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ABSTRACT

The United States has one of the highest poverty rates in the industrialized world, especially among its children and the working poor. The underclass is comprised of a group of 2.5 million chronically poor people who live in inner-city communities where crime, drug abuse, teenage childbearing, dropping out of school, and welfare dependency are commonplace. Poor children should receive priority attention for the following reasons: (1) they are far less likely than other children to become healthy, productive adults; (2) their numbers are growing; (3) a disproportionate number are minorities; (4) they are not responsible for their circumstances; (5) future workers must be well-educated and well-trained; (6) many cost-effective programs already exist; and (7) the social consequences of neglect are large. The working poor should receive priority attention because inability to support a family makes a life of welfare or crime more attractive and erodes the work ethic, and recent welfare reforms have enabled people to obtain jobs but not to move out of poverty. The following options are suggested: (1) expand effective federal programs; (2) support state-local-private efforts; (3) build knowledge on how to help the disadvantaged; (4) remove bureaucratic impediments to effective efforts; (5) provide federal development grants; (6) increase the minimum wage; (7) increase the Earned Income Tax Credit; (8) provide health insurance and child care; and (9) increase remedial and job training. A copy of the table of contents of "American Agenda, Report to the Forty-First President of the United States" is included. (FMW)

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POVERTY AND THE UNDERCLASS

Isabel V. Sawhill

November 1988

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This paper is a product of the Changing Domestic Priorities project which has examined the shifts taking place in the nation's economic and social policies under the Reagan administration and is now focusing on the major economic and social problems facing the nation over the coming decade. Funding for this multiyear study has been provided by a consortium of foundations and corporations, principally The Ford Foundation, the John D. and Catherine T. MacArthur Foundation, and the Rockefeller Foundation.

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THE URBAN INSTITUTE

Report to the Forty-First President of the United States

Table of Contents

Part I: A Personal Message to the 41st President of the United States from Gerald R. Ford and Jimmy Carter.

Part II: A Perspective on Presidential Priorities by Gerald R. Ford and Jimmy Carter.

Part III: Reports and Recommendations: The American Agenda Panel Reports

Economic Policy
By Paul H. O'Neill and Alice M. Rivlin, with W. Michael Blumenthal and James D. Robinson, III.

Domestic Policy
By Carla A. Hills and Edmund S. Muskie, with Vernon E. Jordan and Glenn E. Watts
Contributions by Lamar Alexander

Foreign Policy
By Warren Christopher and Lawrence S. Eagleburger

Defense and Arms Control
By Brent Scowcroft and R. James Woolsey

Presidential Decision-Making
By Donald H. Rumsfeld and Robert S. Strauss, with Stuart E. Eizenstat

Part IV: Commentaries on Current and Future Issues

Advisors and Acknowledgements

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Poverty and the Underclass

Isabel V. Sawhill

I. The Problem

For a prosperous democratic society we have too much poverty in our midst. At 14 percent, or 33 million people, the United States in 1987 had one of the highest poverty rates in the industrialized world, especially among its children, but also among those who work part or all of the time. A child in the United States is two or three times as likely to be poor as one in Germany, Sweden, Norway, or Canada.

II. Overview

The 33 million poor people in the United States are a diverse population. About one-third of them are elderly or disabled. About one third are temporarily poor due to loss of a job or some other misfortune. And about one-third live in households that are chronically poor even though they are headed by someone who is neither elderly nor disabled. A small subset of the chronically poor are also members of what has come to be called the underclass. This term has been used to describe a group of people who live in communities where crime, drug abuse, teenage childbearing, dropping out of school, and welfare dependency are so commonplace, in a statistical sense, as to have become a way of life. In 1980, 2.5 million people lived in such communities, and it is this segment of the low-income population that appears to be growing most rapidly.

Although the incidence of poverty has declined over the past few years as the unemployment rate has dropped, in 1987 it was still higher than at any time during the 1970's.

III. Magnitude And Urgency Of The Problem

While all citizens in need deserve the nation's concern, it would be the wrong time to launch another War on Poverty. The U.S. has neither the fiscal resources nor the wisdom to do this well. Rather, it is poor children and the working poor who have particularly pressing needs and who should receive the attention of the next president.

A. The Children. Currently there are about 13 million poor children, an estimated 3 million of whom are chronically poor, and roughly half a million of whom also live in seriously troubled, inner-city neighborhoods. There are a number of arguments for giving the issue of children at risk top priority in a new Administration:

- Children who grow up in the above circumstances are far less likely than other children to become healthy, productive adults. They are at high risk of repeating their parents' lives. (An estimated 8 percent of all children grow up in poverty—that is, spend 7 or more of their first 10 years in poverty—the proportion is 3 percent for white children and 34 percent for black children.) Research indicates that children who grow up in low-income families—and especially in families that are headed by a single parent or dependent on welfare—are much more likely to have similar experiences when they reach adulthood.

