



## Chapter 9

# Reducing Poverty and Increasing Self-Sufficiency in America

Despite strong economic growth and a tight labor market, millions of nondisabled, working-age Americans remain on the sidelines of the labor market, struggling to make ends meet. President Lyndon B. Johnson—facing a similar situation in the 1960s—declared a War on Poverty. In this chapter, we show that though President Johnson’s War on Poverty is largely over and has been a success based on 1963 standards of material hardship, it was not won by helping low-income Americans become self-sufficient, as President Johnson envisioned. We then describe how to wage a new war on poverty based on contemporary standards of material hardship but with a renewed focus on work, and how the Trump Administration’s actions have already made important initial progress along these lines. Bringing workers off the sidelines in this way will not only help maintain the current pace of strong economic growth, but just as important, will also ensure that all nondisabled, working-age Americans can share in the dignity of work.

In the chapter’s first section, we show that President Johnson’s War on Poverty, based on 1963 standards of material hardship, is largely over and has been a success. Limitations in both the Official Poverty Measure (OPM) and the Supplemental Poverty Measure (SPM) that the Census Bureau produces each year make them incapable of fully capturing this success. When we use a new, Full-Income Poverty Measure (FPM) that is anchored to 1963 standards—and which thus includes the full impact of government taxes and transfers (both cash and in-kind, including the market value of health insurance); which better accounts for inflation, by using the Personal Consumption Expenditures

Price Index; and which uses the household instead of the family as the sharing unit—we find that the poverty rate declined from 19.5 percent in 1963 to 2.3 percent in 2017. This is far more than the decline from 19.5 to 12.3 percent that the OPM reports for the same period. Of course, the FPM would count a larger share of Americans as poor if it increased the standards of material hardship to reflect economic growth since 1963. However, the task of establishing these new poverty thresholds is the responsibility of elected policymakers rather than researchers.

In the second section, we show that, contrary to President Johnson’s vision, it was substantial increases in the availability and generosity of government transfers to households in the bottom part of the income distribution rather than increases in their self-sufficiency that lifted nondisabled, working-age people out of poverty. The proportion of nondisabled, working-age adults (age 18–64) living in a household that receives welfare benefits (AFDC/TANF, food stamps / SNAP, housing assistance, and Medicaid) increased from 4.0 percent in 1967 to 27.6 percent in 2017, whereas growth in their work rates began to reverse after 2000. This decline in self-sufficiency has resulted in the situation today where millions of nondisabled, working-age adults receive these welfare benefits while not working.

In the third section, we argue that a new war on poverty should focus on reducing material hardship (based on modern standards that are explicitly determined by policymakers) through work for nondisabled, working-age people whenever possible. We discuss how the highly successful welfare reforms during the 1990s that required, supported, and rewarded work can serve as a model for current efforts. The Trump Administration has taken important actions along these lines—strengthening work requirements in noncash welfare programs; increasing child care assistance for low-income families; and increasing the reward for full-time, full-year work as part of the Tax Cuts and Jobs Act of 2017 by increasing the Child Tax Credit. Additional progress could be achieved by further expanding work requirements in noncash welfare

programs such as food stamps / SNAP and Medicaid, including to nondisabled, working-age adults with children.

Under the Trump Administration, strong economic growth and a tight labor market have brought millions of Americans off the sidelines and into the workforce. Nonetheless, millions of Americans remain out of the labor force, and many of them rely on welfare programs and struggle to make ends meet. Alleviating material hardship among low-income Americans is essential; but in the long run, it is important to achieve this goal through work and increased earnings. Bringing more nondisabled, working-age (18–64 years) welfare recipients off the sidelines will not only help maintain the country’s pace of strong economic growth but also ensure that all Americans can share in the dignity of work.

In the early 1960s, the United States faced a similar situation. The country was experiencing strong economic growth. But as President Lyndon B. Johnson recognized, not all Americans were participating in the growing economy, and many people faced severe material hardship. In response, President Johnson declared a War on Poverty in 1964. In a March 16, 1964, address to Congress, he stated (Johnson 1965, 376):

I have called for a national war on poverty. Our objective: total victory. There are millions of Americans—one fifth of our people—who have not shared in the abundance which has been granted to most of us, and on whom the gates of opportunity have been closed.

In the first section of the chapter, we show that President Johnson’s War on Poverty, based on 1963 standards of material hardship, is largely over and has been a success. When we use the new, Full-Income Poverty Measure (FPM) anchored in 1963—which includes the full impact of government taxes and transfers (both cash and in-kind, including the market value of health insurance); which better accounts for inflation, by using the Personal Consumption (PCE) Price Index; and which uses the household instead of the family as the sharing unit—we find that the poverty rate declined from 19.5 percent in 1963 to 2.3 percent in 2017. This is far more than the decline from 19.5 to 12.3 percent the Official Poverty Measure (OPM) reports over the same period. Even the 17.1-percentage-point reduction we find based on the FPM likely understates the actual reduction in poverty. The FPM is based on the Current Population Survey–Annual Social and Economic Supplement (CPS-ASEC), the same survey used by the Census Bureau to determine the OPM. Meyer, Mok, and Sullivan (2015) show that this survey substantially underreports government transfers and that this underreporting has increased over time, which would tend to artificially dampen the reduction of poverty under the FPM. Of course, more

Americans would today be counted as poor if standards of material hardship were updated to reflect the decades of economic growth since 1963, in which the entire income distribution shifted far to the right. However, the task of defining poverty thresholds is the responsibility of policymakers rather than researchers.

Although President Johnson's War on Poverty has largely been won, based on the FPM, victory was not achieved by making more Americans self-sufficient, as he envisioned (Johnson 1965, 376):

The War on Poverty is not a struggle simply to support people, to make them dependent on the generosity of others. It is a struggle to give people a chance. It is an effort to allow them to develop and use their capacities, as we have been allowed to develop and use ours, so that they can share, as others share, in the promise of this Nation.

In the second section, we show that contrary to President Johnson's vision, it was substantial increases in the availability and generosity of government transfers to the bottom part of the income distribution rather than increases in work that lifted nondisabled, working-age people out of poverty. We show that the share of nondisabled, working-age adults living in a household that receives welfare benefits—Medicaid, food stamps / the Supplemental Nutrition Assistance Program (SNAP), housing assistance, or Aid to Families with Dependent Children (AFDC) / Temporary Assistance for Needy Families (TANF)—increased from 4.0 percent in 1967 to 27.6 percent in 2017, while growth in their work rates has reversed since 2000. This decline in self-sufficiency has culminated in a situation where large numbers of nondisabled, working-age adults receive welfare benefits while not working. We find that in December 2013, the majority of adults receiving SNAP and Medicaid, the two largest welfare programs in the United States, were nondisabled and of working age. However, a majority of these nondisabled, working-age adults receiving benefits from these programs in December 2013 did not work during that month. Unless welfare programs are improved to more effectively promote work, many of these nondisabled, working-age adults will be unable to share in the dignity of consistent work and of achieving their own success.

A new war on poverty should focus on reducing material hardship (based on modern standards determined by policymakers) through work and increased earnings, as President Trump said in his State of the Union Address on January 30, 2018:

We can lift our citizens from welfare to work, from dependence to independence, and from poverty to prosperity.

In the third section, we discuss how welfare reform during the 1990s serves as a model for success, and how this model has been reflected in the

Trump Administration's actions to promote work among nondisabled, working-age welfare recipients. Welfare reform in the 1990s (1) required work, by expanding work requirements in the cash-based TANF program; (2) supported work, by consolidating and improving child care programs; and (3) rewarded work, through expansion of the Earned Income Tax Credit (EITC). We show how these efforts successfully boosted work for the groups of nondisabled, working-age welfare recipients who were most affected, and led to improvements in child outcomes. However, using the Survey of Income and Program Participation (SIPP), we estimate that, as of December 2013, there were over 16 times more nondisabled, working-age adults receiving assistance from non-cash welfare programs than TANF cash assistance. Given that these noncash welfare programs generally lack strong work requirements, further efforts to promote work are needed.

The Trump Administration has taken important actions that are aligned with the successful welfare reform model. President Trump signed Executive Order 13828, directing agencies to strengthen and expand work requirements under existing laws whenever possible. The Centers for Medicare & Medicaid Services (CMS) has granted waivers to several States to implement community engagement requirements among certain nondisabled, working-age adults who receive Medicaid coverage. In addition, the U.S. Department of Agriculture (USDA) has proposed a new rule that would limit the use of waivers for existing work requirements among childless adults receiving SNAP benefits.

The President also increased work supports by signing into law a bill that substantially increases child care assistance available for low-income families. Furthermore, the Administration substantially bolstered the reward for full-time, full-year work as part of the Tax Cuts and Jobs Act of 2017 by increasing both the Child Tax Credit (CTC) and the refundable component of the CTC for those with earnings but no Federal income tax liability.

Additional progress could be achieved by further expanding work requirements in noncash welfare programs—including to nondisabled, working-age adults with children—as described in the recent Council of Economic Advisers report *Expanding Work Requirements in Non-Cash Welfare Programs* (CEA 2018). These efforts will help ensure that progress in reducing poverty based on modern standards will increasingly be achieved by assisting nondisabled, working-age adults secure and maintain employment.

