Statement of

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Poverty increased in the United States in 1982--part of a continuing trend since 1978. This growth has again focused attention on the debate over government policies directed at raising the well-being of the poor. My statement today will discuss three areas:

- The measurement and magnitude of the poverty problem;
- The factors related to increases in poverty rates and prospects for the future; and
- Some policy options the Congress might wish to consider.

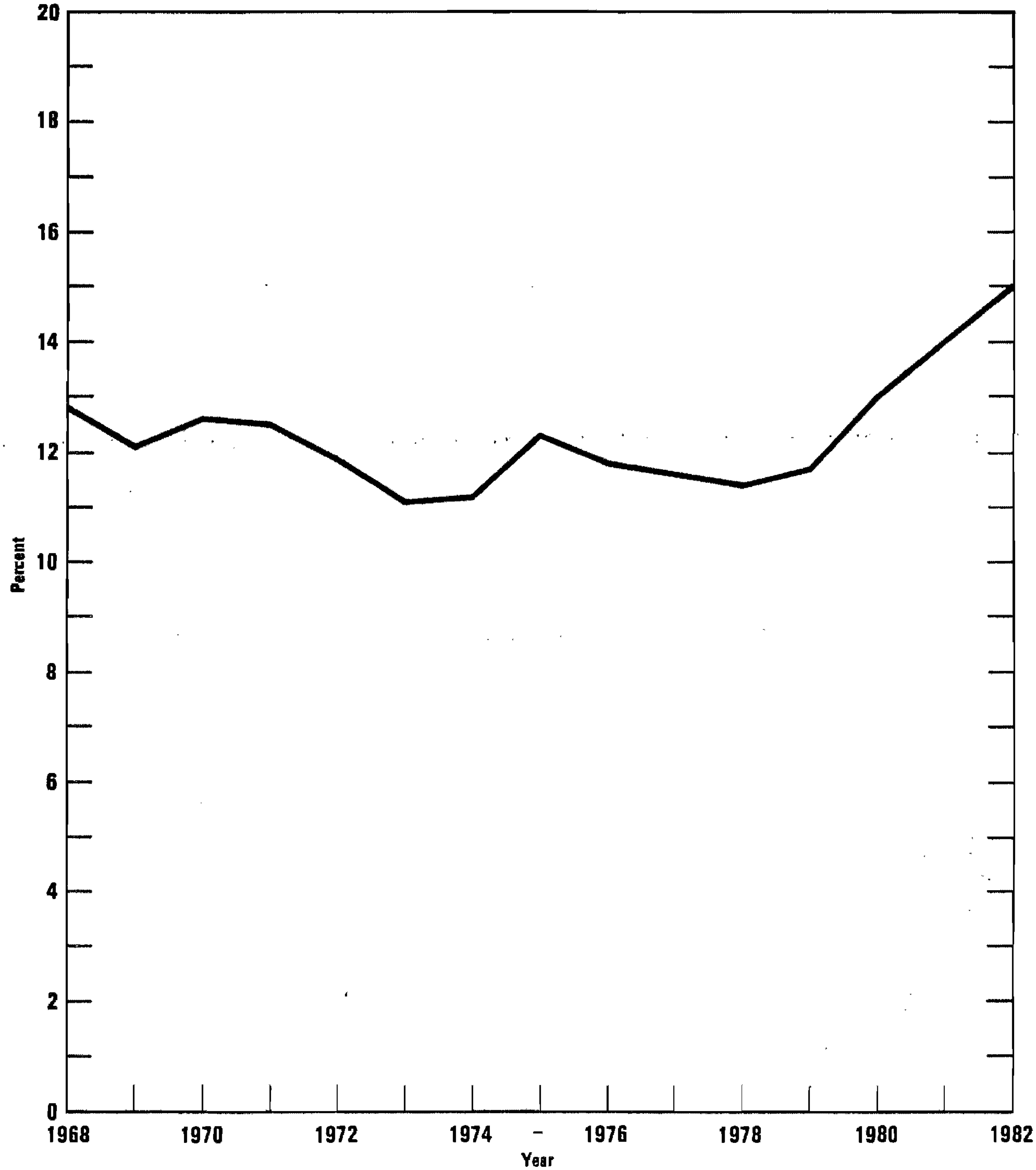
A LOOK AT POVERTY STATISTICS

Although controversy abounds concerning the appropriate definition of poverty and hence concerning the exact proportion of persons classified as poor in the United States (that is, the poverty rate), most alternative measures display a consistent upward trend since 1978. The official definition of poverty classifies as poor those families whose money incomes are less than specified poverty thresholds that vary with family size and consumer prices--$9,862 for a family of four in 1982, for example. Under this definition, the poverty rate was 15.0 percent in 1982, up from 11.4 percent in 1978, or an increase in the number of poor persons from 24.5 million to 34.4 million. In fact, the 1982 rate is the highest in 15 years. In contrast, the rate for the elderly declined substantially between 1968 and 1974 and has remained relatively stable since then. Figure 1 shows the overall historical pattern of poverty rates, while Figure 2 shows these rates for the elderly and nonelderly.

