

Statement of
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before the
Senate Children's Caucus
United States Senate

February 6, 1986

NOTICE:

This statement is not available for public release until it is delivered at 9:30 a.m. (EST) on Thursday, February 6, 1986.

In 1984, over 13 million American children--more than one in five--lived in poverty as measured by the official Bureau of the Census definition. These children constituted nearly 40 percent of all poor people, and they and the adults with whom they lived represented more than two-thirds of the poverty population. The poverty rate among children was somewhat lower than in 1982 and 1983 and should fall further as a result of the ongoing economic recovery. Even so, the percentage of children living in poverty is unlikely to return quickly to the historically low levels that prevailed throughout the 1970s.

My remarks today will cover three topics:

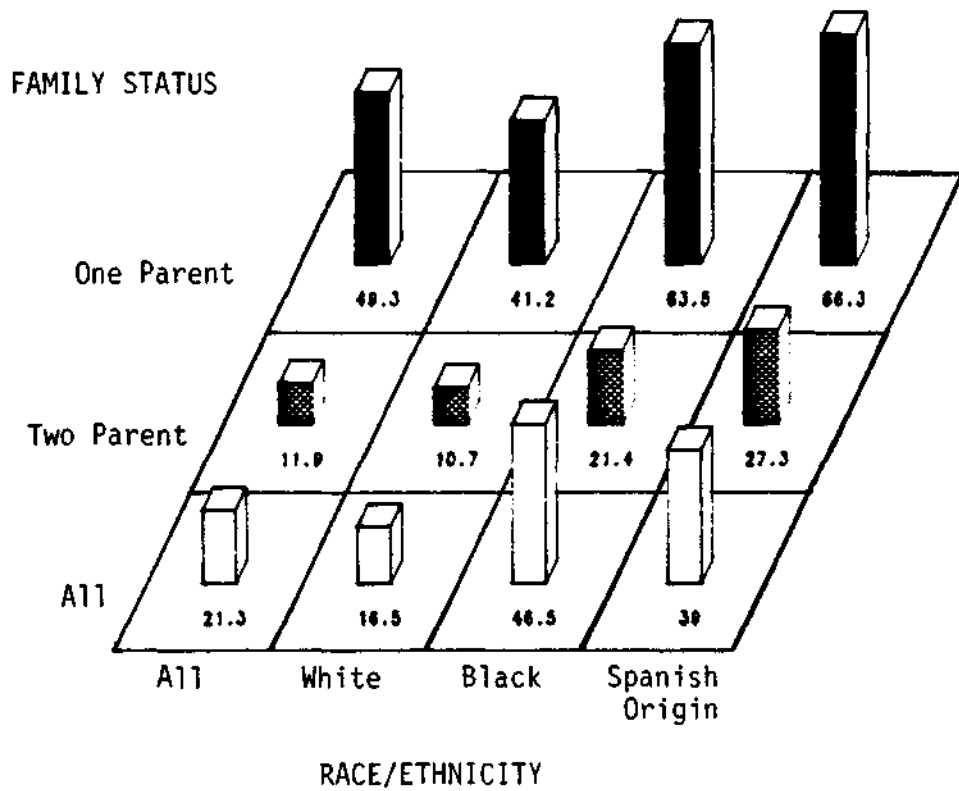
- o The characteristics of poor children and their families;
- o The current federal role in helping poor children; and
- o Options for federal antipoverty efforts.

Much of the information I will be discussing comes from a paper published last year by the Congressional Budget Office (CBO) entitled Reducing Poverty Among Children.

CHARACTERISTICS OF POOR CHILDREN AND THEIR FAMILIES

Poverty rates among children vary widely across demographic groups (see Figure 1). While about one-sixth of white children lived in poor families

FIGURE 1. POVERTY RATES OF RELATED CHILDREN BY DEMOGRAPHIC SUBGROUP, 1984



SOURCE: Congressional Budget Office tabulations of the March 1985 Current Population Survey.