The timing for these reforms is ideal in the light of the Nation's current strong economic growth and a tight labor market. The unemployment rate was 3.9 percent in December 2018, and the strong economy has helped reduce the SNAP caseload by 4.7 million people (through October 2018) since President Trump was elected (USDA 2018d), a decline of more than 10 percent. At the same time, indicators of material hardship have declined. For example, the share of Americans experiencing food insecurity sometime during the year declined from 12.3 percent in 2016 to 11.8 percent in 2017, and has fallen by

3.1 percentage points since 2011 (Coleman-Jensen et al. 2018). Work-focused welfare reforms can ensure further progress, so that as many nondisabled, working-age Americans as possible can share in the benefits of a growing economy, escape material hardship, and enjoy the dignity of work.<sup>1</sup>

## The Success of the War on Poverty

I have called for a national war on poverty. Our objective: total victory. There are millions of Americans—one-fifth of our people—who have not shared in the abundance which has been granted to most of us, and on whom the gates of opportunity have been closed.

—President Lyndon B. Johnson, March 16, 1964, in an address to Congress (Johnson 1965, 376)

In 1964, President Lyndon B. Johnson declared a War on Poverty. As part of this war, he advanced major new Federal programs that provided assistance to low-income Americans and were intended to reduce the poverty rate below the 19.5 percent rate recorded in 1963. This section assesses the progress that has been made in President Johnson’s War on Poverty based on those 1963 standards. (For an in-depth analysis of the creation of the Full-Income Poverty Measure—and its value in measuring the success of President’s Johnson War on Poverty—see Burkhauser et al. 2019, from which this section is adapted.)

We begin by discussing the basic elements of any poverty measure. We then demonstrate why current poverty measures—including the Official Poverty Measure and the Supplemental Poverty Measure (SPM), each published annually by the Census Bureau—are incapable of assessing progress on the War on Poverty that President Johnson declared. Specifically, existing poverty measures fail to satisfy these three necessary conditions for assessing progress:

1. Define poverty based on the 1963 standards.
2. Properly adjust for inflation over time.
3. Capture the posttax value of all sources of income, including access to health insurance.

Next, we describe the Full-Income Poverty Measure, which satisfies each of these three conditions, as developed by Burkhauser and others (2019). When anchoring the FPM to the official poverty rate of 19.5 percent in 1963, we find that the poverty rate fell to 2.3 percent in 2017. This is far more than the decline from 19.5 to 12.3 percent that the OPM reports over this period. However, even

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<sup>1</sup> The CEA previously released research on topics covered in this chapter. The text that follows builds on the following research paper produced by the CEA: “Expanding Work Requirements in Non-Cash Welfare Programs” (CEA 2018). In addition, the first section of this chapter is adapted from the paper by Burkhauser et al. (2019)..

the 2.3 percent poverty rate in 2017 under the FPM likely understates progress in reducing poverty because of the substantial and increasing extent of underreporting of transfer income in the CPS-ASEC (Meyer, Mok, and Sullivan 2015).

### *The Elements of a Poverty Measure*

The “unit of analysis” in all official poverty studies is the individual. However, because most individuals live in families or households, official poverty studies collect information on the resources of all members of the person’s “sharing unit” and assume that this sharing unit’s members share these resources equally. Effectively, this means that the poverty status of each member of the sharing unit is the same. The poverty threshold will depend on the number of persons in the sharing unit; and, for the most part, official poverty studies assume that economies of scale lead to poverty thresholds that increase less than proportionately as additional persons are included. The appropriate economies of scale to assume in determining thresholds as well as what constitutes a sharing unit are subjects of debate. However, there is far more debate about the sources of income (or consumption) that should be considered as resources when determining the thresholds, the share of the population that should fall below the initial thresholds, and how these thresholds should vary over time. Any changes to the way resources are measured, however, should also be incorporated when setting the poverty thresholds so that the share of people living in poverty in the anchor year is the same as that found by the poverty measure with which it is being compared. Failing to do so can lead to an inaccurate picture of poverty trends across measures.

In the next paragraphs, we briefly summarize the key elements of the major poverty measures used in the United States. (For a more detailed discussion of poverty measure fundamentals, as well as how the concepts behind them differ in the United States and the European Union, see Besharov and Couch 2009; Burkhauser 2009; and Besharov and Couch 2012. For a discussion of the Council of Economic Advisers’ role in establishing the elements of President Johnson’s War on Poverty, see Lampman 1971.)

*Defining resources.* Resources can be defined on the basis of consumption or income. A conceptual advantage of consumption-based poverty measures is that the consumption of goods and services, not the money that allows access to them, is what satisfies our desires. Individuals with little or no income in a given year could nonetheless have assets from which to draw to purchase consumption goods. Income-based poverty measures would misidentify such people as poor. Furthermore, as a practical matter, consumption-based measures may suffer less from an underreporting of resources (Meyer and Sullivan 2012a). Meyer and Sullivan (2003) show that differences in income and spending can be substantial, especially for families with low reported incomes. Despite the advantages of consumption-based poverty measures, income-based measures are more common, which in part reflects the relatively greater

ease in collecting income data and thus the greater availability of published data on income that can be used to track poverty trends (Burkhauser 2009).

Among income-based poverty measures, various sources of income are used. For example, the OPM includes wage, salary, self-employment, property, and other private sources of cash income, as well as government cash social insurance transfers like Social Security (including Old-Age, Survivors, and Disability Insurance benefits) and cash welfare transfers like TANF. Other measures, like the SPM, also include the value of some noncash government transfers, such as SNAP benefits and housing assistance, and focus on disposable income by subtracting income and payroll taxes paid and adding tax credits received.

However, even these additions fall short of fully incorporating all the available income sources. The importance of including the market value of health insurance (calculated as the average cost for an employer or government of providing health insurance based on an individual's State of residence and risk class) is demonstrated in studies of income distribution trends by Burkhauser, Larrimore, and Simon (2012, 2013); Armour, Burkhauser, and Larrimore (2013); and Larrimore, Burkhauser, and Armour (2015). Beginning in 2013, the Congressional Budget Office (CBO 2013) adopted the same definition of the value of health insurance in its reports on trends in the distribution of income and Federal taxes. Poverty measures that entirely exclude the value of health insurance as a source of income effectively place a zero value on such insurance and hence do not capture all the resources people receive that can help lift them above poverty thresholds.

Kaestner and Lubotsky (2016, 73) review the literature on the inclusion of the value of health insurance in measures of income inequality and confirm its importance: "While there is some debate about how to value Medicare and Medicaid benefits for the purpose of assessing how those programs influence inequality, our estimates and those in Burkhauser et al. (2013) indicate that measured inequality is about 25 to 30 percent smaller if the average cost of these programs are added to recipients' incomes." However, primarily on the basis of a working version of a paper by Finkelstein, Hendren, and Luttmer (forthcoming)—which finds that the availability of uncompensated care reduces the value of formal health insurance to some low-income individuals—Kaestner and Lubotsky (2016) consider the alternative approach of valuing health insurance at a positive amount but less than its full market value. They show that doing so will result in a smaller effect on inequality. Burkhauser, Larrimore, and Lyons (2017) also report their results' sensitivity to values based on the findings of Finkelstein, Hendren, and Luttmer (forthcoming).

*Sharing units and economies of scale.* A poverty measure must also define the unit that shares these resources. Although the OPM uses the family as the sharing unit (all members of a household who are related by blood or marriage), the household is more common in survey-based analyses of income



trends. The increase in the share of adults unrelated by blood or marriage who are nonetheless living in a household together and are sharing household resources is one of the major arguments for the use of the household rather than the family as the sharing unit.

There are also differences in the equivalence scales that researchers use. Burkhauser, Smeeding, and Merz (1996) show that using a scale based on the square root of the number of members in the sharing unit approximates the OPM poverty thresholds. Importantly, they also show that though the choice of scale will have substantial effects on the characteristics of the kind of sharing units that they classify as consisting of people who are living in poverty (e.g., larger sharing units headed by a working-age person with children vs. older persons without children), this choice has little effect on trends in overall poverty rates in a country. For examples of the use of the square root of the number of members of the sharing unit to determine equivalence scales, see Gottschalk and Smeeding (1997); Canberra Group (2011); and Forster and d’Ercole (2012).

*Absolute versus relative standards.* Once poverty thresholds are set, a decision must be made with respect to how they are updated over time. This is the case regardless of how the original thresholds were established to identify the share of the population that is poor. Thresholds under relative poverty measures change each year relative to how living standards change for the rest of the population. For example, the European Union not only set the original poverty thresholds for each of its member countries at 60 percent of the median income of that country, it then increased the country’s poverty thresholds each year based on increases in the country’s median income (technically, the European Union calls this the “at-risk-of-poverty” threshold). Doing so maintains the same relative distance between poverty thresholds and median income over time. The Organization for Economic Cooperation and Development uses a similar method, setting its original country thresholds at 50 percent of median income and increasing country poverty thresholds each year by increases in the country’s median income. Importantly, the decision on where in the income distribution to set the original poverty thresholds and the justification for doing so are independent of how these thresholds change over time.

Although a relative poverty measure can be informative about the material hardship of individuals at the lower end of the distribution relative to those in the middle, it is not a good measure of changes in their absolute material hardship over time. For example, if the real income available to everyone in the country doubled, a relative poverty measure would show no change in the poverty rate despite substantial increases in the real income of the poor. Likewise, if real median income fell by a greater percentage than did the income of those in the bottom part of the distribution, the share of the population living in poverty would fall. In contrast to relative poverty measures, absolute measures update thresholds over time based only on inflation, ensuring that changes

in the poverty rate only occur when real income for those at the lower end of the resource distribution increases or decreases. Again, the decision to use an absolute standard for changing thresholds over time is independent of how one chooses the original thresholds.

Where to set the initial poverty thresholds and whether to use a relative or absolute poverty standard to adjust them each year are important policy decisions. These decisions will not only determine the initial share of the population that is living in poverty when “a war on poverty” is declared, but also how the future success of that war will be determined. Success based on an absolute measure is determined by improvements according to a constant level of material hardship, whereas success based on a relative measure is determined by larger improvements by the poor than for the country as a whole—or, in other words, by continually surpassing a shifting goalpost in real terms.