The composition of poverty has also changed since 1978, with large increases occurring in the number of poor persons in young two-parent families. The proportion of poor persons living in nonelderly husband-wife

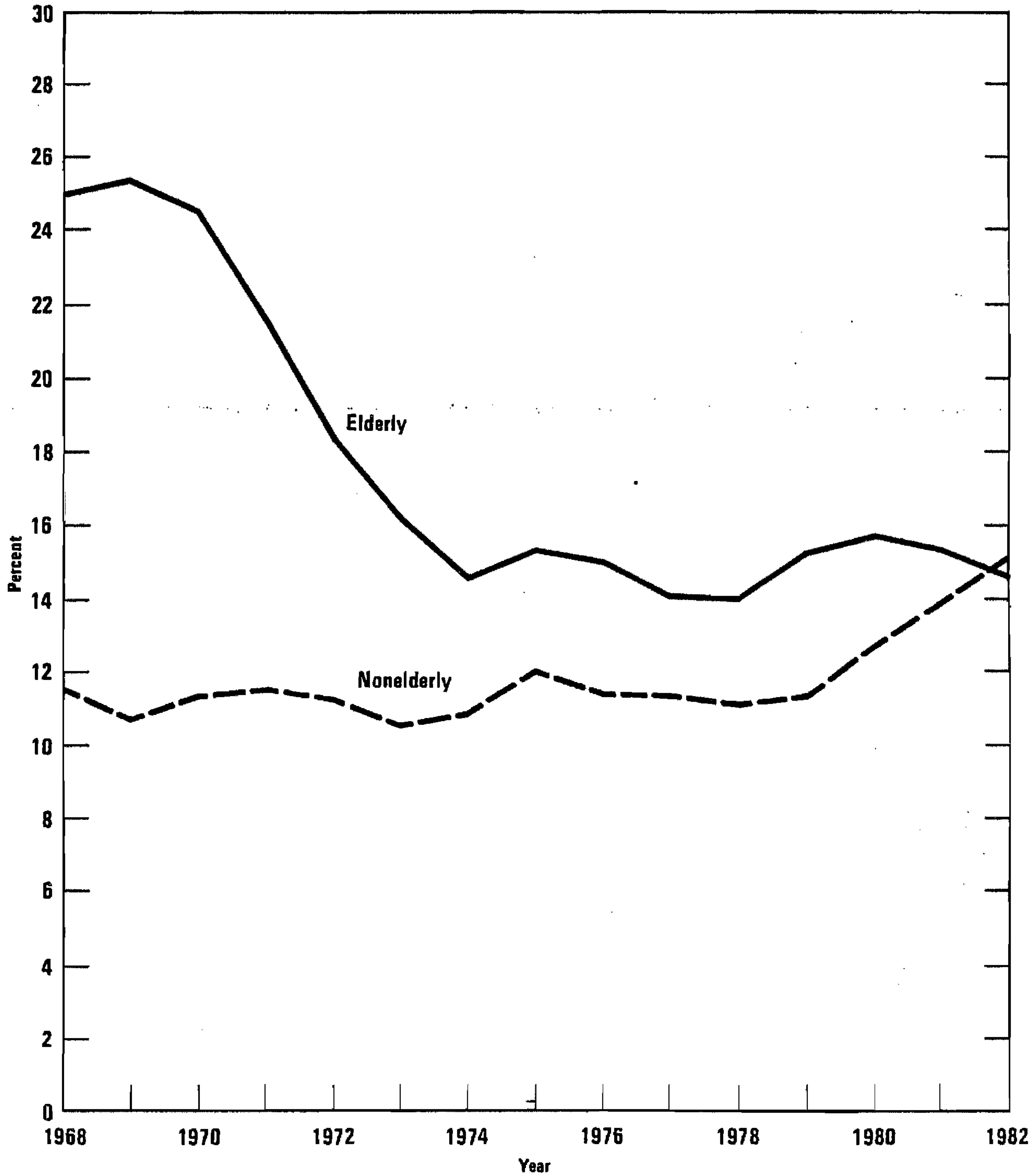
Figure 1.

Poverty Rate, 1968-1982
(By persons)



SOURCE: Data derived from U.S. Department of Commerce, Bureau of the Census, Current Population Reports: Consumer Income, *Money Income and Poverty Status of Families and Persons in the United States: 1982,* Series P-60, No. 140, July 1983.