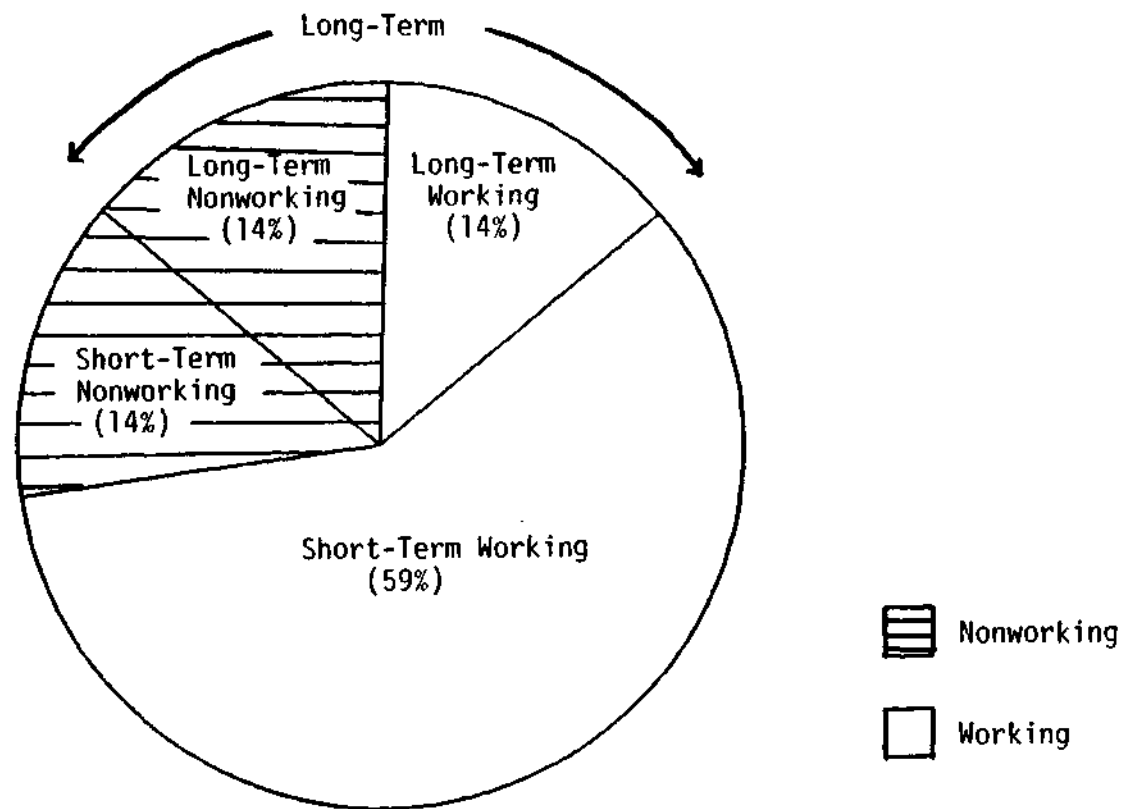
in 1984, nearly 40 percent of children of Spanish origin and almost half of all black children were in poverty. Similarly, while about 12 percent of children living in two-parent families were below the poverty line, about half of children living with a single parent were poor. The situation was even worse for minority children in single-parent families: nearly two-thirds of black children and children of Spanish origin living with one parent were poor in 1984. While less than one-fourth of all children were in single-parent families, they accounted for over half of all poor children.

As might be expected, these variations in poverty rates are reflected in the number of years different types of children are likely to be poor. Data for the 1968 through 1982 period indicate that black children were poor an average of over five years before they were 15 years old, compared with all other children who were poor for an average of less than one year. Children who lived with one parent throughout childhood were poor an average of more than twice as long as those with two parents. Being born to a never-married mother meant that a child would spend an average of about six years living in poverty, regardless of race.

Poor families with children are obviously not a homogeneous group. One useful way to consider policies to help them is to divide these families into four categories (see Figure 2). 1/

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1. In this classification scheme, long duration of poverty is defined as being poor at least four out of five years, while normally working means that the head of family (and spouse, if any) worked at least 500 hours in at least three out of five years.

FIGURE 2. CHILDREN IN POOR FAMILIES BY DURATION OF POVERTY AND PARENTS' WORK STATUS, 1984



SOURCE: Tabulations of the Panel Study of Income Dynamics, prepared by the staff of the Institute for Social Research, University of Michigan.