In his War on Poverty, President Johnson chose a set of poverty thresholds such that about one-fifth of the U.S. population was poor, and he made a policy decision that reducing the share of poor Americans was an important priority for American policy. On the basis of advice from the CEA and others, these thresholds, which were set in nominal dollars, were adjusted each year to hold them constant in real terms over time, reflecting an absolute measure of poverty (see box 9-1). President Johnson left it for future policymakers to decide if and when these real poverty thresholds should increase rather than be tied to increases in the real income of the rest of the population.

Because both the initial level of the poverty thresholds and the way they increase each year are value judgments, policymakers should ultimately make these critical policy decisions because they are the elected representatives of the people. The role of policy advisers and of the general academic community is to provide policymakers with the best information to make these value judgments. This information includes the most accurate way to measure the initial set of resources reflected in poverty thresholds, the unit of analysis, the sharing unit, and the equivalence scale. For absolute standards, it includes the proper measure of inflation; and for relative standards, it includes the implications of tying poverty thresholds to different points in the income distribution.

Although the choice of an absolute or a relative poverty standard for changing thresholds over time remains controversial (and should remain the decision of policymakers), what should not be controversial is the method used to determine the success or failure of President Johnson’s War on Poverty. To assess the success or failure of this War on Poverty, it is important to anchor technically superior alternative measures of poverty to the original 19.5 percent share of Americans based on the OPM in 1963, whose poverty the President was committed to reducing. Then, the nominal dollar values of these thresholds must be adjusted each year by the most appropriate measure of inflation in order to hold them constant in real terms. Doing so accurately establishes the terms of engagement for the War on Poverty and will produce

### **Box 9-1. The CEA's Role at the Beginning of the War on Poverty**

On January 8, 1964, President Johnson declared a War on Poverty in his State of the Union Address to Congress. Less than two weeks later, on January 20, 1964, the White House published its annual *Economic Report of the President*, by the Council of Economic Advisers, featuring a chapter titled “The Problem of Poverty in America.” This chapter helped define the terms of engagement for President Johnson’s War on Poverty with respect to its initial poverty thresholds and how they would change over time.

The CEA set a poverty threshold of \$3,000 per family (regardless of family size) and a poverty threshold of \$1,500 for all single individuals, so that about 20 percent of Americans would have incomes below these thresholds in 1962. This is a poverty rate roughly equal to the 19.5 percent poverty rate, later determined using the OPM for 1963, that we use in this chapter as the baseline for assessing progress. (Note also that using the square root of the number of members in the sharing unit to determine equivalent income for each member of a four person family whose total family income was \$3,000 would make each member of that family as well off as a single person with \$1,500 in income. The FPM uses this equivalence scale.) In a March 1964 address to Congress, President Johnson also referred to the 20 percent baseline, stating: “There are millions of Americans—one-fifth of our people—who have not shared in the abundance which has been granted to most of us, and on whom the gates of opportunity have been closed” (Johnson 1965, 376). In another speech in February 1964, President Johnson explicitly linked his 20 percent baseline to the CEA’s thresholds, referencing the “20 percent that earns less than \$3,000 per year” (Johnson 1965, 287).

The CEA focused on an absolute standard for how these thresholds would change over time. This is the case, because in their calculations (CEA 1964, 59), showing how the poverty rate had declined from 32 percent of families in 1947 to 20 percent of families in 1962, they maintained the same real thresholds in each year by adjusting their dollar value only for inflation.

In addition, the CEA noted that though its income definition included only “money income,” a full-income definition that also included noncash sources would have been desirable, stating that “if it were possible to obtain estimates of total income—including nonmoney elements—for various types of families, those data would be preferable for the analysis which follows” (CEA 1964, 58).

As the CEA’s chairman, Walter Heller was the preeminent advocate for a major antipoverty initiative under President John F. Kennedy. On the day after President Kennedy’s assassination, Heller proposed this antipoverty initiative to President Johnson, and, according to an oral history of this period, “Lyndon Johnson instantly embraced the proposal and within weeks declared ‘unconditional war on poverty’” (Gillette 2010, 2). In addition, the CEA led an interagency taskforce beginning in 1963 that focused on defining and alleviating poverty. Robert Lampman, the CEA’s Senior Staff Economist

at the time, and later the primary author of the poverty chapter in the 1964 *Economic Report of the President*, was described as the “intellectual architect of the War on Poverty” by former CEA Member James Tobin in Lampman’s *New York Times* obituary (Passell 1997).

Lampman later wrote in his seminal 1971 book on the origins and nature of poverty, *Ends and Means of Reducing Income Poverty*: “While income poverty is a relative matter, I do not think we should engage in frequent changes of the poverty line, other than to adjust for price changes. As I see it, the elimination of income poverty is usefully thought of as a one-time operation in pursuit of a goal unique to this generation. That goal should be achieved before 1980, at which time the next generation will have set new economic and social goals, perhaps including a new distributional goal for themselves” (Lampman 1971, 53). This view is consistent with using an absolute poverty measure to assess progress in President Johnson’s War on Poverty, based on poverty standards set at the time.

the most accurate measure of its success in reducing poverty as the President defined it.

### ***The Inability of Existing Poverty Measures to Assess the War on Poverty***

To answer the question “What progress has been made in President Johnson’s War on Poverty?” a poverty measure must satisfy three basic conditions:

1. *The poverty measure should set poverty thresholds such that the poverty rate was 19.5 percent in 1963.* President Johnson declared the War on Poverty in 1964 with the goal of reducing the poverty rate below a baseline of about 20 percent. The President referred to this baseline when stating in 1964 that “one-fifth of our people” are living in poverty. The CEA (1964) also estimated a poverty rate of about 20 percent in 1962. The poverty rate calculated later under the OPM in 1963 was 19.5 percent. A poverty measure that sets thresholds such that the poverty rate was higher or lower than about 20 percent in 1963 is inconsistent with the value judgments made by policymakers with respect to the share of Americans facing material hardship at the time.
2. *The poverty measure should be based on an absolute standard and should properly adjust for inflation over time.* The outcome of President Johnson’s War on Poverty should be decided based on standards at the time he declared it, not based on shifting goalposts as the economy grows. Moreover, his objective of “total victory”—as well as the activities of his economic advisers at the time and the reflections of Robert Lampman (1971), as discussed in box 9-1—suggests that he

was focused on alleviating poverty based on an absolute measure of hardship over time rather than a relative one.

3. *The posttax value of all resources available to a person should be included.* President Johnson's War on Poverty focused on new Federal programs that would provide assistance to low-income Americans, including the Food Stamp Act of 1964, which expanded and made permanent the existing pilot food stamp program; and the Social Security Amendments of 1965, which created Medicaid and Medicare. Later reforms directed a large amount of assistance to those living in poverty, including the EITC (enacted in 1975) and the CTC (enacted in 1997). Thus, it is important to use a posttax measure of income that incorporates the value of noncash benefits.

No existing poverty measure from the Census Bureau or academic researchers satisfies all these criteria. The OPM by definition meets the first criterion, in that the poverty rate under the OPM was 19.5 percent in 1963; but it does not fully satisfy the second or third criteria. The SPM meets none of these criteria fully. An academic research measure, the absolute SPM (Wimer et al. 2016), also meets none of these criteria fully. A consumption-based poverty measure (CPM)—developed by Bruce Meyer and James Sullivan (2003, 2012a, 2012b, 2017a, 2018)—may satisfy the second criterion but not the first or third ones. We next summarize these existing poverty measures and explain how each one fails to fully satisfy these criteria. Table 9-1 compares the basic elements of these existing poverty measures with the elements of the FPM discussed later in the chapter.

*The Official Poverty Measure.* The OPM was developed in response to President Johnson's War on Poverty and was similar in design to the one developed by the CEA. Mollie Orshansky (1965), a statistician and economist at the Social Security Administration, developed a poverty measure with a threshold that varied based on family size; but its threshold value for a family of four turned out to be very close to the \$3,000 level proposed by the CEA, and the 19.5 percent poverty population that the OPM captured in 1963 was very similar to the roughly one-fifth of Americans whom the CEA and President Johnson had targeted as poor at the outset of the War on Poverty in 1964. Orshansky set a family's poverty threshold as three times the budget needed to afford a low-cost food plan, as determined by the USDA, given that food expenses typically represented about one-third of total family expenditures at the time.

In 1968, the Census Bureau published estimates of trends for poverty based on Orshansky's poverty measure, updating poverty thresholds each year based on changes in the USDA food plan cost estimates (U.S. Census Bureau 1968). Then, in 1969, the Census Bureau released its first official poverty estimates in which poverty thresholds were adjusted annually based on inflation using the Consumer Price Index produced by the Bureau of Labor Statistics (BLS), which at the time was the measure that is now referred to as

Table 9-1. Basic Elements of Poverty Measures

Element	Official Poverty Measure	Supplemental Poverty Measure	Absolute Supplemental Poverty Measure	Consumption-Based Poverty Measure	Full-Income Poverty Measure
Source	Census Bureau	Census Bureau	Wimer et al. (2016)	Meyer and Sullivan (2012b)	Burkhauser et al. (2019)
How thresholds are updated	CPI-U	Quasi-relative*	CPI-U-RS	Meyer-Sullivan Adjusted CPI-U-RS	PCE
Spending excluded	NA	NA	NA	None, with exceptions**	NA
Income excluded	In-kind transfers, tax credits, health insurance, capital gains	Health insurance, capital gains	Health insurance, capital gains	NA	Capital gains
Deduct income and payroll taxes from income	No	Yes	Yes	NA	Yes
Expenses deducted	No	Health, childcare, work expenses	Health, childcare, work expenses	NA	No
Regional cost of living adjustment	No	Yes	No	No	No
Sharing unit	Family	Family, unmarried partners & their children, unrelated children under 15	Family, unmarried partners & their children, unrelated children under 15	Household members who share resources and expenses	Household
Sharing unit size adjustment	Based on cost of food plan for family of given size	1 or 2 adults, no children: $A^{0.5}$ 1 adult, with children: $[A+0.8+0.5(C-1)]^{0.7}$ All others: $[A+0.5C]^{0.7}$ where A is number of adults, C is number of children			$N^{0.5}$ where N is number of people

Sources: Census Bureau; Wimer et al. (2016); Meyer and Sullivan (2012b); Meyer and Sullivan (2018); Burkhauser et al. (2019).

