

U.S. Poverty Puzzle: why did poverty increase so much in the 1980s?

U.S. Poverty fell to 11.1% in 1971, but then stopped falling in the 1970s and rose in the 1980s 13%-15% – however in the 1990s poverty fell back to 1971 levels.

1. Economic Trends:

| <u>1960s</u> | <u>1970s</u> | <u>1980s</u> | <u>1990s</u> |
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- **Unemployment rose in the 1980s:** 4.8% 6.2% 7.3% 4.7%

Unemployment fell in the 1990s and poverty fell back to 11.4% in 2001.

- **Wages for unskilled “production” workers fell 10-15%** from 1970 to 1990 (in part because medical and retirement benefits increased):
- **Globalization and technical change** shifted job creation away from unskilled Factory jobs toward more skill-education-computer intensive services and high tech occupations within and between industries– the skills premium rose increasing wage inequality and lowering real wage growth of less educated male workers

2. Demographic Trends: *slow but cumulative impact on poverty rates, especially for poverty among children and single parent households.*

- **Between 1950 and 1980: Labor force participation for women doubled** contributing to rising divorce rate (from 10 to 20 per 1000 couples per year). The share of Single Parent Families (SPFs) increased from 8% in 1970 15% in 1994 but in the 1990s the divorce rate stabilized yet the share of SPFs continued to rise.

- **Poverty rates for single parent families or SPFs are over 30%**, but the same qualities which facilitate or breakup marriages may also lead to poverty– job loss and divorce or inadequate income can break up families. Poverty may be as much a cause as an outcome of poverty. Panel studies, for example, show most black women were poor before and after divorce, while divorce is a more common “cause” of poverty for white women.

3. Government Policy and/or Measurement Problems? *conservatives argue measurement problems exaggerate poverty and overly generous welfare programs entice people– especially young women– into poverty. Liberals point to declining minimum wages and falling welfare benefits after 1977 (“tough love”) as a cause of poverty.*

- **The inflation adjusted minimum wage: steadily from 1973 to 1996 when a more generous EITC boosted wages for adults with children.**

- **Poverty Measurement Issues:** (1) In-kind transfers are not included in official poverty line income and income is under reported: **but, consumption-based measures show similar trends.** (2) CPI overstates cost of living increases– using the new CPIUx that excludes mortgage payments helps reduce measured poverty in the 1970s. (3) Even with all adjustments, however, pre-transfer poverty measured as consumption not cash income still showed the same basic trend in the 1980s.

- **Murray’s influential 1984 book, Losing Ground argued welfare and government transfers along with the 1960s counter-culture shift in attitudes toward pre-marital sex increased poverty by making it and single parenthood too attractive**, but there is little empirical evidence to support this view (see Ellwood, chapter 3). Spending on means- tested transfers rose between 1964 and 1978, but then fell after 1978– yet poverty rose most in the 1980s when MTB spending was falling (see NYT tough love handout) Wide variation in welfare benefits by state (see Ellwood p. 111 does not influence family formation much). Blank and Hanratty find Canada increased transfers in the 1980s and yet poverty fell in the 1980s– most researchers concede the AFDC system discouraged work and marriage, but not enough to increase the poverty rate.