- o Short-term working poor: families with parents who normally work at jobs that keep them above the poverty line, but who are not always employed for enough hours or at high enough wages to escape poverty. Nearly 60 percent of poor families fall into this group.

- o Short-term nonworking poor: families with members just entering or reentering the labor force, such as young parents or divorced mothers, who will get jobs or remarry relatively soon. About one-seventh of poor families are of this type.

- o Long-term working poor: families with parents who normally work but do not earn enough to be above the poverty line, because of inadequate skills and consequent low wages, intermittent employment, or large family size. Another one-seventh of poor families are in this group.

- o Long-term nonworking poor: families with little or no attachment to the labor force and consequently little likelihood of becoming self-sufficient. This group--which represents a final one-seventh of poor families--includes single-parent families for which child care responsibilities make employment difficult; families whose normal earners are disabled to the extent that they cannot work; and families whose adult members have such inadequate skills or labor force attachments that they cannot or will not find and hold jobs.

THE CURRENT FEDERAL ROLE

By its very nature, government affects the well-being of all citizens and influences how many of them are poor. Monetary and fiscal policies affect economic growth and stability. They determine how readily workers can find jobs and how much they can buy with the money they earn. The taxes collected by government help determine how much income is available to meet consumption needs. Moreover, an array of laws and regulations influences the operation of labor markets and other aspects of the economy.

In addition, governments at all levels provide a range of assistance intended to help people who remain in or near poverty. Some programs offer training or employment assistance to help the poor to become self-sufficient, while others--such as remedial education--involve services that alleviate the consequences of poverty. The bulk of this aid, however, is designed to help meet immediate demands for food, housing, and other needs.

Core Programs

Three programs make up the core of assistance currently offered to many poor families:

- o Aid to Families with Dependent Children (AFDC) provides cash assistance to single-parent and some two-parent families with incomes and assets below limits set by the states and localities

within federal restrictions. Benefit levels are also determined by states, while costs are shared by the federal and state governments (on average, 54 percent and 46 percent, respectively). In part because income limits are below poverty thresholds--far below in many states--a considerable number of poor families do not qualify for benefits: in 1984, only 44 percent of poor children received AFDC, with many of the nonrecipients in low-benefit states.

- o Medicaid finances medical care for families who receive either AFDC or Supplemental Security Income (SSI) or who are deemed to be medically needy in states offering the latter program. States determine service levels, while costs are shared by the federal and state governments. In 1984, more than half of all poor children lived in families receiving Medicaid benefits.
- o Food stamps are available to all households satisfying income and asset criteria. Allotments are set and the program is funded by the federal government. While nearly all poor families qualify for food stamps on the basis of their incomes, many are ineligible because their assets exceed program limits and others elect not to participate. Even so, the program benefits more poor children--62 percent in 1984--than any other.

In 1984, over two-thirds of all poor children were in families that received aid from at least one of these core programs; nearly 40 percent