Note: CPI-U = Consumer Price Index for All Urban Consumers; RS = Research Series. See Burkhauser et al. (2019) for further details.

\*Equal to 5-year average of spending on necessities by moderate income households multiplied by 1.2.

\*\*Except spending on home and vehicle purchases (replaced by flow value of ownership), health, and education

the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), as directed by the then-Bureau of the Budget (U.S. Census Bureau 1969; HHS 2000). Later, in May 1978, the Office of Management and Budget issued the

directive defining poverty for statistical purposes. Also, it was in 1978 when the BLS also started publishing the Consumer Price Index for All Urban Consumers (CPI-U).

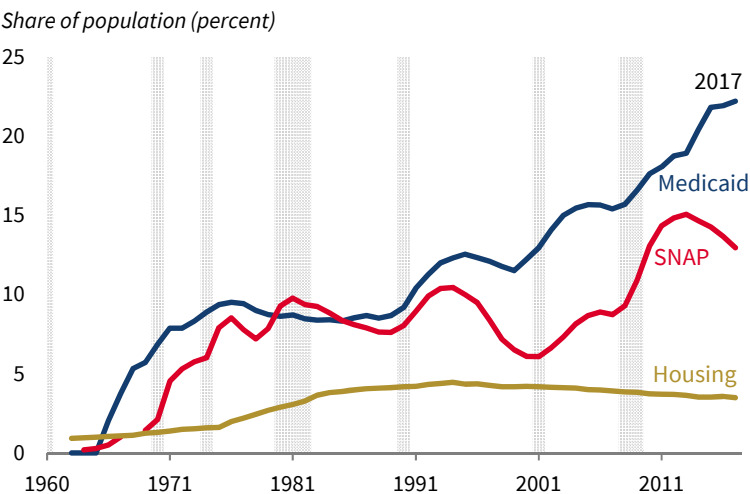
The OPM is based on pretax, postcash transfer income, excluding important in-kind benefits—such as food stamps (or SNAP); Medicaid and rental housing assistance; and tax credits that were implemented later, including the EITC, the CTC, and the Additional CTC (ACTC), which is the refundable portion of the CTC. These sources of income were either relatively minor or were nonexistent when the OPM was first implemented; thus, they were not initially important to capture in the data used to estimate poverty rates.

However, it is widely recognized that the rising importance of these sources of income renders the OPM incapable of assessing progress in the War on Poverty. The final report of the most influential external panel of experts on the effectiveness of the OPM as a measure of trends for poverty found that “the current U.S. measure of poverty is demonstrably flawed judged by today’s knowledge; it needs to be replaced” (Citro and Michael 1995, xvii). More recently, on the 50th anniversary of the War on Poverty, the 2014 *Economic Report of the President*, in a chapter on progress in poverty reduction, stated that “the official poverty measure (OPM) has several flaws that distort our understanding of both the level of poverty and how it has changed over time” (CEA 2014, 224). Both these sources considered the OPM’s inability to capture the growth of in-kind transfers as a major flaw.

Because in-kind programs have grown dramatically since the War on Poverty began—and when the CTC and EITC did not exist—the downward trend in poverty when omitting them is flatter than it would otherwise be. Figure 9-1 shows the percentage of the population enrolled in the three main noncash welfare programs between 1963 and 2017, based on administrative records. The share of the population receiving Medicaid increased from 0.0 (before the program’s inception in 1965) to 22.2 percent; the share receiving SNAP increased from 0.2 percent (in 1964, when the program had not yet been implemented nationally) to 13.0 percent; and the share of households receiving rental housing assistance increased from 0.9 to 3.5 percent, excluding those benefiting from the Low-Income Housing Tax Credit. In 2016, the U.S. spent \$673 billion on these three noncash welfare programs alone (CEA 2018). By not including them as resources going to family members, the OPM will in effect put a zero value on all these program benefits and miss their importance in reducing material hardship to the degree that they are taken up by the bottom part of the income distribution (and reflecting them in setting the poverty thresholds, to the extent that they existed in 1963).

The OPM also does not account for other in-kind programs—like the Special Supplemental Nutrition Program for Women, Infants, and Children; the school meal programs; the Low-Income Home Energy Assistance Program; and child care subsidies. In addition, in tax year 2016 the U.S. spent \$67 billion on

**Figure 9-1. Percentage of the Population Enrolled in Noncash Welfare Programs, 1963–2017**



Sources: Truffer et al. (2012, 2016); CMS (2018a); USDA (2018c); Collinson et al. (2016); HUD (2018); National Bureau of Economic Research; CEA calculations.  
Note: For rental housing assistance, shares are the number of assisted households divided by the total number of U.S. households, because the CEA is unaware of administrative data tracking individual recipients of housing assistance throughout this entire period. Shading denotes a recession for at least four months of a given year.

the EITC and \$27 billion on the ACTC, which are mainly targeted to families with children that have low to moderate earnings, and which did not exist in 1963 at the outset of the War on Poverty (IRS 2016). The OPM, by looking at pretax income rather than posttax income, will miss the value of these tax changes to the after-tax resources of families.

Another criticism of the OPM that prevents it from tracking changes in absolute standards of economic hardship since the War on Poverty began is that it adjusts thresholds each year using the BLS’s CPI-U, which has historically overstated inflation (Boskin et al. 1996). The BLS has improved the CPI-U over time by accounting for how consumers respond to increasing prices by substituting to different goods, but historical CPI-U index values have not been changed to reflect this form of substitution. Although the BLS has created the CPI-U Research-Series (CPI-U-RS) to make these adjustments since 1978, it did not do so in earlier years. In addition, the CPI-U-RS does not account for the ability of consumers to substitute between broader categories of products when prices increase, which leads it to overstate inflation even during years when it is available. Another BLS measure, called the Chained CPI-U (C-CPI-U),



accounts for this form of substitution across broader product categories, but it has only been available since 2000.<sup>2</sup>

Although the CPI-U, CPI-U-RS, and C-CPI-U are unable to hold real poverty thresholds constant throughout the 1963–2017 period, an alternative inflation measure produced by the Bureau of Economic Analysis, called the Personal Consumption Expenditures (PCE) Price Index, can better do so. The PCE Price Index accounts for consumer substitution and is available throughout the period we consider. It is the measure emphasized by the Federal Reserve Board, and it is the inflation measure used by the CBO in its reports on the distribution of household income over time. (For a fuller discussion of why the PCE Price Index is a preferred inflation index, see Winship 2016.)

As alternatives to the official government inflation measures noted above, researchers have created measures that attempt to correct for substitution bias and also bias from the failure to account for the introduction of new or higher-quality goods. Meyer and Sullivan (2012b) have created an alternate series that shows slower inflation than the PCE Price Index. Their series, which we refer to as the Meyer-Sullivan adjusted CPI-U-RS, adjusts for biases in the CPI-U-RS based on estimates from the Boskin Commission (Boskin et al. 1996)—a panel of experts convened by the Senate Finance Committee to better measure inflation rates—as well as follow-up work by Hausman (2003), Berndt (2006), and Gordon (2006).

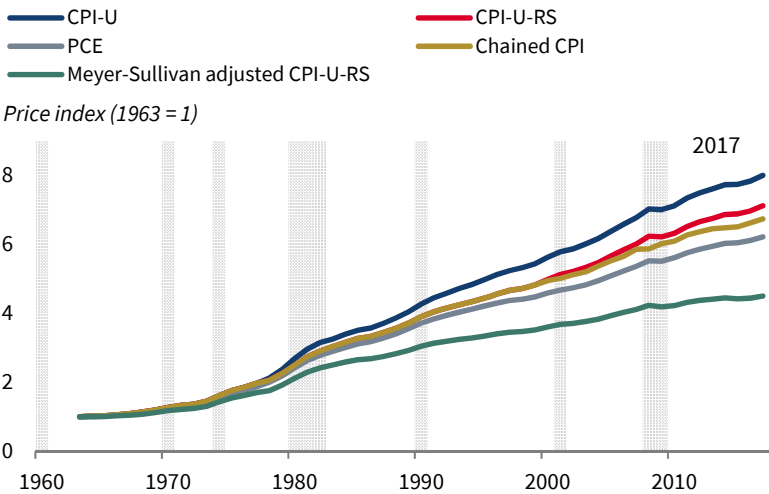
Figure 9-2 shows the importance of using the different inflation measures outlined above in determining how much the nominal dollar value of poverty thresholds must increase each year to hold their real dollar values at 1963 levels. Compared with 1963 thresholds, in 2017 the CPI-U would generate a threshold that is 8.0 times as high in nominal dollars to hold the real value of the thresholds constant. To the degree that this is an overstatement of inflation, it will effectively raise the real level of these poverty thresholds and exaggerate the share of people living in poverty in 2017 relative to 1963. In contrast, all the other measures of inflation shown result in smaller changes in nominal thresholds. The CPI-U-RS is 7.1 times as high relative to 1963, the C-CPI-U is 6.7 times as high, the PCE Price Index is 6.2 times as high, and the Meyer-Sullivan adjusted CPI-U-RS is 4.5 times as high. Using the PCE Price Index would generate nominal thresholds in 2017 that are 78 percent ( $6.2/8.0$ ) as high as thresholds using the CPI-U, which is used in the OPM. Using the Meyer-Sullivan adjusted CPI-U-RS would generate thresholds that are 56 percent ( $4.5/8.0$ ) as high.