Figure 2.
Poverty Rates for Elderly and Nonelderly Persons, 1968-1982



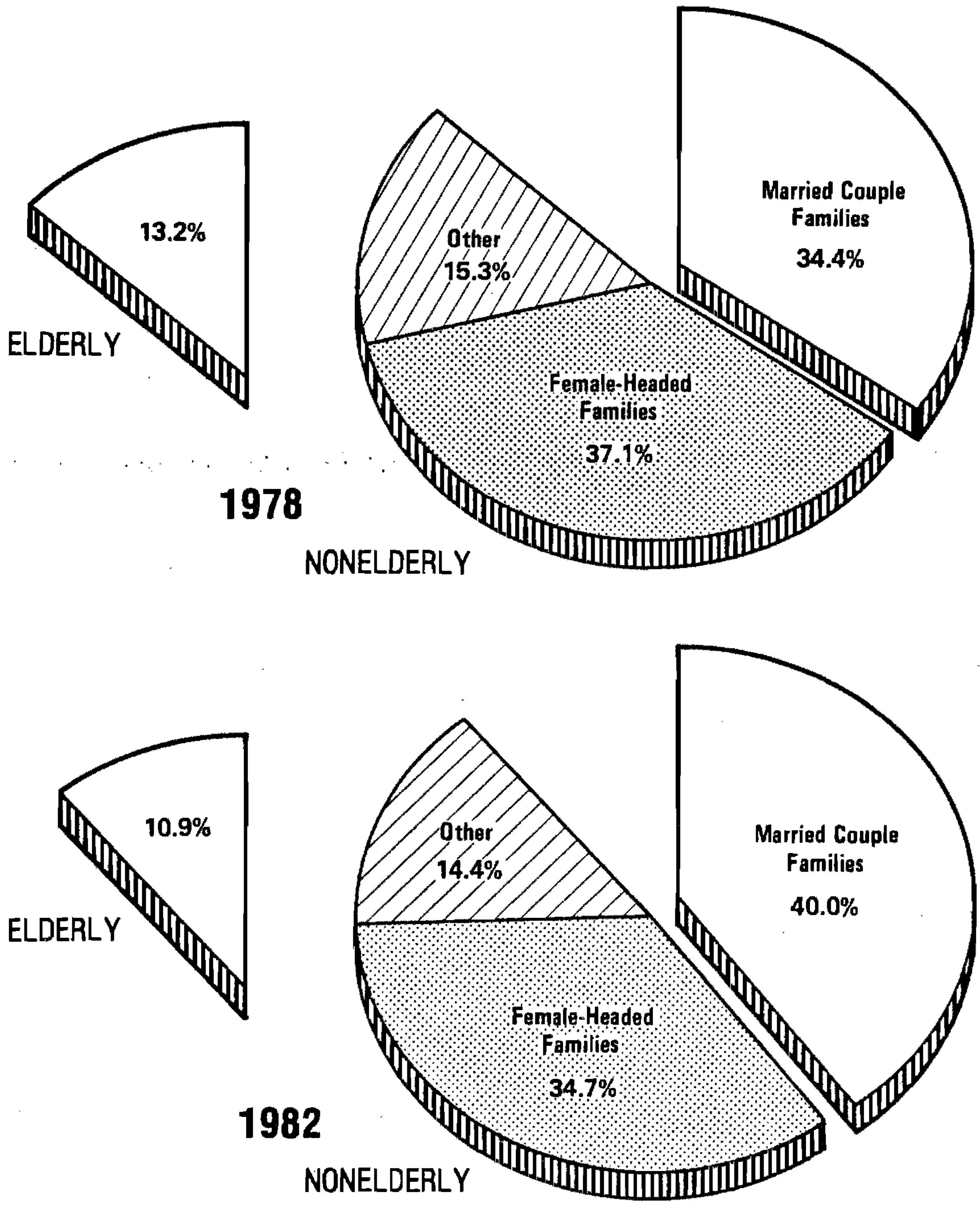
SOURCE: Data derived from U.S. Department of Commerce, Bureau of the Census, Current Population Reports: Consumer Income, *Money Income and Poverty Status of Families and Persons in the United States: 1982*, Series P-60, No. 140, July 1983.

families rose from 34 percent to 40 percent, making that the largest poverty group. Poor persons in female-headed nonelderly families--the largest group in 1978--declined to 35 percent of the total in 1982, although their absolute numbers increased. The proportion of the poor who are elderly declined, not because of a drop in the number of elderly poor, but because of a large increase in the number of nonelderly persons in poverty. Over this period, the rate of poverty among those under age 65 effectively caught up with the rate for the elderly, which has been relatively stable since the mid-1970s. Figure 3 illustrates the composition of poor persons on the basis of their individual and family characteristics in 1978 and 1982.

Not only has the rate of poverty been increasing, but so has the degree of poverty--that is, the extent to which those in poverty are below the thresholds. Between 1981 and 1982, the poverty gap, which measures the cumulative amount of shortfall between the incomes of the poor and their particular poverty thresholds, rose faster than the rate of poverty--increasing (in 1982 dollars) from $39 billion to $43 billion. Moreover, the proportion of poor persons with incomes at 75 percent or less of the poverty lines increased from 61 percent in 1978 to 68 percent in 1982.

Children and working-age adults account for more than 93 percent of the poorest of the poor--those with incomes under three-fourths of the poverty line. This is slightly higher than their share of all those in poverty. Nonelderly persons in female-headed families constitute the largest share of the very poor--41 percent. Since 1978, however, the number of husband-wife families with incomes less than three-fourths of the poverty line has been increasing as well.