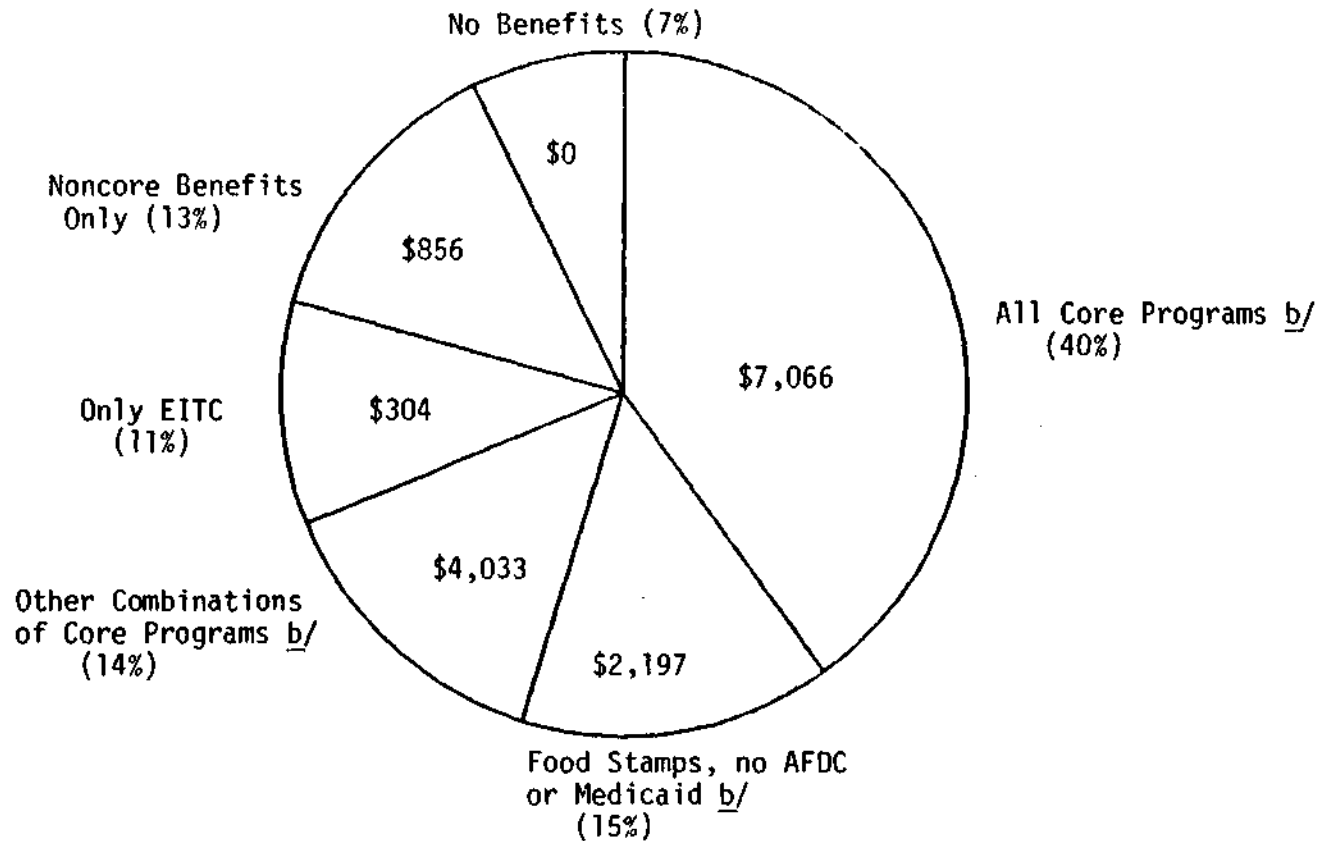
participated in all three. (Figure 3 shows various combinations of the core and other programs in which families with children participate.) More than \$40 billion in federal funds and more than \$25 billion in state moneys are currently spent annually on the three programs. Estimates show that this spending reduced the 1984 poverty gap for families with children--that is, the aggregate amount by which poor families' incomes fall below the poverty level--from \$36.1 billion to \$19.8 billion, a 45 percent reduction.

AFDC, Medicaid, and food stamps were subject to significant reductions in 1981 and 1982, primarily as a result of legislated changes in eligibility criteria. Since then, however, these programs have not been altered much; in fact, minor increases were enacted for all three in 1984. Over a longer period, however, because states have not raised their payment standards to reflect increases in living costs, inflation has eroded AFDC benefit levels. Between 1970 and 1985, the level of real AFDC benefits fell by 33 percent in the median state. In contrast, food stamp allotments are indexed to changes in food prices. Consequently, they have maintained their real value, and have, in fact, compensated for some of the reduction in the real value of cash benefits. 2/ All three programs are protected from the across-the-board sequestration of funding under the Balanced Budget and Emergency Deficit Control Act of 1985 or, more briefly, the Balanced Budget Act.

2. Inflation adjustments were delayed for three-month periods in 1982, 1983, and 1984 in order to shift the adjustment date from January 1 to October 1. In addition, from October 1982 until November 1984, food stamp allotments were based on a maximum benefit level equal to 99 percent of the thrifty food plan, rather than the previous and again current 100 percent level.

FIGURE 3. BENEFITS FOR POOR CHILDREN, 1984

(Percentage of Poor Children in Families Receiving Various Combinations of Benefits and Their Average Values to Recipient Families a/)



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SOURCE: Tabulations of March 1985 Current Population Survey data.