*The Supplemental Poverty Measure.* The SPM is a more recent poverty measure published by the Census Bureau alongside the OPM; but like the OPM,

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<sup>2</sup> Because the Chained CPI and CPI-U-RS were not available in 1963, for the period 1963–78, we use CPI-U inflation growth for all three series; and from 1978 to 2000, we use CPI-U-RS inflation growth for both the Chained CPI and CPI-U-RS. This likely increases the observed inflation growth in each series relative to a scenario in which the adjustments were available for the entire period.

**Figure 9-2. Price Indices of Various Inflation Measures, 1963–2017**



Sources: Meyer and Sullivan (2012b, 2018); Bureau of Labor Statistics; Bureau of Economic Analysis; National Bureau of Economic Research; CEA calculations.

Note: CPI-U = Consumer Price Index for all Urban Consumers. CPI-U-RS = CPI-U Research Series. PCE = Personal Consumption Expenditures Price Index. The Meyer-Sullivan adjusted CPI-U-RS is calculated by subtracting 0.8 percentage points from the growth rate in the CPI-U-RS for 1978–2017, and subtracting 1.1 percentage points from the growth rate for 1963–1977. Shading denotes a recession for at least four months of a given year.

its characteristics do not allow it to assess progress in President Johnson’s War on Poverty. Building on concepts outlined in 1995 in a Congressionally commissioned National Academy of Sciences committee report titled *Measuring Poverty: A New Approach*, the SPM represents a fundamental shift away from an absolute poverty standard and toward a relative one for purposes of changing the thresholds over time (Citro and Michael 1995). A key feature of the SPM is the adoption of so-called quasi-relative thresholds, which are based on expenditures by moderate-income households (those at the 30th to 36th percentiles of the expenditure distribution) on basic necessities, including housing, food, clothing, and utilities. Spending on these necessities is then multiplied by 1.2 to generate poverty thresholds that reflect expenditures on necessities not reflected in these categories.

Of course, like the original OPM, the initial SPM thresholds are arbitrary. However, the OPM thresholds are politically relevant for establishing public policy goals because they produce a poverty rate (19.5 percent in 1963) that is consistent with President Johnson’s declaration of the War on Poverty, when he stated that one-fifth of Americans were living in poverty. Unless the SPM thresholds were set so that in 1963 the poverty rate under the SPM was similarly 19.5 percent, the SPM would redefine the original standards determined by policymakers at the beginning of the War on Poverty. In addition, these

1963 SPM thresholds would need to be updated each year based on inflation to hold them constant in real terms over time. Instead, the SPM thresholds are not anchored to the scientifically arbitrary but politically relevant 19.5 percent poverty rate in 1963, and they are updated over time based on a quasi-relative method. Because real expenditures by moderate-income households have in fact increased since 1963, the SPM thresholds have increased in real terms, redefining the poverty standards set by President Johnson at the beginning of the War on Poverty.

Nonetheless, from a conceptual perspective, the SPM greatly improves on the OPM by including more sources of income. The SPM includes noncash transfers such as SNAP and housing benefits, although it excludes the market value of health insurance. The CEA (2014, 227) notes that the SPM “does not provide an accurate picture of the benefits of health care,” because while the SPM includes resources freed up from reduced out-of-pocket expenses as people obtain insurance, it excludes the value of healthcare that people receive; and as a result, “the measured trend in SPM poverty may understate progress in decreasing economic hardship since the War on Poverty began by ignoring these benefits of increased access to insurance.” The SPM is also a posttax measure of income, and so it includes the EITC and CTC, while subtracting taxes paid. The SPM also makes several other adjustments to income by deducting child care and out-of-pocket medical expenses, and its thresholds can vary across geographical areas based on housing costs and differences in expenses.

Although deducting expenses provides a measure of the resources left available for other types of consumption, doing so can also lead to perverse results. For example, the Affordable Care Act increased the number of people covered by health insurance, and it heavily subsidized this coverage for lower-income families. However, in many cases those who use medical services must pay some out-of-pocket expenses, and the SPM would subtract these expenses from income but not count the value of the subsidized insurance in its measure of poverty. In fact, Meyer and Sullivan (2012a) find that the deduction of out-of-pocket medical expenses leads the SPM to include as poor more people with higher levels of consumption, higher levels of educational attainment, larger homes, and higher likelihoods of health insurance coverage, relative to the OPM. In addition, the need to make geographical adjustments for the cost of living are less compelling when people have freedom of movement to other areas in the country with different costs of living (Burkhauser 2009). The fact that, over time, they do not move may be explained by the fact that higher costs of living generally reflect an area’s higher levels of amenities.

Though the Census Bureau has estimated poverty rates under the SPM only for 2009 and later, Fox and others (2015) create an SPM with poverty rates for each year between 1967 and 2012. However, the SPM is not comparable to the OPM, for two key conceptual reasons. First, it is not anchored to the OPM

in 1963. Second, it does not maintain an absolute standard because thresholds are adjusted each year based on changed spending by moderate-income households.

*The absolute SPM.* Wimer and others (2016) created a variation of the SPM, which they called an “anchored SPM.” Despite its name, the anchored SPM cannot be compared with the OPM because it is not actually anchored to the OPM in 1963 or any other year. Rather, it is anchored to itself in a given year. That is, the initial SPM thresholds are arbitrarily defined in a given year based on expenditures by moderate-income households in that period, and then thresholds are updated each year before or after, based on inflation. Hence, like any vessel not anchored to its mooring—in this case, President Johnson’s initial 19.5 percent share of the population living in poverty 1963—it will drift out to sea. Though it is not anchored to the OPM, this alternative version of the SPM is (at least conceptually) an absolute poverty measure because its thresholds are updated each year based on inflation. Thus, we refer to it as the “absolute SPM” to distinguish it from poverty measures that are in fact anchored to the OPM. And though the absolute SPM is conceptually an absolute poverty measure, it uses the CPI-U-RS to adjust thresholds each year. Because the CPI-U-RS tends to overstate inflation, declines in poverty under the absolute SPM over time will be shallower than trends based on a less biased measure of inflation. In addition, the absolute SPM omits the market value of health insurance as a source of income.

*The consumption-based poverty measure.* A final poverty measure is the CPM, which was developed by Bruce Meyer and James Sullivan in a series of academic papers (Meyer and Sullivan 2003, 2012a, 2012b, 2017a, 2018). They base their CPM on how much households spend rather than on their income in a given year. As noted above, consumption-based measures have a conceptual advantage over income-based measures in that households with low incomes but high capacities to consume in a given year (e.g., because they have higher asset levels or higher capacities to borrow) are not counted as poor. In addition, a practical advantage of consumption-based measures is that they are not affected by the increasing underreporting of income, and especially of welfare benefits in the CPS-ASEC, although they are still subject to biases in reporting of spending patterns.

Although the CPM deviates from the OPM by incorporating a broader set of resources available for consumption, it is, like the OPM (and unlike the SPM), an absolute poverty measure. The CPM holds the real dollar value of its thresholds constant over time based on the Meyer-Sullivan adjusted CPI-U-RS as its measure of inflation. Moreover, unlike both the SPM and the absolute SPM, the CPM is anchored to the OPM. However, the underlying consumption data from the Consumer Expenditure Survey are unavailable in 1963 and are available only intermittently before 1980, so the earliest year in which Meyer and Sullivan anchor the CPM to the OPM is 1980. As a result, the CPM is unable to

directly assess progress in President Johnson’s War on Poverty. Another issue with the CPM is that it does not include the market value of health insurance and thus does not capture all the power of the government’s in-kind transfers to increase the resources going to the bottom part of the distribution measured by income or consumption.<sup>3</sup>

Figure 9-3 shows each of the poverty measures we discuss above—the OPM, SPM, absolute SPM, and CPM. The OPM fell from 19.5 percent in 1963 to 12.3 percent in 2017 based on historical poverty rates produced by the Census Bureau. The SPM was first available in 1967, based on the analysis of Fox and others (2015). It fell from 18.6 percent in 1967 to 13.9 percent in 2017. The absolute SPM in 1967 used the 1967 SPM thresholds, and it updates these annually based on inflation, using the CPI-U-RS (Wimer et al. 2016). It fell from 18.6 percent in 1967 to 10.7 percent in 2015, the latest year available (for details of calculating various anchored SPM poverty trends, see Burkhauser et al. 2019). However, note that in 1967, the absolute SPM was 4.4 percentage points higher than the poverty rate under the OPM, and it undoubtedly would have been considerably lower in 2015 if it had been anchored to the OPM in 1967 or 1963.

