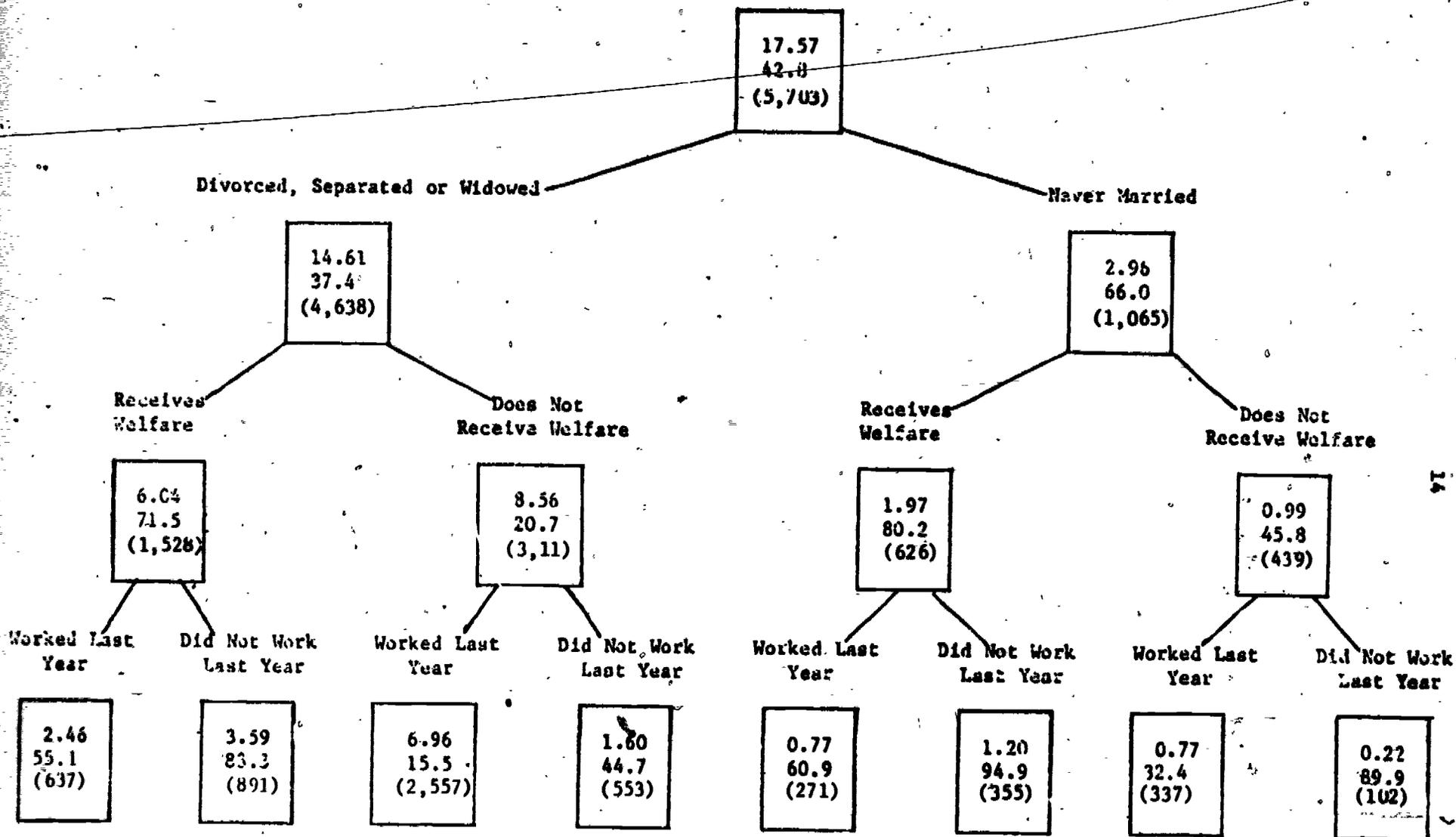
Figure 3: Incidence of Poverty and Distribution of Children among Households Headed by Women, 1965



Source: Computations by author from 1966 Survey of Economic Opportunity.

Note: The top number in each box is the percentage of all children who live in the household type; the second number, the incidence of poverty for households of that type; the number in parentheses is the number of households (in thousands).

Figure 4: Incidence of Poverty and Distribution of Children among Households Headed by Women, 1978



Source: Computations by author from March 1979 CPS.

Note: The top number in each box is the percentage of all children who live in the household type; the second number, the incidence of poverty for households of that type; the number in parentheses is the number of households (in thousands).