NOTE: Core benefit programs include AFDC, Medicaid, and Food Stamps. Noncore benefit programs include school lunch, Earned Income Tax Credit, SSI, general assistance, subsidized housing, and Low Income Home Energy Assistance.

a. . In-kind benefits valued using poverty budget share approach.

b. These combinations may or may not include other benefits such as school lunches.

Other Programs

Beyond the three core programs, a wide range of in-kind transfers help poor families with children meet their needs for food, shelter, and medical care. Most poor children receive free school lunches--and in some cases breakfasts--financed by federal child nutrition programs. In 1984, over one-fourth of poor children lived in households that received energy assistance payments, and about one-fifth resided in subsidized housing. The Special Feeding Program for Women, Infants, and Children (WIC) gives medical and nutritional aid to some pregnant and new mothers and children under five years of age. Nearly \$18 billion was spent on these efforts in fiscal year 1985. With the exception of WIC, all of these programs have been subject to funding reductions in recent years, and all but WIC and the child nutrition programs will be affected by the 4.3 percent sequester for fiscal year 1986 resulting from the Balanced Budget Act.

The Earned Income Tax Credit (EITC) provides a refundable federal personal income tax credit to taxpayers with dependent children and with earnings and adjusted gross income below specified limits. As such, it is of value only to low-income families with working members. The credit reduces tax liabilities for those owing income taxes; those families whose EITC exceeds their tax liabilities receive the balance as a tax refund. In 1984, 45 percent of poor children were in families that were eligible for the EITC; the average benefit per family is estimated to be about \$275. For nearly one-fourth of those children, the EITC was the only form of government assistance their families received. The EITC is exempt from sequestration under the Balanced Budget Act.

In addition, a broad array of training and employment programs help adult and teenage members of poor families obtain necessary skills and find jobs so that they can become self-sufficient. The Job Training Partnership Act (JTPA) and the Job Corps offer training to economically disadvantaged people; the Work Incentive Program (WIN) provides help in finding jobs; and the Targeted Jobs Tax Credit (TJTC)--until it lapsed at the end of 1985--gave employers tax subsidies if they hired eligible workers.^{3/} Some assistance for child care comes through the Social Services Block Grant (SSBG) and through the tax code. The federal budgetary costs of these programs were just over \$6 billion in fiscal year 1985. The training and WIN programs and the SSBG are all subject to sequestration under the Balanced Budget Act.

Finally, still other programs offer services that assist poor families. Federal funding for foster care, child welfare, and family planning activities helps low-income families to have access to services they might otherwise not be able to afford. Remedial education is financed by the Head Start and Chapter I programs. Child Support Enforcement (CSE) activities carried out by states and funded in part by the federal government help both poor and nonpoor families with children to obtain court-ordered support payments from absent parents. In fiscal year 1985, over \$10 billion was spent by the federal government on these programs. Future funding of all these programs will be subject to reductions under the Balanced Budget Act.

3. The Targeted Jobs Tax Credit would be renewed under the tax bill recently passed by the House of Representatives.

Criticisms of Current Efforts

Current federal efforts to help poor families with children have been criticized on various grounds. Some people argue that antipoverty programs are not generous enough. For many of these programs, families have to be well below the poverty level to qualify for benefits, have to meet categorical eligibility criteria, and, in the case of nonentitlements, may never be served because of limited funding. In addition, eligibility criteria and benefit levels can vary widely among states. In AFDC, for example, maximum benefits for a family of four range from \$120 per month in Mississippi to over \$600 per month in seven states. Other critics assert just the opposite, that the programs are too generous. By offering significant amounts of assistance to families that might otherwise help themselves, these people claim, aid programs take away work incentives and make recipients dependent on welfare.

Some people also claim that welfare programs are responsible for the increase in single-parent families. How much welfare programs have contributed to this increase cannot be determined with any certainty because so many social and economic factors contribute to changes in family formation and dissolution. One study, focussing on conditions in 1975, found a modest relationship between differences in AFDC benefit levels across states and divorce and separation rates, but little or no impact on the childbearing decisions of unmarried women of any age. Therefore, it suggests that welfare probably can explain only a small portion of the dramatic changes in family structure that have occurred over the last two

decades. On the other hand, the study concludes that welfare has undoubtedly contributed to the growth in the number of female-headed households, as it found that young single mothers living in high-benefit states seem to be much more likely than their counterparts in low-benefit states to set up their own households rather than to live with others.