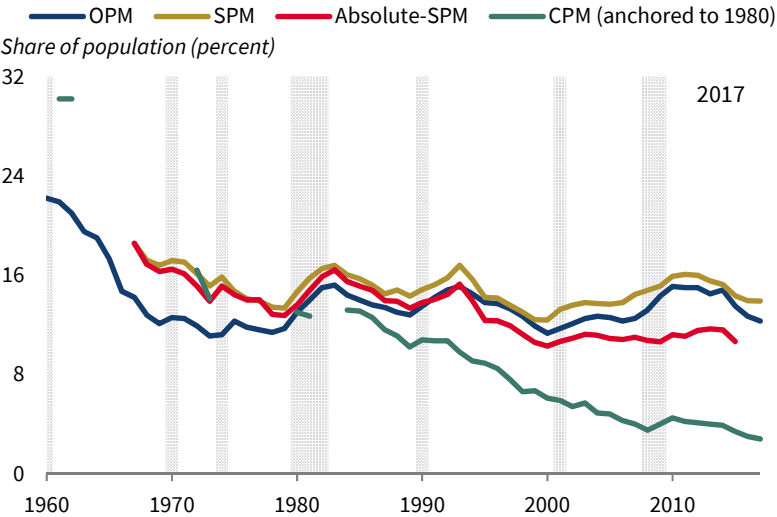
Unlike the absolute SPM, the CPM was anchored to the OPM in 1980—CPM thresholds are defined such that the poverty rate under the CPM was equal to the poverty rate under the OPM in 1980. The CPM fell from 30.2 percent in 1961 to 2.8 percent in 2017. That is, in 1961 the CPM began at a poverty rate 8.3 percentage points higher than the OPM—and thus was likely also exceeding the OPM poverty rate in 1963. The CPM also omits the market value of health insurance—which was expanded substantially after Medicaid and Medicare were enacted in 1965. Yet it still reaches a poverty rate of under 3 percent by 2017. If it had been possible to do so, anchoring the CPM to the OPM in 1963 and including the market value of health insurance almost surely would have led to an even lower poverty rate in 2017. The trend in the CPM strongly suggests that President Johnson’s War on Poverty, based on 1963 standards, is largely over and has been a success.

Given the steep downward trend in the CPM, it is noteworthy that the absolute SPM does not follow the same trend. The poverty rates under the absolute SPM (13.6 percent) and the CPM (13.0 percent) were relatively similar as of 1980, but then the CPM fell by 9.6 percentage points by 2015, while the absolute SPM fell by only 2.9 percentage points. This was despite the fact that both the absolute SPM and CPM are intended to only increase the nominal value of their thresholds by the inflation rate to hold them constant in real

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<sup>3</sup> Meyer and Sullivan (2012b) show poverty rates under a consumption-based poverty measure that includes a value of health insurance. However, as described by Meyer and Sullivan (2013), the market value of health insurance is included only for families when the market value is equal to at most one-third of total expenditures. For other families, health insurance is valued at one-third of total expenditures, which can be much less than the market value for families with low expenditures.

**Figure 9-3. Percentage of the Population Living in Poverty, Based on Various Measures, 1960–2017**



Sources: Fox et al. (2015); Wimer et al. (2017); Meyer and Sullivan (2018); Burkhauser et al. (2019); Census Bureau; National Bureau of Economic Research; CEA calculations.  
Note: OPM = Official Poverty Measure. SPM = Supplemental Poverty Measure. CPM = Consumption-based Poverty Measure. Absolute-SPM applies the cost of living adjustment (see Burkhauser et al. 2019). Shading denotes a recession for at least four months of a given year.

terms (absolute standard) and both include a broad set of resources excluding the market value of health insurance. One possible reason for this difference is the fact that the CPM uses a consumption-based measure instead of an income-based measure and thus is less subject to increasing underreporting of welfare benefits over time. However, another key difference driving this result is the use of the Meyer-Sullivan CPI-U-RS inflation adjustment for the CPM versus the use by Wimer and others (2016) of the unadjusted CPI-U-RS for their absolute SPM.

*The Full-Income Poverty Measure*

None of the existing poverty measures discussed above are capable of measuring the full extent of progress in President Johnson’s War on Poverty. Therefore, we use a poverty measure developed by Burkhauser and others (2019), called the Full-Income Poverty Measure, that allows us to do so—although even this trend will likely understate progress due to increasing underreporting of transfer income in the CPS-ASEC (Meyer, Mok, and Sullivan 2015). The FPM uses an absolute poverty standard to adjust thresholds each year, and it is anchored to the OPM in 1963. That is, its poverty thresholds are scaled such that the proportion of people living in poverty in 1963 is equal to 19.5 percent, which was the poverty rate under the OPM in 1963. Its poverty thresholds are updated over

time using the PCE Price Index, the measure of inflation that Burkhauser and others (2019) prefer.

The FPM's sharing unit is the household; this is broader than the sharing unit used by the OPM, and closer but not identical to the sharing unit used by the CPM and SPM, which do not necessarily include all household members in the sharing unit. Using the household as the sharing unit reflects the increasing prevalence of cohabitation in the United States, and thus the sharing of resources across families within the same household, and is standard practice in studies of income distributions (Canberra Group 2011; Fry and Cohn 2011). Its poverty thresholds are adjusted proportionally based on the square root of the number of people in the household. For example, relative to the poverty threshold for a one-person household, the poverty threshold for a two-person household is 1.44 times as high, the threshold for a three-person household is 1.73 times as high, and the threshold for a four-person household is twice as high.

The FPM estimates the share of people living in poverty using a post-tax (comprehensive or full), posttransfer definition of income that Elwell and Burkhauser (2018) developed back to 1959 and that was also developed by others back to 1979—most recently, by Burkhauser, Larrimore, and Lyons (2017). It subtracts Federal income and payroll taxes but adds tax credits, including the EITC and CTC, as well as cash transfers. In addition, it includes the market value of noncash transfers, including SNAP; subsidized school lunches; rental housing assistance; and public health insurance (Medicare and Medicaid). The market value of public health insurance is calculated based on the cost of its provision to different risk classes of individuals based on their age, disability status, and State of residence (for additional details, see Elwell and Burkhauser 2018). The market value of employer-provided health insurance is included as well. This method of valuing health insurance for determining income has been used since 2013 by the CBO in its reports on the distribution of income.<sup>4</sup>

Although the FPM includes a comprehensive set of income sources, it will nonetheless understate income due to underreporting of transfers in the survey data it uses, which are from the CPS-ASEC (see box 9-2). Meyer, Mok, and Sullivan (2015) show that respondents to the CPS-ASEC and other major surveys underreport transfers, and that this underreporting has increased over time. For example, in the average year between 2000 and 2012, CPS-ASEC

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<sup>4</sup> For discussions of the importance of using the market value of health insurance in measures of income that are used to capture the real costs of government programs, see Burkhauser, Larrimore, and Simon (2012, 2013); Armour, Burkhauser, and Larrimore (2013); Larrimore, Burkhauser, and Armour (2015); and Burkhauser, Larrimore, and Lyons (2017). These researchers argue that it is more reasonable to do so in such cases than for behavioral analysis where the value that beneficiaries put on this in-kind transfer is the primary reason for its inclusion or for studies of the incidence of a tax change to determine its ultimate distributional consequences. For studies that focus on the value beneficiaries place on government health insurance, see Gallen (2015); and Finkelstein, Hendren, and Luttmer (forthcoming).

### **Box 9-2. Obtaining Better Evidence through Better Data**

Research that evaluates social and economic trends and the effects of government policies on them is useful for designing effective policy. Understanding how people's circumstances vary over time and from place to place can help ensure that policies properly target problems. And understanding the impact that policies have on different types of people across an array of outcomes can help ensure that policies have their intended effects while minimizing unintended ones.

Such research is only as good as the underlying data. For example, surveys are a valuable tool for assessing trends and conducting policy evaluation. Surveys can be designed to capture consistent information on a nationally representative sample of people over time. However, surveys also have important limitations, including sampling and nonsampling errors. Some common nonsampling errors are caused by randomly selected survey respondents who do not submit responses (i.e., nonresponse errors) and also by respondents who misreport (response errors). Administrative records are one means of improving the quality of survey data. See Burkhauser and others (2018) for a recent example of the use of individual tax record data to capture the income of top income groups reported in survey data whose credibility depends on the underreporting of top income in the survey data being caused by response errors rather than nonresponse errors.

Recent efforts have made important strides in advancing the capability of research to inform policy development through improvements in data quality. In January 2019, President Trump signed into law the "Foundations for Evidence-Based Policymaking Act of 2018." This law builds the capacity of Federal agencies to evaluate policy, makes data more accessible and shareable across agencies, and provides for strong protection of confidential data. It builds on the September 2017 final report of the bipartisan U.S. Commission on Evidence-Based Policymaking, which outlined ways to better leverage and combine government data to improve the quality of this evidence for public policy making, while at the same time improving the privacy protection of individuals (Abraham and Haskins 2017). The emerging work by Bruce Meyer, James Sullivan, and other researchers, in their creation of the "Comprehensive Income Dataset" (Meyer and Sullivan 2017b), provides an example of the potential benefits of improvements in data quality along these lines in the United States. This data set may help overcome many of the issues related to relying on surveys alone to measure income because it will directly link the rich, self-reported information that individuals provide in survey data to the generally more accurate information on their earnings and transfer program receipt from administrative data. This data set may improve our understanding of the distribution of a comprehensive measure of income and poverty, as well as provide new insights into which Americans fall through the cracks of the social safety net.