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- The number of children at risk is growing. One in every five children was poor in 1987, compared to one in every seven in 1969. One in five lived in a single parent family in 1987, compared to one in ten in 1960. And the number of children living in the poorest neighborhoods with the most adverse environments more than *tripled* between 1970 and 1980.
- A disproportionate number of poor children (about half) are minority children. Unless their life chances are improved, we risk becoming a society in which minorities remain alienated and isolated from the mainstream, and in which racial tensions worsen.
- Unlike adults, children cannot be held responsible for their circumstances. Because the public understands this, new or expanded programs for children are likely to be widely supported. Moreover, the evidence suggests that intervening in the lives of children can be a good way to reach their families, including those with multiple problems.
- Demographic trends suggest that the economy is going to need every worker it can get over the next few decades while changes in trade patterns and technology make it imperative that future workers be well-educated and well-trained.
- We have evidence that many programs for children work. They are a proven investment in the future. Although there is no denying the up-front costs, many yield budgetary savings as well as other less tangible benefits over the longer term. For example, it is estimated that $1 investment in prenatal care saves $3.38 in the cost of care for low birth weight infants. Yet in 1982, 24 percent of pregnant women did not receive prenatal care in the first trimester of pregnancy. Similarly, $1 investment in preschool education is estimated to save almost $5 in lower costs for special education, public assistance, and crime. Each year, 440,000 children—less than 20 percent of those eligible—participate in Head Start. It is penny wise and pound foolish not to make such investments.
- The social consequences of neglect—whether in the form of more crime, more teenage childbearing, more school failure, or greater health problems—are large. If we fail to make the needed investments now, we will pay the costs later. It is currently costing about $6 billion a year to maintain our prison population, $17 billion to support teenage mothers and their children, and literally hundreds of billions (in lost productivity and foregone taxes) because of high dropout rates and low levels of literacy.

B. The Working Poor. A large fraction of poor households (47 percent) is headed by someone who works at least part of the year and a smaller number (15 percent) is headed by someone who works full-time for the entire year but remains poor nonetheless. One reason for this problem is that a low-wage job no longer guarantees an escape from poverty. A year of full-time work at the minimum wage provides an income of $7,000 whereas the poverty line for a family of four is $11,203. Another reason is cutbacks in income supplements for single parents with earnings.

This issue merits attention for two reasons:

- The inability to earn enough to support a family makes a life of welfare or crime more attractive and seriously erodes the work ethic.
- Recent efforts to reform welfare have focused on moving people into jobs—a laudable objective but one whose achievement will not substantially reduce pov-

erty unless people can qualify for higher-paid work. Welfare reform (including an emphasis on child support from absent parents) should be one element of an overall policy to reduce chronic poverty. But it will not solve the more difficult problem of what to do for those who successfully obtain jobs but remain poor nonetheless.

IV. Options

The following options could be adopted singly or in combination with one another, depending on a new President's resources and priorities. None of these suggestions should be viewed as a substitute for continuing reform of the basic system of elementary and secondary education in this country, especially in inner-city areas.

A. The Children.

1. Expand Federal programs of proven effectiveness. A number of existing federal programs that serve disadvantaged children have proven quite successful: prenatal care, immunization and Medicaid-financed preventive health care, supplemental nutrition for pregnant women, infants, and children (WIC), Head Start, and Compensatory Education. Successful programs aimed at older children or adolescents—many of whom are, or shortly will be, parents themselves—also exist and produce benefits not only for the teenagers involved but also for their children. The best-known and probably most effective of these is the Job Corps.

Not all of these programs are equally effective and some improvements are needed. Nevertheless, based on a review of the evidence on the costs and benefits of these programs, the Select Committee on Children, Youth, and Families, the Committee for Economic Development, the Children's Defense Fund, and other groups have argued that these programs more than pay for themselves over the longer run and should be expanded to serve all or most of the eligible population. Careful studies suggest that prenatal care and preschool education are especially effective in changing the lives of disadvantaged children and expanding the number who are afforded such an opportunity should receive top priority.

Such an expansion would cost an estimated $9 to $13 billion (1988 dollars), based on some reasonable assumptions about likely participation rates and the capacity of the system to absorb new monies effectively. (Even this level of outlays should be phased in gradually with attention to the ability of existing delivery systems to use them efficiently.)