OPTIONS FOR THE FUTURE

Antipoverty policies are based on multiple objectives that often conflict and may not be universally held. The ultimate goal is to make all poor families self-sufficient. Because this cannot be accomplished immediately, however, other objectives with shorter time horizons are set. One such objective is that the detrimental effects of poverty should be minimized, particularly those affecting children, to reduce the chances that they will be disadvantaged when they grow up. Another objective is to provide some level of resources to poor families to meet their immediate needs. All of these objectives are set against what many feel to be an overriding goal of reducing federal budgetary deficits by constraining government spending.

Because the needs of poor families with children are not the same, a single approach is unlikely to succeed in all cases. To address the problems of the four groups of poor families defined above, different approaches would be required, some aimed at improving self-sufficiency, others at limiting the adverse effects of being poor and preventing future poverty,

and still others at meeting immediate needs by increasing direct assistance. At the same time, specific policies would apply to more than one group. Hence, the following discussion is organized by type of policy.

Programs to Improve Self-Sufficiency

One broad strategy for aiding poor children would be to help their parents or guardians achieve economic independence. In addition to pursuing macro-economic policies that promote growth and high levels of employment to ensure that jobs are available, this approach might involve:

- o Improving parents' employability, either by raising their skills or by lowering the costs to employers of hiring them;
- o Expanding access to child care to make it easier for parents to work; or
- o Improving work incentives either through lowering the rate at which benefits are reduced as income rises, strengthening work requirements in assistance programs, or decreasing taxes to allow low-income families to keep more of the incomes they earn.

Increase the Employability of Low-Income Parents. The employment prospects of low-income parents could be improved by increasing their skills or by increasing the demand for the skills they have. One option for raising

skill levels would be to increase training funds under the JTPA. For example, an additional \$100 million in JTPA funds earmarked for AFDC recipients could provide training to about 50,000 more people--a rise of more than 40 percent in the number of AFDC recipients who now receive JTPA training. Evaluations of an earlier program provide some indication that JTPA training could lead to higher future earnings for welfare recipients, especially those with little previous work experience. Opponents argue, however, that some of the gains in earnings in the earlier program reflected differences in motivation between participants and nonparticipants, and that funding increases are not warranted.

Another approach would be to subsidize the wages of particular groups of workers. One option would be to reenact some form of the Targeted Jobs Tax Credit (TJTC), which provided private employers who hired members of certain economically disadvantaged groups--including AFDC recipients--with tax credits of up to \$3,000 for the first year of employment and \$1,500 for the second year. While it appears that the program increased employment for the target groups, it is unclear whether there were more jobs overall. Reinstating the credit, which expired at the end of 1985, would cost roughly \$500 million each year.

Alternatively, more jobs for low-wage workers might be available if certain regulations and laws affecting the operation of labor markets were

relaxed or eliminated. For example, the Congress could reduce the federal minimum wage, which is currently set at \$3.35 per hour. While the number of additional jobs created by this approach would probably be small, these jobs would provide higher incomes for some workers. The incomes of others would be likely to decrease, however, as a result of the reduction in wage rates of some who already have jobs at the minimum wage. It is not clear what the net effect would be on poor families with children.

Expand Access to Child Care. For some low-income parents, limited access to affordable child care may be the greatest constraint on their ability to look for jobs. One approach for increasing access is to provide incentive grants to states or nonprofit organizations to expand low-cost child care. Alternatively, child care for low-income families could be subsidized directly. For example, the dependent care tax credit could be modified to make it more valuable to low-income families. Considerable disagreement exists, however, over the adequacy of the current supply of child care, the degree to which a lack of child care limits labor force participation, and the role the federal government should play in this area.