Figure 3.
Composition of Poverty



NOTE: The figures presented are for persons in poverty. Individuals aged 65 and over are placed in a separate category, while other individuals are summarized by the type of family in which they reside. The other nonelderly category includes single-parent families headed by a man and unrelated individuals.

SOURCE: U.S. Department of Commerce, Bureau of the Census, Current Population Surveys, 1979 and 1983.

These income-based poverty measures have been criticized on two basic grounds--the way that the threshold level of income is determined, and what is included in the definition of family "income."[1] Alternative ways to deal with either problem could lead to higher or lower measured rates of poverty, but the trend in poverty rates for the last five years would generally remain the same.

The first criticism of the current poverty thresholds emphasizes that they are arbitrary and are based on outdated studies indicating what constitutes a minimally adequate diet and the share of income that families normally devote to buying food. In addition, flaws in the Consumer Price Index (CPI), which is used to index the thresholds, may have led to raising them too fast in the late 1970s. Possible adjustments would update the studies used to calculate food consumption as a share of income, change the way the thresholds are adjusted over time, or use a more complete analysis of household budgets.

The second criticism is that the present definition of income omits some important resources. A common concern is the failure to include non-cash benefits that the poor receive from various levels of government--in particular, benefits from food stamps and housing assistance. Recipients of

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1. In addition to these conceptual issues, important technical problems in measuring poverty may have an even larger impact on measured poverty rates. For example, income from transfers tends to be underreported on the Current Population Survey--the data base normally used for calculating poverty rates--which may cause poverty rates to be overstated. On the other hand, there is some evidence that very-low-income households are also underrepresented on the survey.

these programs are less poor than their cash incomes would indicate, because they can purchase other goods with the cash they would otherwise have to spend on housing and food. If these benefits were added to income, for example, the poverty rate for all persons would be in the range of 14 percent rather than 15 percent.

In addition to housing and food benefits, some adjustments for in-kind transfers would include medical care benefits as part of income, but such calculations would probably overstate the reduction in poverty achieved by the medical programs (principally Medicare and Medicaid). For example, while elderly individuals--who receive large amounts of medical benefits, on average--could be moved well over the poverty threshold by counting the insurance value of such benefits as income, they could remain unable to purchase adequate food, housing, and other basic necessities.

The definition of income might also be modified to reflect other resources, such as assets, and certain liabilities, such as payroll and income taxes. Including assets, such as the value of a home, would raise a number of technical measurement problems, however.

Using alternative definitions of family income might affect comparisons across different groups of the population, making some appear to be better or worse off relative to others. For example, in-kind transfers are more likely to go to those traditionally covered by welfare programs--the elderly and single-parent families. Moreover, assets are relatively more concentrated among the elderly. Adjusting for those factors would make these groups appear less poor. Subtracting income and payroll tax liabilities would lower the measured economic status of the working poor relative to other groups.

Finally, using an annual measure of poverty can be misleading because individuals and families move into and out of the poverty population over time on such a large scale. Some will live in poverty for most of their lives while others are there only temporarily because of illness, an unusual spell of unemployment, or voluntary withdrawal from the labor force for the purpose of obtaining additional education or training. Annual measures ignore the poverty of persons who have low incomes for only a few months of the year, but also fail to reflect the transitional nature of poverty for many households.[2]

CHANGES IN POVERTY OVER TIME

Poverty measures are sensitive to economic factors, demographic factors, and the size and nature of government programs providing benefits to low-income families. Just as the level and pattern of change in poverty rates and gaps vary among different population groups, the factors explaining such changes may also vary, particularly between those under and those over the age of 65.

2. For example, the University of Michigan's Panel Study of Income Dynamics found that, although about a quarter of the U.S population was poor in at least one year during the 1969-1978 decade, only about 3 percent of the population was poor eight or more of those years. Overall, in any given year, between 20 percent and 30 percent of those in poverty are members of this "long-term" poverty group.

Children and Working-Age Adults

Poverty among children and working-age adults has been rising steadily since 1978—from 11 percent to 15 percent of all persons under the age of 65 over the five-year period. In 1982, 30.6 million nonelderly persons were poor and the poverty rate for children under age 15 reached 23 percent.

Economic factors contributed substantially to this increase. Unemployment trended upward over the period and, through 1981, inflation was unusually high, so that the real value of earnings declined on average. Indeed, over the 1978 to 1982 period, the poverty rate for persons in husband-wife families--those whose incomes are most likely to be sensitive to economic factors—rose by 60 percent, from under 6 percent to 9 percent. Because unemployment is expected to average about the same in 1983 as in 1982, poverty rates for 1983 will probably not change much. The impact of lower inflation and unemployment could, however, help to lower the rates in 1984 and beyond.