## THE REAGAN BUDGET CUTS

President Reagan initially proposed budget cuts for fiscal year 1982 that were about \$44 billion, or 5.7 percent, less than the Carter administration's proposals for that year. Over half of the total cuts were in the budget categories in which most benefits are targeted to the poor and/or children: income security, education, training, employment, and social services. Thus, even though the president claims to be protecting the "truly needy," they will be adversely affected. For example, the Congressional Budget Office (1981a) estimates that the reductions in expenditures for Title I of the Elementary and Secondary Education Act would correspond to less than a 1 percent reduction in a typical school district, but to a 6 to 7 percent reduction in a poor district. The cutbacks in the Food Stamp, School Lunch, Legal Services, Basic Educational Opportunity Grants, and CETA Public Service Employment programs will all have the effect of reducing the transfers received by the poor as well as their opportunities to earn their way out of poverty and unemployment through schooling, training, or work.

Women heading families with children have low mean incomes and high poverty rates despite their heavy reliance on social welfare benefits. The budget cuts will disproportionately affect them. Many relied on CETA jobs. Others working in the private sector will either lose eligibility for Aid to Families with Dependent Children or have their benefits significantly reduced by the new rules on work expenses and allowable assets. For example, the University of Chicago's Center for the Study

of Welfare Policy (1981) shows that the typical AFDC mother who works will experience a 20 to 30 percent decline in her monthly income.

Ironically, for many women the new AFDC rules provide less incentive to work than do current ones. For example, the Chicago Center's study shows that in New York the typical working welfare mother with two children earns \$396 per month. Because these earnings reduce her Food Stamp and AFDC benefits, her monthly disposable income is currently \$162 higher than that of a nonworking mother with two children. Thus, her effective benefit reduction rate is 59 percent ( $\$396 - 162 / 396 = 0.59$ ). Under the Reagan proposals, after four months of welfare redipency, her earnings would reduce her welfare benefits even further, and her disposable income would be only \$15 per month higher than that of the nonworking woman. In this case, the effective benefit reduction rate would be 96 percent, and one might expect the woman to quit working. Some Food Stamp and AFDC recipients will find that additional earnings will bring them to a "notch"--a point at which their eligibility will be terminated and their benefits will fall by more than the amount of the additional earnings. Loss of Medicaid will be widespread, making the notch problem more serious. Some of those whose eligibility is terminated may also reduce their work effort so as to regain eligibility.

Thus, at the same time that the proposed income tax reductions will be cutting tax rates for the rest of the population, many lower-income families who receive welfare benefits and already face high benefit reduction rates (which are equivalent to tax rates) will experience

even higher rates and work disincentives.<sup>7</sup> If the lowered income tax rates lead the nonpoor to work more, and the higher rates lead welfare recipients to work less, the gap between the income classes will increase.

#### SOME ALTERNATIVES FOR POOR HOUSEHOLDS WITH CHILDREN

Income maintenance policy must confront the financial plight of children, especially those living in female-headed households. Over 40 percent of these households remain poor even though over half receive income transfers (about 40 percent receive welfare) and about two-thirds of the women work at least part time. The budget changes that have already been implemented will further aggravate the problem. And if the current system of open-ended matching grants for AFDC is replaced by fixed block grants of equal size (as proposed by the Reagan administration), real benefits will decline even further (Chernick, 1982).

A welfare reform that would have alleviated poverty to some extent among female-headed households was proposed by President Carter in 1977. It was not enacted primarily because it would have added to the costs of current programs (Dansiger, Haveman, and Smolensky, 1977; Dansiger and Plotnick, 1979). But there seems to be no welfare reform that can reduce poverty among women heading households with young children that does not also increase transfer expenditures.

One solution (Jones, Gordon and Sawhill, 1976; Cassetty, 1978; Garfinkel, 1979) would be a new social child support program, which would replace AFDC and the current role played by the courts. All adults

not living with a spouse who care for children would be eligible for a public payment that would be financed by a tax on the absent parent. If the payment fell below a minimum level, it would be supplemented up to that level by government funds. The program could reduce poverty even if total government expenditures were maintained at current funding levels because of the additional revenue raised from absent parents.

A second policy to aid households with children involves expansion of the Earned Income Tax Credit (EITC), which currently subsidizes the earnings of workers who have children and whose incomes are below \$10,000 a year. By increasing the subsidy rate, work incentives for the lowest-income workers would be enhanced. Some workers now above the eligibility cutoff would receive a subsidy, but would also experience an increase in their marginal tax rate. On balance, expanding the EITC would offset the toll which inflation has taken and would reduce the tax burdens of the working poor. Due to increases in the standard deduction and personal exemptions, and to the introduction of the EITC, federal income and payroll taxes for a poverty-line family of four declined from 7.6 percent of family income in 1969 to less than 2 percent in 1979. However, because the poverty line is indexed but the EITC is not, and because the poverty-line family gets almost no relief from the Reagan tax cuts, its 1981 average tax rate will be as high as it was in 1969. An expansion of the EITC would give some relief to working poor and near-poor families who lose benefits from the proposed spending cuts.