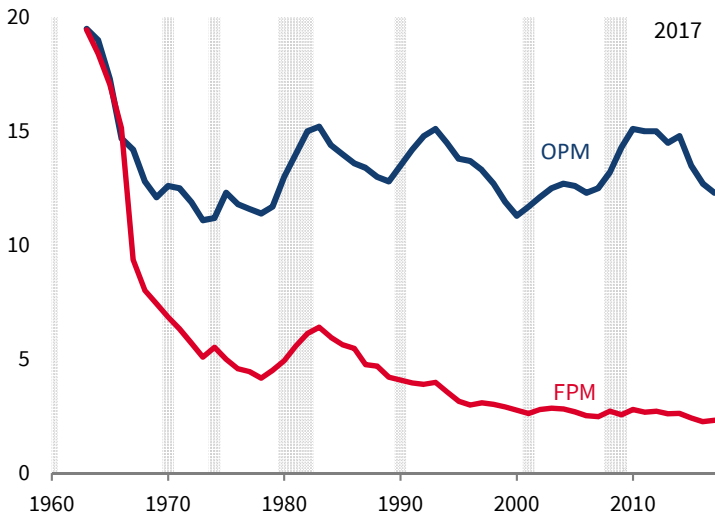
respondents reported 42 percent fewer dollars in SNAP benefits than they actually received according to administrative data. This underreporting has tended to increase by about 0.6 percentage point each year. Meyer, Mittag, and Goerge (2018) link individual survey data to individual-level administrative data in Illinois and Maryland, and find that half of true SNAP recipients in these two states do not report SNAP receipt in the CPS-ASEC. In addition to transfers, Larrimore and Splinter (2019) find that employer-provided health insurance is also underreported in the CPS-ASEC. However, households that receive employer-provided health insurance but fail to report it are unlikely to fall below the poverty threshold when accounting for other sources of income, and thus this will have less effect in overstating poverty. Burtless and Pulliam (2018) note that underreporting of money income may be emerging since 2003 as well.

Figure 9-4 shows the poverty rate under the FPM between 1963 and 2017, in comparison with the poverty rate under the OPM. The poverty rate under the FPM fell from 19.5 percent in 1963 to 2.3 percent in 2017. In fact, the rate under the FPM fell to 4.2 percent by 1978, suggesting dramatic progress in the War on Poverty in its first 15 years, along the lines that the 1964 *Economic Report of the President* envisioned and that Robert Lampman expected as late as 1971 (see box 9-1). However, the FPM then rose rapidly to 6.4 percent by 1983, in large part because of the double-dip recession between 1980 and 1982 and the failure of transfer program benefits to keep up with the double-digit inflation during much of this period. However, the poverty rate then fell almost continuously until 2001, when it reached 2.6 percent. The poverty rate under the FPM never again exceeded 2.8 percent, even during the Great Recession, and it fell to 2.3 percent in 2017.

We next illustrate the characteristics of the FPM that drive the dramatic reduction in poverty relative to the OPM. Figure 9-5 shows the OPM modified only based on the equivalence scale change as a baseline, which has little effect on the poverty trend. For example, in 2017 the poverty rate under the OPM was 12.3 percent, compared with 12.5 percent under the OPM with the adjusted equivalence scale (for further details, see Burkhauser et al. 2019). Relative to this baseline of the OPM with an adjusted equivalence scale, figure 9-5 shows how other iterative changes made under the FPM affect the poverty rate trend. Note that all iterations of this crosswalk from the OPM are anchored so as to match the 19.5 percent share of the population that President Johnson's War on Poverty determined were poor in 1963. Using the household instead of the family as the sharing unit reduces the poverty rate 54 years later, in 2017, to 10.7 percent—lower than the 12.5 percent using the OPM with the adjusted equivalence scale. Using a posttax measure of income reduces the 2017 poverty rate further, to 8.8 percent. Incorporating the market value of noncash transfers except for health insurance reduces the poverty rate to 6.9 percent. Incorporating the market value of health insurance reduces the poverty rate to

**Figure 9-4. Percentage of the Population Living in Poverty, Based on the Official Poverty Measure (OPM) and the Full-Income Poverty Measure (FPM), 1963–2017**

*Share of population (percent)*



Sources: Burkhauser et al. (2019); Census Bureau; National Bureau of Economic Research; CEA calculations.

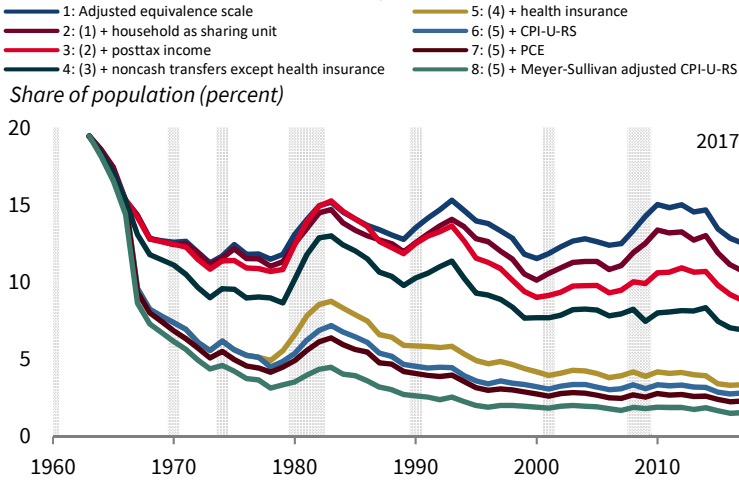
Note: Shading denotes a recession for at least four months of a given year.

3.4 percent. Moving from the CPI-U to the CPI-U-RS reduces the poverty rate to 2.8 percent. Using the PCE Price Index reduces the poverty rate to 2.3 percent, the estimate under the preferred FPM specification of Burkhauser and others (2019). If we were instead to use Meyer-Sullivan’s adjusted CPI-U-RS, the poverty rate under the FPM falls to 1.6 percent in 2017. Though the order in which one adds these FPM elements will affect the difference they make in reducing the poverty rate, it is clear that the sharing unit used, the use of a posttax measure of income, the inclusion of noncash transfers (except health insurance), the inclusion of the market value of health insurance, and the measure of inflation used are all important drivers of the poverty trend under the FPM.<sup>5</sup> The inclusion of the market value of health insurance is especially important.

Note that the debate over the importance of including the market value of health insurance was a topic of disagreement among members of the original National Academy of Sciences Panel in 1995 and the research papers that informed their deliberations. Blinder (1985), one of the researchers whose work is discussed in the panel’s report, showed that excluding the value of government- and employer-subsidized health insurance distorts who will be included in the poverty population. In his dissent from the panel’s recommendations,

<sup>5</sup> Burkhauser et al. (2019) provide additional analysis of the sensitivity of assumptions in the FPM and the sources of differences in its trends from those of the absolute SPM and CPM.

**Figure 9-5. Percentage of the Population Living in Poverty, Crosswalk from the Official Poverty Measure (OPM) to the Full-Income Poverty Measure (FPM), 1963–2017**



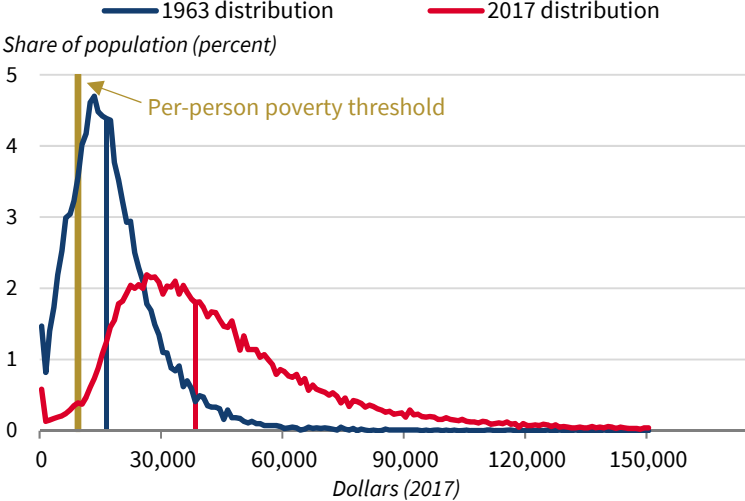
Sources: Burkhauser et al. (2019); National Bureau of Economic Research; CEA calculations.  
Note: CPI-U-RS = Consumer Price Index for All Urban Consumers, Research Series. PCE = Personal Consumption Expenditures Price Index. The Meyer-Sullivan adjusted CPI-U-RS is calculated by subtracting 0.8 percentage points from the growth rate in the CPI-U-RS for 1978–2017, and subtracting 1.1 percentage points from the growth rate for 1963–77. Shading denotes a recession for at least four months of a given year.

panel member John Cogan strongly argued against subtracting out-of-pocket expenditures from income rather than including medical care as a necessity like food and shelter in both the thresholds and as a resource. In addition, he stated that “much of the impetus for changing the way in which resources are counted comes from the fact that the current method ignores the value of billions of dollars in noncash benefits for food, housing and medical care that are spent on low-income families” (quoted by Citro and Michael 1995, 389).

Using the FPM—which is anchored to the population initially determined to be living in poverty in 1963, adjusts its nominal thresholds each year to hold these living standards constant in real terms, and uses a full measure of posttax, posttransfer real income—we show that President Johnson’s War on Poverty is largely over and has been a success. Though this conclusion stands in stark contrast to conventional wisdom (and according to poverty rates based on the OPM or SPM), it should not be surprising.

Figure 9-6 shows the distribution of full household, size-adjusted income (i.e., the PCE Price Index’s inflation-adjusted disposable income, including cash and in-kind transfers, plus health insurance) across all Americans in 1963 and in 2017. The entire distribution has moved far to the right (exhibiting first-order stochastic dominance), reflecting substantial real income gains (including transfers) throughout the income distribution over the past five decades.