Two longer-term influences have also contributed to the increasing poverty rates—demographic factors and a decline in the real (adjusted for inflation) level of some cash benefits provided to the poor. For example, persons in families headed by a woman with no husband present has increased more than 15 percent since 1978, compared to a 6 percent growth in overall population. Such women generally have lower earnings than the average worker and are often the sole support of their children, leading to a higher rate of poverty. Moreover, the cash benefits provided through Aid to

Families with Dependent Children (AFDC)—which are not indexed and vary substantially from state to state--declined in real terms over this five-year period. Continued growth in the number of female-headed families suggests that poverty rates for the nonelderly may not fall rapidly even with a continuation of the current economic recovery.

Finally, between 1981 and 1982, another factor began to enter the picture--benefits were cut by legislative changes at the federal level. For example, federal expenditures on AFDC--the largest means-tested cash program for the nonelderly--were reduced by an estimated 10 percent and food stamps were reduced by 12 percent from the levels that would have occurred if the law had not been changed.[3] Actual outlays declined from $8.2 billion to $8.0 billion under AFDC and from $11.3 billion to $11.0 billion for food stamps and would have declined even more had the severity of the recession not increased the eligible population substantially. Some of the program cuts focused on recipients believed to be above the poverty lines; others moved some recipients from above to below the lines; still others reduced the incomes of those already below the thresholds. Because of data limitations, we cannot provide precise estimates of the total effect of recent program changes on poverty rates or poverty gaps, but we suspect that they had a greater impact on gaps since most recipients of welfare benefits were already below the poverty thresholds.

3. Another cut that may affect poverty rates and gaps is the change in unemployment insurance (UI) which limits receipt of extended benefits. Although the effects of this UI change on poverty are unknown, UI benefits in general are more concentrated among the higher income unemployed and the size of the cuts relative to the size of UI benefits overall was small in 1982.

The Elderly

The rate of poverty for persons 65 and over has remained at about the same level since 1974, reflecting the degree to which the elderly are insulated from the effects of the business cycle. Few elderly persons remain in the labor force after age 65, and a large share of the income received by this group is indexed for inflation. Indeed, the CPI, which is used to index Social Security, is also used to adjust the poverty threshold annually, although the exact computations differ somewhat. Moreover, few policy changes that would reduce benefits substantially were enacted in the recent past in Social Security, Supplemental Security Income (SSI), or veterans' pensions, which are the major cash programs aiding elderly persons.

Almost 3.8 million elderly had incomes below the poverty threshold in 1982, with the very old who live alone experiencing disproportionately high rates of poverty. Almost 31 percent of unrelated individuals 80 years of age and older were in poverty in 1982, although this rate declined from about 34 percent in 1978.

POLICY OPTIONS

The Subcommittees requested that the Congressional Budget Office (CBO) identify and analyze options for increased welfare expenditures that would reduce the poverty rate and/or the poverty gap. Any increase in outlays related to welfare programs must, of course, be financed either by cutting nonwelfare programs, by raising taxes, or by increasing an already large deficit. An increased deficit could, in turn, be financed by issuing debt or by creating new money. All means of financing are likely to have some negative impacts on the economy as a whole, however, including some that may indirectly offset a portion of the increased benefits to the poor.

An analysis of such complex interactions is far beyond the scope of this testimony, however. We have examined the options only with regard to criteria that might be used to judge their effectiveness as welfare programs, ignoring their macroeconomic effects. Each of the individual options has small costs relative to the size of the economy, so its macroeconomic effects would be minor. But if several options were combined, the macroeconomic effects could be significant.

A wide range of criteria or goals--some of which conflict--are often offered in debate over changes in welfare programs. Some of the major ones are:

- Targeting benefits toward those most in need;
- Treating persons with similar incomes alike;
- Encouraging families to remain together;
- Maintaining incentives so that program recipients who can work do so;
- Simplifying the system and reducing administrative costs; and
- Keeping costs as low as possible.

Deciding who among the poor are most in need--the first goal--is not necessarily straightforward, and specific definitions of need may conflict with the second and third goals of treating similar persons uniformly and encouraging families to remain together. Traditional definitions of need have concentrated on assisting single-parent families with children, the elderly, and the disabled. Treating persons with similar incomes alike, however, would suggest that preferential treatment not be provided on the basis of family characteristics. If, instead, the severity of poverty were used as the criterion for eligibility, groups now excluded from federal cash programs such as unrelated individuals or childless couples under the age of 65 would be eligible.[4] Moreover, if keeping families together is a major goal, benefits would be directed at two-parent families who are often better off than those headed by single parents, thereby violating the goal of concentrating aid on those most in need.

If the first three goals were all to be met, costs would be high because our current welfare system pays little or no benefits to many of those with incomes below poverty, and benefits for those who do participate in government programs—particularly AFDC—can also be quite low. Even though roughly $73 billion was spent by the federal government in 1982 on cash programs for persons with household incomes below $10,000 (not all of whom are classified as poor), the poverty gap stood at about $43 billion. Including food stamps and housing assistance would raise these expenditures to about $88 billion and lower the poverty gap to between $30 billion and $35 billion, but it would still be expensive to bring all persons up to the poverty lines—or even up to, say, 80 percent of those lines.

