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POVERTY TRENDS, 1980-88

Changes in Family Composition and Income Sources Among the Poor

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Mr. Chairman and Members of the Subcommittee:

It is a pleasure to be here to share with you the results of our work on poverty trends during the 1980s. In response to the request from the Chairman of the Ways and Means Committee, we compared the size and composition of the poverty populations in 1980 and 1988, using Bureau of the Census data from the Current Population Survey. This work was intended to assist the Committee in its oversight of federal assistance to the poor. In our testimony, we summarize the findings of our study entitled Poverty Trends, 1980-88: Changes in Family Composition and Income Sources Among the Poor, which is being issued today.

As agreed with Committee staff, our study examined three principal questions:

1. How, if at all, has the composition of the poverty population changed in recent years; that is, have there been changes in population sizes or in poverty rates for specific groups?

2. What explains any changes observed in the sizes or poverty rates of particular groups?

3. How would this picture of the poverty population change if the official definition were adjusted to incorporate near-cash benefits (such as food stamps) or certain family expenses (such as income taxes)?

BACKGROUND

The Measurement of Poverty

Before turning to the results of our work, I think it is important to identify specifically what we mean by "poverty" and to provide some economic context for the period covered by our study.

Since the development of the official U.S. poverty definition in 1964, poverty rates have been used as indicators of the need for income assistance and the ability of public programs and policies to provide that assistance. Under the official definition, a family is considered to be living in poverty if its annual cash income is below the threshold established for families of its size as sufficient to purchase a minimum standard of living. (For example, in 1988, the threshold was \$12,092 for a married couple with two children).

By identifying particularly disadvantaged components of the population such as children and the elderly, the poverty statistics stimulated interest in federal efforts to assist the poor (with programs such as Aid to Families with Dependent

Children and Food Stamps). Based on Bureau of the Census estimates for 1959, more than one fifth of the population was found to have income below the poverty threshold. During the 1960s, poverty rates for all persons--including those for children and the elderly--steadily declined, reaching a low in the early 1970s of 11 percent, as both real wages and federal spending on public assistance increased. Subsequent increases in the poverty rate have raised questions about the relationships among social welfare spending, demographic changes, and the economy.

Recent Poverty Rate Changes

After 1973, the poverty rate for all persons increased gradually until it peaked in 1983 at about mid-1960s levels. By 1988, it had returned to its 1980 level. Thus, the two years that served as the basis for our study, 1980 and 1988, had similar overall poverty rates, enabling us to examine the poverty population during those two years without having to account for any overall poverty rate change.

The general state of the nation's economy also underwent some changes during this time. The nation experienced a recession from 1980 to 1982. During the rest of the 1980s, unemployment declined and the economy experienced continuing growth, which slowed only near the end of the decade.

Let us now turn to our findings.

CHANGES IN THE COMPOSITION OF THE POOR

Our first question concerned changes in the composition of the poverty population. To analyze the composition of this population, we partitioned the poor into mutually exclusive groups of families based, in part, on their expected ability to support themselves through employment or to gain public assistance. We followed the Bureau of the Census definition of a family as a group of persons related by blood or marriage and residing together; we also counted single individuals as family units of a single person. Thus, we identified six groups of families. We first identified families headed by an elderly person and then those headed by a person with a disability. We then divided those families that remained into four categories: married couples with children under 18, single-parent families with children under 18, single individuals, and families without children.

Between 1980 and 1988, the number of U.S. families grew from an estimated 87.8 million to 100.6 million. The number of poor families also grew, from 12.6 million to 14.2 million, so that the family poverty rates for these two years were statistically indistinguishable (14.4 percent and 14.1 percent, respectively).

Table 1 shows how this growth was distributed among the six family types used in this study and how these demographic changes were reflected in changes in the numbers of families in poverty.

Table 1: Composition of the General and Poverty Populations, 1980 and 1988^a

Family type	All families		Poverty rate		Poor families	
	1980	1988	1980	1988	1980	1988
Elderly-headed	17,178 (19.6%)	20,080 (20.0%)	19.1%	14.8%**	3,285 (26.0%)	2,980 (21.0%)
Disabled-headed	4,044 (4.6%)	4,562 (4.5%)	41.7	44.8	1,686 (13.3%)	2,042 (14.4%)
Single-parent families with children under 18	6,466 (7.4%)	8,117 (8.1%)	39.0	39.9	2,522 (20.0%)	3,238 (22.8%)
Married-couple families with children under 18	24,539 (27.9%)	24,599 (24.4%)	6.8	6.4	1,659 (13.1%)	1,572 (11.1%)
Unrelated individuals (singlles)	17,684 (20.1%)	23,012 (22.9%)	16.4	15.9	2,902 (23.0%)	3,667 (25.8%)
Families without children under 18	17,923 (20.4%)	20,281 (20.1%)	3.2	3.5	577 (4.5%)	702 (5.0%)
Total	87,834 (100.0%)	100,649 (100.0%)	14.4%	14.1%	12,630 (100.0%)	14,201 (100.0%)

Change in poverty rate

* p < 0.10
 ** p < 0.05
 *** p < 0.01

^aNumbers in thousands. Numbers and percentages may not add to totals shown due to rounding.

among young families, had poverty rates in these subgroups remained at their 1980 levels.