Finally, there are ways to cut the budget without disproportionately hurting households with children, even if the administration refuses to

roll back significantly its large increases in military expenditures. Some proposals of this type are presented in a recent report by the Congressional Budget Office (1981b). The CBO estimates, for example, that repeal of the consumer interest deduction from the personal income tax could raise an additional \$6 billion in 1982. This deduction promotes consumption by subsidizing personal debt rather than saving, and is of benefit only to taxpayers who itemize, a group that has above-average incomes.

The cutbacks in social welfare programs have deflected attention away from the plight of those who remain poor. If the administration continues to attribute most of the problems of the economy to the ill effects of social programs and accordingly reduces expenditures even further, poverty may rise to the level prevailing at the outset of the War on Poverty, and the progress made during the last 15 years will be lost.

## NOTES

<sup>1</sup>The computer tapes from the March 1979 Current Population Survey and the 1966 Survey of Economic Opportunity are the sources for the data presented in this paper. The surveys report number of households as of March of the survey year, but census money income for the previous year. Census money income is defined as money income received during the calendar year as wages and salaries, net income from self-employment, property income--for example, interest, dividends, and net rental incomes--government cash transfers from the programs listed in the note to Table 1, and other forms of cash income, such as private pensions and alimony. The census income concept does not include government or private benefits in-kind, such as Medicare, Food Stamps, housing assistance, or employer-provided health insurance. The omission of in-kind transfers biases downward estimates of the number of transfer recipients and biases upward estimates of the incidence of poverty. Plotnick and Smeeding (1979) show that in 1974 an additional 2 to 3 percent of the population received in-kind transfers for food, housing and/or medical care, but did not receive cash transfers. This suggests that the percentage receiving either a cash or in-kind transfer was probably in excess of 45 percent by 1978.

<sup>2</sup>The federal government's official measure of poverty provides a set of income cutoffs adjusted for family size, age and sex of family head, number of children under age 18, and farm-nonfarm residence. The cutoffs provide an absolute measure of poverty which specifies in dollar terms minimally decent levels of consumption for households of different types. The cutoffs are adjusted each year by the change in the cost

of living. For 1978, the poverty lines range from \$2,650 for a single, aged female living on a farm to \$11,038 for a two-parent family of seven or more persons not living on a farm. The average threshold for a family of four for 1978 is \$6,628. Poverty incidence as measured in this paper uses the household as the unit of analysis.

Households in which the head is reported as married, but the spouse is absent, are counted as two-parent households. For an analysis of the trend in poverty among persons, see Danziger and Plotnick (1980).

<sup>3</sup>The decline in the incidence is computed by subtracting the 1978 incidence from the 1965 incidence, dividing by the 1965 incidence, and multiplying by 100. For example,  $(14.3 - 13.2/14.3) \times 100 = 7.7$  percent.

<sup>4</sup>As mentioned above, the data presented here do not include in-kind transfers. However, Smeeding (1982) finds that about 20 percent of female-headed households are poor even if in-kind transfers (including Medicaid) are valued as equivalent to cash income.

<sup>5</sup>The pattern of results is the same when region, or education, or age of the head of household is varied. More detailed results are available from the author. The predicted incidences show less variation across the races than the actual data because they control for personal characteristics. For example, the differences by races in Table 2 are for households with the same education, while the actual education of white household heads is higher than that of the other groups. Thus, the actual differences in poverty can be decomposed into a component due to differential probabilities, holding characteristics constant, and a component due to differing characteristics.

<sup>6</sup>For example, the aggregate decline in the incidence, 6.1 percent, shown in figures 3 and 4 (from 45.6 to 42.8 percent), was smaller than the decline for either divorced, separated, or widowed heads (13.6 percent, from 43.3 to 37.4 percent) or never-married heads (6.3 percent, from 70.4 to 66.0 percent) because of the more rapid growth of never-married heads.

<sup>7</sup>The work lost because of the increased disincentives for those who continue to receive welfare may be partly offset by increased work from those whose eligibility is terminated. These former recipients no longer face any benefit reduction rates, and they will probably be eligible for the Earned Income Tax Credit, discussed in the next section, which partially offsets payroll and personal income taxes. The Reagan program also seeks to offset the increased work disincentives for welfare recipients by enforcing work requirements.

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