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4. Included in this group would be young adults in school who have chosen to have low incomes while seeking an education. Such individuals could explicitly be excluded, however, as is now done under the food stamp program.

Work incentives could be provided positively by allowing recipients to keep a share of their earnings or negatively by denying eligibility or keeping benefits low for those able to work, but both approaches conflict with other goals. The first would be relatively expensive and would provide benefits to persons close to and possibly above the poverty lines--who may be less in need. Denying benefits to those able to work may penalize some very poor families and may be thought too stringent when children would be affected and when high levels of unemployment make it difficult to obtain jobs.

Simplifying welfare programs and keeping administrative costs low are difficult objectives to achieve within the current welfare structure, which includes numerous cash and in-kind programs directed at varying recipient groups. Changes that would eliminate categories--such as family characteristics--in determining eligibility would meet the goals of simplicity, low administrative costs, and equal treatment of like families, but would be costly. In contrast, structuring welfare programs to enhance work incentives could add to their complexity and might require additional coordination among programs.

Past proposals to meet several of these goals simultaneously--replacing current programs with a negative income tax, for example--would generally require major restructuring of the welfare system. Similarly, retargeting benefits from entitlement programs toward the poor would require changes in non-means-tested programs since existing means-tested ones already provide most of their benefits to poor persons. Other options for responding to the poverty problem would emphasize training and education. A discussion of such approaches is, however, beyond the scope of my testimony today. Rather, for the purpose of illustration, I shall focus on eight options to highlight the issues that arise in attempting to reduce poverty within the context of the current welfare system.

Establish a National Minimum AFDC Benefit Level

As AFDC is now constituted, benefits vary substantially across states, from a 1983 maximum guarantee level of $96 per month for a family of three in Mississippi (with no earnings) to a monthly maximum of $530 in Vermont for the same size family. In general, guarantees have declined in real terms since at least 1969 and, in proportion to the poverty lines, the AFDC guarantee levels plus food stamp benefits are in all cases below the federal minimum guarantee for couples receiving SSI.[5]

One way to reduce the variation in AFDC benefits across states would be to establish national minimum guarantee levels for the program, similar to those for the SSI program. Unless the federal guarantees were kept fairly low, however, program costs could be increased substantially. If the AFDC guarantee were set at $260 per month for a family of three, for example, and costs continued to be shared between the states and the federal

5. The current combined national federal guarantee from Supplemental Security Income and food stamps (assuming recipients qualify for only the standard deduction) is 79 percent of the poverty level for unrelated individuals living alone and 96 percent for couples. State supplements can further increase SSI benefits. For AFDC, Alaska actually has the highest benefit guarantees, but is also subject to higher poverty thresholds to account for substantially higher costs of living.

government as they are now, federal expenditures would increase by $600 million to $800 million in 1985 and state costs would rise by another $450 million to $700 million. Benefits would be increased for 1.0 million to 1.3 million current recipients living in 26 states, and 75,000 to 150,000 families would be newly eligible for the program. Such guarantee levels would result in total monthly incomes, including food stamps, of about two-thirds of the poverty thresholds.

To bring total AFDC plus food stamp benefits up to three-fourths of the poverty thresholds, federal expenditures would have to rise by $1.2 billion to $1.6 billion in 1984, and state costs by another $1.0 billion to $1.5 billion. Under this version benefits would be increased for 1.3 million to 1.6 million families living in 28 states, and 150,000 to 300,000 families would become newly eligible.

Establishing national AFDC minimum guarantees would target much of the increase in benefits on single-parent families in states where payments are quite low, resulting in more equal treatment across states for such families. On the other hand, national minimums would not allow states to reflect local costs of living and local wage levels, except to the extent that they supplement the minimum level. Achieving the national minimum would be difficult in states experiencing budgetary problems.

Require State Participation in the Unemployed Parent Program Under AFDC

In 31 states and territories, participation in AFDC is limited to families headed by a single parent. In the remaining jurisdictions, the unemployed parent program (UP)—a state option--covers intact families that are in need because the principal wage earner is unemployed.

One way to expand eligibility for poor two-parent families would be to make state participation in the unemployed parent portion of AFDC mandatory. Such an option would provide benefits to an additional 85,000 to 130,000 families in fiscal year 1984--increases of 40 percent to 55 percent--at a total cost of \$0.5 billion to \$0.7 billion, about three-fifths of which would be borne by the federal government.[6]

This approach would remove the current incentive for men to leave home so that their families can become eligible for AFDC, and would treat families more uniformly on the basis of income rather than family characteristics. It would also provide better countercyclical protection against future recessions. Since maximum benefit levels are generally below the poverty lines, rates of poverty would not change dramatically, but poverty gaps would be lowered. On the other hand, state costs could rise substantially, placing heavy burdens on states with low fiscal capacities.