Young single parents have dramatically higher poverty rates than young married couples with children. The 1980 poverty rates were 70 and 15 percent, respectively. The 1988 rates were higher in both subgroups: 73 percent among young single parents and 21 percent among young married couples with children. Again, an examination of their sources of income shows that these increased poverty rates were primarily due to a decrease in real income from public benefits, with both groups maintaining their work effort over this period. Overall, young single parents received \$876 less on average from means-tested programs (in 1988 dollars), which was substantially greater than their \$336 increase in average annual earnings. Young married-couple families received on average \$476 less in social insurance income (such as unemployment compensation), while their real earnings remained constant.

Families Headed by Persons With a Disability

The poverty rate for families headed by (or consisting solely of) a person with a disability increased between 1980 and 1988 by a nonsignificant 3 percentage points to 45 percent. These persons have a long-term health problem or other disability that limits employment, so they rely instead on family members and government transfers for income. Thus, their family composition has a major effect on their poverty status: Married-couple families without children headed by a person with a disability had a poverty rate of 18 percent in 1988, while single-parent families headed by a person with a disability had a poverty rate of 67 percent. (See table 3.) Disabled persons heading a family as part of a married couple escaped poverty primarily through the earnings of other family members.

Table 3: Poverty Rates of Disabled Family Heads, by Family Type, 1980 and 1988^a

Family type	1980			1988		
	In poverty	Total	Poverty rate	In poverty	Total	Poverty rate
Married couples with children	213 (13%)	606 (15%)	35.2%	226 (11%)	719 (16%)	31.4%
Single parents with children	380 (23%)	538 (13%)	70.6	421 (21%)	625 (14%)	67.4
Married couples without children	133 (8%)	1,109 (27%)	12.0	183 (9%)	1,040 (23%)	17.6**
Single heads without children	82 (5%)	333 (8%)	24.6	87 (4%)	302 (7%)	28.8
Unrelated individuals	878 (52%)	1,457 (36%)	60.3	1,125 (55%)	1,876 (41%)	60.0
Total	1,686 (100%)	4,044 (100%)	41.7%	2,042 (100%)	4,562 (100%)	44.8%

Change in poverty rate

* $p < 0.10$

** $p < 0.05$

*** $p < 0.01$

^aNumbers in thousands. Numbers and percentages may not add to totals shown due to rounding.

The increased poverty of families headed by a disabled person in 1988 was due primarily to a shift in family composition toward the two family types with the least additional income support--single parents and single individuals. These families, which primarily rely on public assistance to avoid poverty, had poverty rates of around 65 percent. In both years, fewer than half of the disabled single parents with children and disabled single individuals who had private cash income below the poverty threshold were removed from poverty by social insurance and means-tested benefits.

Summary on Subpopulation Trends

Based on what we found in the specific subpopulations we examined, we observed the following principal changes:

- the poor were more likely to be single-parent families or those headed by a person with a disability (groups with very high poverty rates) or nondisabled single adults who are typically not eligible for many forms of public assistance;
- within subpopulations, demographic shifts tended to increase those subgroups with higher poverty rates (that is, there were more never-married mothers among single parents, more single parents among young family heads, and more single parents and individuals among the disabled); and
- despite greater work effort among certain high-risk groups, in the aggregate, their increased real earned income was not able to match their loss in real income from social insurance and means-tested assistance programs. That is, despite maintaining or slightly increasing their work effort relative to similar groups in 1980, single mothers and young parents failed in 1988 to achieve increased total real income, on average. In addition, reduced real income from major federal/state public assistance and social insurance programs had a larger impact than earnings on these families' incomes, contributing to higher poverty rates among some of these families.

Adjustments to Income

Our final question concerned the effect of modifying the definition of income used for comparison with the poverty threshold. Adding the value of food and housing benefits and subtracting federal and payroll tax payments in the calculation of income would have reduced the defined overall poverty rate, as well as the rates for the most vulnerable subgroups, in both years. It had little effect on the trends over time in the

composition of the poor. However, the increase from 1980 to 1988 in the poverty rate of single-parent families would have been somewhat larger than that determined under the official definition of family income. This is because the near-cash (food and housing) benefits removed fewer single-parent families from poverty in 1988 than in 1980.

Finally, subtracting child care, child support, and state income tax payments from family income would each affect overall poverty rates by less than 1 percentage point. However, it might be noted that, while few near-poor families make these payments, for those who do, child care and child support expenses represent a substantial 15 to 20 percent of total income.

Mr. Chairman, this concludes my remarks. I would be happy to try to answer any questions that you or members of the Subcommittee may have.