2. Support state-local-private efforts. Another option would be to encourage—hrough Presidential leadership, technical assistance, and the dissemination of information—the wide range of on-going state, local, and private efforts to improve the physical, social, and intellectual development of disadvantaged children and youth. A new President could encourage both more, and more effective, state-local-private initiatives by calling attention to efforts that have worked and to the attributes they share. Many successful models, or potentially successful models, have already been identified by the National Governors Association, the Manpower Demonstration Research Corporation (MDRC), the Committee for Economic Development, the American Psychological Association, and in Lisbeth Schorr's new book, *With Our Reach.*

3. Build knowledge for the future. For the longer term, we need to build a better understanding of how best to change the lives of disadvantaged children, especially those growing up in neighborhoods where multiple problems are commonplace. To do this, more systematic testing and evaluation of different approaches will be required, including more attention to what happens when a successful small-scale program is implemented on a state-wide or national basis. To assure continuity of effort and freedom from political pressures, this responsibility could be assigned to a private, nonprofit "intermediary" organization with an independent board and a modest level of federal funds ($5-10 million a year). Its purpose would be to carefully evaluate the effectiveness of existing efforts, to encourage new demonstrations, and to suggest and test more effective models. Federal support for such activities should be both inexpensive and noncontroversial.

4. Remove bureaucratic impediments to more effective efforts. Many experts now believe that the only way to move a significant number of the most disadvantaged children out of poverty is to adopt comprehensive approaches in which both parents and children receive a variety of different kinds of services over the life course. To accomplish this, local officials or service deliverers need to be able to flexibly combine funds from different sources, a difficult and sometimes impossible task. To rectify this problem, a new President could ask all of his Cabinet secretaries in the domestic area to study the impediments and propose some solutions.

5. Provide federal child development grants. A final option would be to move beyond cheerleading, evaluation, and improved coordination to provide "child development grants" to local governments or nonprofit organizations on a competitive basis. Priority would be given to programs that build on what we know about the most successful interventions to date: they start early (preschool or younger); they involve parents; they have strong leadership and well-trained, caring staff; they are comprehensive and intensive (designed to deal with the multiple handicaps of low-income children); and they are sustained long enough to affect critical outcomes at different stages of a child's life. The grants would be targeted on low-income communities and children (perhaps on specific inner-city neighborhoods or housing projects), they would be structured to leverage (rather than replace) other funds, and they would be conditional on the grantees' willingness to have the effort independently evaluated. The grants should be multi-year to facilitate continuity of effort and institution building, and they might be made through a nongovernmental intermediary to isolate the process from political influence. An initial authorization of $1 billion to be expended over a five-year period would permit considerable leveraging of local efforts, on a selective basis.

B. The Working Poor.

The options for solving this problem include:

1. An increase in the minimum wage. An increase in the minimum wage would decrease the number of working poor families—probably by about 6 percent if the minimum was raised by $1.00 an hour to compensate for its loss of purchasing power between 1981 and 1988. This would, of course, add to business costs and could worsen inflation. It would also reduce employment opportunities especially for disadvantaged teenagers. However, the most recent evidence suggests that both of these effects are small.

2. A more generous Earned Income Tax Credit. Since four-fifths of minimum wage workers do not live in poor families, raising the minimum wage is a rather blunt instrument for reducing poverty. A more targeted and less inflationary approach would be to make the Earned Income Tax Credit more generous and to vary it with family size. One legislative proposal along these lines would raise take-home pay by 23 cents an hour (relative to current law) for a minimum wage worker with two children. (For larger families, the subsidy would be greater.) This proposal has been estimated to cost an additional $2 billion in 1988. Clearly, an increase in hourly pay of 23 cents an hour will not help a poor family as much as, say, a dollar increase in the minimum wage. A more generous plan could be devised with a higher price tag or the two approaches could be used in tandem.

3. Health insurance and child care for low-wage workers. An estimated three-fourths of workers from poor families are in jobs that do not provide health insurance and most are not eligible for Medicaid which is, with some exceptions, tied to the receipt of public assistance. In addition, a disproportionate number of such workers are single parents for whom child care expenses loom large relative to income. Current proposals to subsidize (or mandate) health insurance or child care would help such families. Recent legislation requires that states provide Medicaid eligibility to pregnant women and infants from poor families and allows them to extend eligibility to children up to age 7, an important step in the right direction. These provisions could be liberalized to include older children in both categories, using the funds incorporated in our earlier estimate of the cost of expanding effective federal programs. Finally, one of the two major child-care proposals put forward during the 1988 campaign, and estimated to cost between $2.2 and $2.5 billion, could be enacted. Despite their differences, both target funds on low-income, working families.

4. More intensive remedial education and training. Fiscal constraints have tended to limit the amount of education and training provided to participants in work-welfare programs and in the Job Training Partnership Act. Greater investments could qualify a larger proportion of the participants in these programs for higher-paid jobs. For this reason, more adequate funding for these programs—combined with performance standards that emphasize long-term earnings gains—should receive high priority.

These two issues—children at risk and the working poor—warrant the attention of a new President. Large deficits make it difficult to argue for new social spending, and a new Administration will have to juggle competing fiscal priorities. Budget deficits lower the rate of economic growth and threaten future standards of living. Unfortunately, a failure to invest in the next generation has precisely these same effects.