6. About one-half of these added costs would be for additional Medicaid benefits.

Under this option, expenditures on AFDC would likely rise more rapidly in periods of increasing unemployment, but because of the strict asset test that families must also meet, newly unemployed families would have to divest themselves of a large portion of their monetary assets--and in some cases their cars--in order to be eligible under current program rules. To support more families unemployed as a result of a recession, the $1,000 asset limit could be raised. Such an increase would, however, reduce the extent to which aid would be confined to the poorest families.

Expand Food Stamp Benefits

The Food Stamp Program is the only means-tested federal program providing benefits to poor households regardless of their family characteristics--working-age persons in childless households are eligible, if they meet the income and asset limits and comply with work registration requirements. The maximum monthly benefit now paid to two-person households is $139, or about one-fourth of the poverty level. Benefits decline by 30 cents for each dollar of net income.[7]

Raising the maximum food stamp benefit would increase assistance for a broad range of poor people, including the working poor and childless individuals and couples who often are not eligible to participate in other programs. Increasing expenditures by $0.9 billion to $1 billion in 1984 would, for example, raise total benefits by 8 percent--or about $4 per participant per month. Current law benefits are now projected to be about $42 per recipient during 1984.

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7. Net income is gross income less certain allowed deductions.

Raising the maximum benefit level would be administratively simple and would increase benefits to all food stamp households except some of those one- and two-person households receiving the $10 monthly minimum benefit. Since food stamps do not require state matching contributions, this option would not require additional expenditures by the states. On the other hand, states might reduce AFDC, SSI, and general assistance--or limit their rate of increase--at least partially offsetting food stamp increases for those who participate in more than one program.

In addition, food stamps could be transformed into a cash program rather than one providing coupons that are restricted to the purchase of food. "Cashing out" food stamps might reduce the abuses often cited from counterfeiting and black market activities, and simplify administration, but opponents object to providing aid that could be used to purchase commodities other than food.

Expand Medicaid Eligibility to All Poor Families with Children

Medicaid is the joint federal-state program that finances much of the medical care for specific categories of low-income persons. For example, families receiving AFDC are eligible for Medicaid and some states have chosen to extend coverage to those who, except for their higher incomes, would qualify for AFDC. Many families with incomes below poverty are not eligible for Medicaid, however, either because their incomes exceed their state's income standard for AFDC eligibility or because their state does not provide coverage for families with an unemployed parent. Moreover, federal law excludes working poor two-parent families from Medicaid.

Eligibility for Medicaid could be expanded to include all families with children whose incomes are below the poverty level. In 1985, this option would cover an additional 12 million to 13 million adults and children at a federal cost of about $6 billion and a state cost of about $5 billion, if the current cost-sharing arrangements remained the same.[8]

This extension of eligibility would reduce work disincentives for AFDC families by allowing them to continue Medicaid coverage even though their earnings resulted in a loss of cash benefits. It would also result in more uniform treatment of families with similar incomes living in different geographic areas and improve their access to medical care. On the other hand, state flexibility would be reduced and the additional costs could represent a substantial burden for all states, particularly those with relatively low AFDC needs standards and with limited fiscal capacity.

Expand the Dependent Care Tax Credit for Low-Income Families

The dependent care tax credit provides relief through the individual income tax system to working persons with eligible dependents--usually their children. For families with adjusted gross incomes below $10,000, a nonrefundable credit of 30 percent of expenses up to $2,400 for one dependent (for a maximum credit of $720) is allowed. Above that income level, the credit declines gradually to a minimum of 20 percent of expenses.

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8. Proposals being considered by the House and Senate to extend Medicaid coverage to children in low-income families, funded fully by the federal government, could serve as the first step toward more uniform coverage of families, although eligibility would be more limited than under the option being discussed here.

The credit could be made refundable and cover 60 percent of expenses for families with incomes below $10,000. In 1984, such a change would reduce revenues by $1.5 billion to $2 billion.

This expansion would increase work incentives by extending benefits to some poor families who do not now gain from the credit either because they owe no taxes or because they cannot afford the 70 percent of child-care costs not covered by the tax credit. Although it is particularly difficult to predict whether those who do not now file income taxes would participate, these changes could double the number of families benefiting from the credit.

On the other hand, this credit would more likely be beneficial to those above or just below the poverty thresholds who can afford to pay at least a share of the costs of formal child-care services. Moreover, even refundable tax credits are only of limited aid to the very poor, because reimbursement for expenses at the end of the year does not help those who cannot afford to pay expenses initially during the year and advance payments would be difficult to arrange.

<u>Change the Earned Income Tax Credit</u>

The Earned Income Tax Credit (EITC) provides cash supplements through the personal income tax system to working parents with relatively low earnings. A refundable tax credit is available to those with adjusted gross incomes less than $10,000 who maintain households for children. The credit rises to a maximum of $500 for those with earned incomes between

$5,000 and $6,000, and then declines to zero for those earning $10,000 or more. Beneficiaries must often wait to receive the EITC as a lump sum payment after a year of low earnings, however.[9]

Eligibility for this program could be broadened to include unrelated individuals or childless couples, increasing the revenue loss by about $500 million. Such an approach would extend coverage to poor individuals not now eligible for federal cash benefits. It would also provide strong work incentives for those with no or very low earnings and would be simple to administer.