Strengthen Work Incentives or Work Requirements in Current Transfer Programs. To encourage parents to work more, numerous changes could be made in the rules governing public assistance programs. The federal government could, for example, raise permissible deductions from income under the AFDC and Food Stamp programs. This change would lower the

amount by which benefits are reduced for people who work. Specific changes could include allowing larger deductions to cover work-related expenses, raising limits on deductible child care costs, or disregarding a larger fraction of earnings in calculating benefits. The combination of adjustments to the AFDC program called for in 1984's proposed Omnibus Antipoverty Act--if it had been enacted--would have affected about 215,000 current recipients, raising benefits by an average of \$69 per month in 1986 for 155,000 families, but lowering benefits by about \$15 per month for 60,000 others. In addition, an estimated 190,000 new participants would have qualified for payments averaging \$116 per month. The total cost net of reduced food stamp and increased Medicaid expenditures would have been about \$0.5 billion in 1986, about 40 percent of which would have been paid by the federal government. While this option would reward those families that try to help themselves, it might provide incentives for others--especially those newly eligible for benefits--to work less. Evidence based on program changes made in 1981, however, indicated little or no reduction in work.

Another option would be to require that all adults in families receiving AFDC benefits perform some work as a condition of receiving benefits, unless they are exempted for reasons such as disability or the responsibility of caring for a young child. Currently, many states have some type of "workfare" program for AFDC recipients, but in most states it is not universal. Mandatory workfare would increase incentives for welfare

recipients to seek jobs. It might also provide welfare recipients with opportunities to increase their skills and credentials so that they could become self-sufficient. Many claims about the value of workfare are in dispute and reliable information on its effects are not yet available. Preliminary evaluations of current demonstration programs are encouraging, however.

Provide Tax Relief to Low-Income Families. Many poor working families pay significant fractions of their incomes in taxes. Figures compiled by the Joint Committee on Taxation indicate that, in 1985, a four-person family with income at the poverty level paid more than one-tenth of its income in federal income and payroll taxes. This tax burden has two effects: it reduces the resources available to poor families to provide for their needs, and it decreases the incentives of poor families to work and support themselves.

One approach to tax relief for low-income families would be through broad-based "tax reform," such as is contained in the tax bill passed by the House in December 1985. By raising the zero bracket amount or increasing the size of the personal exemptions, or both, the Congress could free all poor families from income tax liability. Because such changes would affect all taxpayers, however, the cost in terms of forgone revenues could be great unless offset by other modifications to the tax code.

Another approach would focus tax relief on low-income families by granting them special exemptions or by raising the value of the EITC. The latter could be accomplished by raising either the percentage of earnings given as a credit or the amount of earnings to which the credit would apply; the House tax bill would do both. Alternatively, the credit could vary with the number of children, thus giving more tax savings to larger families. Expanding the EITC could, however, exacerbate its potential adverse effects on how much people work, since workers with earnings in the range where the EITC is phased out would face higher effective tax rates.

Alleviate Adverse Effects and Help Prevent Future Poverty

A second set of options focuses on ways to alleviate some of the adverse effects of poverty on children, or to help prevent poverty in the future. These options would be of greatest value to the long-term poor, whose children, because of the duration of their poverty, are most likely to suffer ill effects.

Because teenage pregnancy contributes substantially to child poverty and dependence on public assistance, one approach would be to attempt to reduce the teenage pregnancy rate and to help those teenagers who become pregnant. Options to reduce the adolescent pregnancy rate could include increasing funding for family life education programs or for family planning information and services in order to increase teenagers' knowledge of the consequences of sexual activity, as well as their access to contraception.

For example, increasing funding by \$100 million for Title X of the Public Health Service Act could provide family planning services and counseling to 1.4 million additional adolescents. Pregnant teenagers could also be given information about adoption. There is controversy, however, about whether it is appropriate for the federal government to fund assistance in any of these areas or whether parents should be solely responsible. Another option would be to provide comprehensive services to those teenage mothers who choose to raise their children themselves; such services could assist them to remain in school or to obtain job skills, thereby improving their chances of achieving economic independence.

Another approach would be to provide ameliorative or preventive services to the children themselves. One example would be to increase funding for the Head Start program, which pays for a wide range of services for low-income children and their families through a preschool day-care program. In fiscal year 1985, approximately 450,000 children--about 19 percent of three- to five-year-old children in poverty--were served in full-year Head Start programs. In addition to developmentally oriented day care, the program provides children with medical and dental services, as well as social services and balanced meals. While the long-term educational effects of the national Head Start program remain unclear, some preschool intervention programs have been found to lessen substantially the odds of failure in school, and even to improve employment experiences after high school. An additional 100,000 children--about 22 percent of the number

now being served--could enter the Head Start program if funding were increased by \$250 million.