On the other hand, childless couples or unrelated individuals who are very poor because they have no earnings would remain excluded from cash benefits (unless they are disabled), while full-time students with earnings would be eligible unless explicitly excluded. Moreover, this option could act as a work disincentive for those with slightly higher earnings, because they lose 12½ cents of benefits for every dollar of income between $6,000 and $10,000. Many more recipients are likely to be found in the phase-out range where the program imposes work disincentives than in the phase-in range where work incentives are provided. Higher benefits under this program might also preclude other options that would direct additional benefits to poor children.

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9. Employers have generally been reluctant to participate in that part of the EITC which permits employees to seek advance payments of the credit from the employer.

Other possible changes would be to increase the size of the credit or to lower the 12.5 percent tax rate used to phase out the credit. Both approaches would raise benefits to the working poor, and the second option would lower the work disincentives of the EITC, although compared to other means-tested programs the disincentive is already low. Such changes would, however, extend benefits to additional families with incomes above the poverty lines.

Expand Child Support Enforcement

The child support enforcement program is quite different from the other welfare programs discussed here, since it does not provide federal payments to families or individuals. Rather, this program provides support to the states to aid families in establishing and collecting child support payments from absent parents.

The lack of child support payments from absent parents contributes significantly to poverty. In 1982, only 40 percent of poor families with an absent parent had been awarded child support payments. Among those with awards, 39 percent did not receive any payment in 1981 and many others received only partial payments. Moreover, court-ordered payments averaged only $2,050 a family, less than the increase in the poverty thresholds for one additional child.

Several different approaches are possible to increase child support payments. One would make certain enforcement techniques mandatory for the states--withholding of child support payments from wages, for example.

Wage withholding would probably increase child support collections by at least 10 percent and would help non-AFDC families directly. The federal government would save $25 million to $50 million a year from mandatory withholding, but AFDC families would not gain since the collections would be used to offset AFDC benefits.

A second approach would seek to increase states' handling of non-AFDC cases, either by incentive payments or by requirements such as clearinghouses through which all child support payments would pass. Changes in incentive payments could be implemented without any increase in federal costs, whereas setting up a clearinghouse would require initial computer and other development costs in some states and could cost up to several hundred million dollars a year thereafter. Both options would aid poor, as well as nonpoor, families by raising the incomes of needy families who do not participate in AFDC. The magnitude of poverty reduction from these approaches is not known, however. Opponents also point out that requiring specific enforcement techniques might violate states' rights, and activities such as the creation of interstate data banks might invade the privacy of individuals.

Moderate the Asset Test Required Under SSI

SSI provides benefits to aged and disabled persons who meet both an income and an asset test. The income limits for SSI are relatively generous compared to those in AFDC and are indexed each year to the growth in the CPI. By contrast, the asset test of $1,500 for an individual and $2,250 for a couple has not changed since the beginning of the program in 1974. If the asset limits had also been tied to the CPI, they would now be approximately $3,050 for individuals and $4,550 for couples. These limits may contribute to the low participation rate among the elderly and disabled who would seem to qualify for SSI on the basis of their incomes.

The costs of raising the limits of the SSI asset test by 50 percent are difficult to project, but would likely be less than $500 million. Such a change would increase the number of elderly and disabled persons eligible for SSI, since those who retain some limited savings against future emergencies would be able to participate in the program, although the resulting impact on SSI participation is not known. Since assets held in nonmonetary forms--such as a car of modest value or a home of modest value--do not restrict eligibility, this change would help treat families with similar resources more uniformly. On the other hand, the asset test currently excludes a number of resources so that the limit applies mainly to liquid assets. Potential recipients might, therefore, be expected to exhaust their own savings before receiving aid from the federal government, particularly if extra expenditures on such persons would preclude aid to AFDC families or other poor persons who are subject to even stricter asset tests.

CONCLUSION

Since 1978, official poverty rates and poverty gaps have both increased, particularly for those under age 65 whose financial positions are sensitive to the state of the economy. Though based on somewhat arbitrary thresholds, these rates indicate whether the poverty problem is growing or declining.

If the economic recovery continues, poverty rates will decline from their current high levels. The Congress will have to decide whether changes in welfare programs are needed to accelerate this decline and, if so, which of the conflicting goals discussed above are to be given priority. No single program could achieve all of the goals simultaneously, and policy changes such as those considered in this testimony would all increase the costs of the welfare system. Especially in a time of fiscal stringency, one way to finance benefit expansions would be to adopt cost-saving opportunities in other programs. CBO's annual volume on deficit reduction options, which will be released next February, will analyze several such measures.

As the Subcommittees wrestle with these difficult decisions, the Congressional Budget Office would be pleased to provide further detail on the illustrative options presented here or to analyze other possibilities you may want to consider.