The federal role could also be expanded in helping to prevent child abuse or neglect. Although these problems are found in families at all income levels, some low-income families find it particularly difficult to resolve their difficulties because of inadequate resources. One option would be to encourage states to develop programs to remedy some of the problems that low-income families face in the child welfare system. For example, funds could be provided--either through the Social Services Block Grant or through a new grant program--to help states provide prevention and reunification services to meet the needs of low-income families.

Increase Resources Through Direct Assistance

A final set of approaches would increase resources provided by the government: increase benefits to families that are already eligible for assistance, or expand eligibility to reduce disparities that now exist in the treatment of similar types of families. Both approaches would improve the living standards of some families in all four groups--short-term and long-term, working and nonworking--but they might also weaken incentives for low-income families to make their own efforts to escape poverty and could substantially increase federal and state expenditures.

Increase Benefit Levels. Benefit levels could be increased for existing programs to provide more assistance to currently eligible families. For example, all states could be required to set AFDC benefits at a level sufficient to assure that any assisted family would have cash income plus food stamps equal to at least 65 percent of the federal poverty guidelines. ^{4/} If such a minimum were in effect in 1986, a family of three with no other income would receive an AFDC benefit of \$396 per month, plus \$132 in food stamps.

If it had been implemented for 1986, this option would have raised AFDC benefits for some or all current recipients in 41 states. About 2.2 million families currently participating (that is, three-fifths of the total) would have received net increases averaging about \$75 per month in the combined value of their AFDC and food stamp benefits, and an estimated 190,000 additional families would have joined the AFDC program. Such a change would have increased net costs for the federal government and the states by about \$2.7 billion in 1986, including increased AFDC expenditures, plus associated increases in Medicaid, net of reduced food stamp expenditures. The federal government would have paid about one-half of the increased costs. Raising benefits would also increase work disincentives, however, especially for people with low potential earnings and those in areas where wages are generally low.

4. That level would be somewhat lower, for example, than the benefit level available through the Supplemental Security Income (SSI) program, which serves low-income elderly, blind, and disabled people. This minimum AFDC benefit was included in the proposed Omnibus Antipoverty Act of 1984.

Reduce Disparities in Coverage. Other options would reduce disparities in coverage under current programs by extending eligibility to families that are not currently served in some or all states. One alternative included in Reconciliation would mandate coverage in the AFDC program for poor two-parent families in which the principal earner is not employed or works less than 100 hours per month--a group that about half the states have chosen not to cover. At the same time, extending coverage in this way could lessen work incentives of the families affected.

Another alternative would be to require that states provide Medicaid coverage for all low-income children and pregnant women, regardless of the type of family in which they live. Mandatory Medicaid coverage for all children and pregnant women in families with incomes below 65 percent of the federal poverty guidelines, for example, would serve an additional 700,000 children and 100,000 pregnant women annually. This option would reduce disparities in the access of low-income children and pregnant women to health care without expanding eligibility for cash assistance. It would raise annual costs by roughly \$700 million, divided about evenly between the federal government and the states.

Funding could also be increased for WIC, which appears to be effective in reducing the incidence of low birthweight among infants--a condition that is linked to increased probability of infant mortality and a wide variety of birth defects. Current appropriations--which were set at about \$1.5 billion in 1985--are estimated to be sufficient to serve only about one-third

of all income-eligible women, one-half of all income-eligible infants, and one-fifth of all income-eligible children. While data are unavailable on the proportion who also meet the nutritional-risk criterion, it appears that program coverage is incomplete.

CONCLUSION

Children make up the largest single group among the poor in this country, and their numbers grew sharply between 1979 and 1983. While some improvement occurred in 1984, children will almost certainly continue to constitute a large share of the poor population for some years to come.

Numerous options are available for altering current federal efforts to help these children, but most would either increase federal outlays or lower revenues during a time of overall budgetary stringency. Balancing the desire to help poor children with broad budgetary concerns poses difficult trade-offs for the Congress.