**Figure 9-6. Individual-Level, Posttax, Posttransfer Household Size-Adjusted Income Distribution, Including In-Kind Transfers and Market Value of Health Insurance, Using PCE Inflation**



Sources: Burkhauser et al. (2019); National Bureau of Economic Research; CEA calculations.  
Note: PCE = Personal Consumption Expenditures Price Index. The poverty threshold, \$9,019 in 2017 dollars, is calculated such that in 1963, 19.5 percent of individuals have a household size-adjusted income that falls below it. The red and blue vertical lines represent the median income level for a given year.

Median (full) income more than doubled (from \$16,143 in 1963 to \$38,484 in 2017). In 2017, only 2.3 percent of people remained below the real poverty threshold (as reported previously under the FPM in figures 9-4 and 9-5), compared with 19.5 percent in 1963. President Johnson’s War on Poverty is largely over and has been a success. Nonetheless, continuing to increase the resources of people at the lower end of the income distribution is an important goal, and it is appropriate for policymakers to consider raising the poverty thresholds to better reflect today’s standard of living.

However, from a policy perspective, the measure that policy advisers create to determine a policy’s success must accurately measure the goals that policymakers set. The SPM, for example, is a case of policy advisers fundamentally changing the goals of policymakers by shifting from an absolute to a quasi-relative measure of poverty. Doing so in this automatic way takes the task of adjusting the absolute poverty thresholds of President Johnson out of the hands of policymakers. In addition, doing so means that the SPM does not accurately assess progress over the past 55 years in solving the problem of poverty as envisioned by President Johnson. In 1995, Cogan made some of these same fundamental points in his dissenting statement to the National Academy of Sciences Panel:

I dissent because the report's recommendations—to choose three particular commodities upon which to base the calculation of poverty and to exclude other commodities; to establish a normative range of values within which the poverty line should fall; to increase the poverty line over time to account for perceived improvements in the standard of living; and to exclude medical expenses from family resources—are the outcome of highly subjective judgements. These are judgements that do not result from scientific inquiry and, therefore, in my opinion, are improperly placed in this report (quoted by Citro and Michael 1995, 390).

Cogan's criticism of the conclusion of the majority of this distinguished panel of academics is valid in the sense that any initial choice of poverty thresholds is normatively rather than scientifically based. The same is the case for the decision to change these thresholds using an absolute or relative standard. Because both the initial level of the poverty thresholds and the way they increase each year are value judgments, policymakers should ultimately make these critical policy decisions because they are the elected representatives of the people.

Robert Lampman—as noted above, the “intellectual architect of the War on Poverty”—made a similar argument in his seminal 1971 book: “The elimination of income poverty is usefully thought of as a one-time operation in pursuit of a goal unique to this generation.” And once this goal has been achieved, “the next generation will have set new economic and social goals, perhaps including a new distributional goal for themselves” (Lampman 1971, 53).

To better inform the policymakers who make these value judgments, the National Academy of Sciences Panel should have anchored its proposed poverty measure alternatives to the original 19.5 percent of Americans that President Johnson had determined to be poor in 1963. It could have then shown how their more sophisticated measures of poverty would have more accurately measured poverty trends over time, updated only with inflation each year and then using a relative standard.<sup>6</sup> Doing so would have first established if President Johnson's War on Poverty had been won based on his terms of engagement. Having done so, they could then have proposed changing the poverty thresholds for a new war on poverty based on modern standards for their generation. The Full-Income Poverty Measure fills this gap and shows that President Johnson's War on Poverty is largely over and has been a success, suggesting that policymakers should consider setting new, higher poverty standards than those defined by President Johnson over 50 years ago.

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<sup>6</sup> The quasi-relative poverty measure developed by the panel could have, for example, adjusted the definition of “moderate-income” households based on a different point in the expenditure distribution, or it could have changed the multiplier applied to their purchases of basic goods, such that the poverty rate in 1963 under the new measure was equal to 19.5 percent.

## The Failure to Promote Self-Sufficiency

The war on poverty is not a struggle simply to support people, to make them dependent on the generosity of others. It is a struggle to give people a chance. It is an effort to allow them to develop and use their capacities, as we have been allowed to develop and use ours, so that they can share, as others share, in the promise of this nation.

—President Lyndon B. Johnson, March 16, 1964, in an address to Congress  
(Johnson 1965, 376)

Although poverty, when more accurately measured, has fallen dramatically since 1963, success has been achieved more by increases in transfers going to the bottom part of the income distribution, rather than by helping all nondisabled, working-age Americans become self-sufficient (i.e., working and not relying on welfare programs). In this section, we first document the rise in the reliance on key welfare programs—Medicaid; food stamps / SNAP, housing assistance; and AFDC/TANF—by nondisabled, working-age adults; and at the same time, a reversal of growth in their work rates after 2000. This decline in self-sufficiency has resulted in a situation where large numbers of nondisabled, working-age adults receive these welfare benefits while not working.

In December 2013, the majority of adults covered by Medicaid insurance and receiving SNAP benefits, the two largest U.S. welfare programs, were nondisabled and of working age. However, a majority of these nondisabled, working-age adults receiving benefits from these programs in December 2013 did not work during that month. And this lack of work among these individuals is not short-lived. In any given month during a two-year window centering on December 2013 (January 2013 through December 2014), between 48 and 56 percent of December 2013 SNAP recipients did not work.

### *Trends in Self-Sufficiency*

In our trends measuring changes in self-sufficiency, we focus only on those people society generally expects to work or be preparing for work as a condition of receiving welfare—nondisabled, working-age adults—although we note that in practice, programs generally exempt certain nondisabled, working-age adults from work requirements. Before welfare reform in the 1990s, nondisabled, working-age mothers who received welfare were not in general expected to work. The AFDC program provided cash assistance to families with children without time limits or strong work requirements. This reflected the societal expectations of a previous era, when women were not expected to work in the formal sector. However, the dramatic rise in labor force participation among women, especially married mothers, led to calls for a welfare system that also required, supported, and rewarded work for single mothers. This eventually

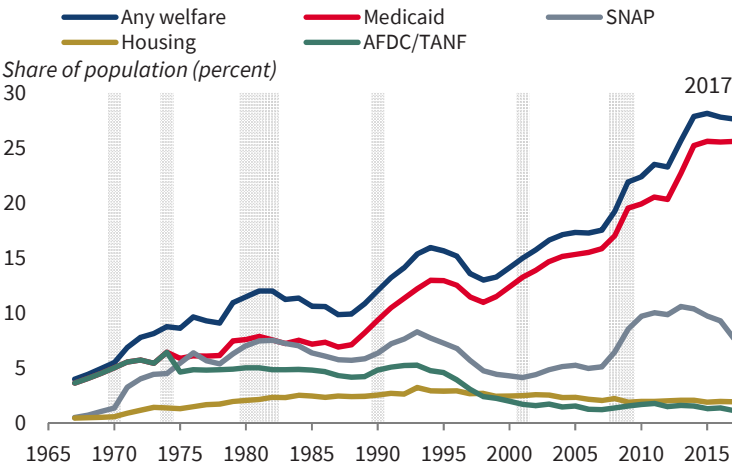
resulted in the Federal overhaul of the AFDC program in 1996, creating the TANF program, which required States to impose time limits and work requirements on assistance for nondisabled, working-age parents. However, as we will see these work orientated TANF welfare reforms did not extend to the three other major welfare programs we will discuss in this section.

Adults are considered to be disabled, according to our definition, if they report receiving public disability benefits, and are of working age if they are age 18–64. As we will show, the vast majority of adults who fit this nondisabled, working-age definition (about three-fourths) are working in the labor market in a given month.

Figure 9-7 shows the percentage of nondisabled, working-age adults living in a household in which at least one member received welfare benefits during some point in the year, for 1967 through 2017. Due to increased underreporting of benefits in the CPS-ASEC, these trends likely understate the rise in household welfare receipt (Meyer, Mok, and Sullivan 2015). Between 1967 (before all States and counties had implemented Medicaid and SNAP) and 2017, the proportion of nondisabled, working-age adults living in a household in which at least one member received Medicaid, food stamps/SNAP, housing assistance or AFDC/TANF increased from 4.0 to at least 27.6 percent. Much of this growth occurred between 2007 and 2017, when the rate increased by 10.1 percentage points. This was driven by increased demand for Medicaid and SNAP programs; and perhaps more important, increased program generosity during the Great Recession and its aftermath (for an analysis of how program generosity changed and of its implications for reduced employment during this time, see Mulligan 2012). In terms of specific programs, Medicaid insurance coverage in one's household has increased the most among nondisabled, working-age adults, growing from 3.6 to 25.6 percent between 1967 and 2017, followed by food stamps / SNAP receipt, which increased from 0.5 to 7.7 percent. The receipt of housing assistance increased less drastically from 0.4 to 1.9 percent. AFDC/TANF receipt decreased from 3.6 to 1.1 percent between 1967 and 2017, reflecting welfare reform in the 1990s that replaced the former AFDC program with one that provided temporary benefits but focused on moving its beneficiaries into employment.

The growth in welfare receipt shown in figure 9-7 is partly a function of the expansion of these programs in covering new groups of people. Though such policy changes tend to reduce self-sufficiency, they do not necessarily reflect changed behavior by newly eligible nondisabled, working-age adults. Figure 9-8 shows how the work behavior of nondisabled, working-age adults has changed over a similar period. In fact, between 1968 and 2000, the share of nondisabled, working-age adults who work in a given month increased from 65.7 percent to 78.1 percent. As shown in figure 9-8, the growth in work is completely due to the rise among nondisabled, working-age females, whose work rate increased from 46.2 to 72.2 percent over this period. The rise of

**Figure 9-7. Percentage of Nondisabled, Working-Age Adults Living in a Household that Receives Assistance During the Year, 1967-2017**

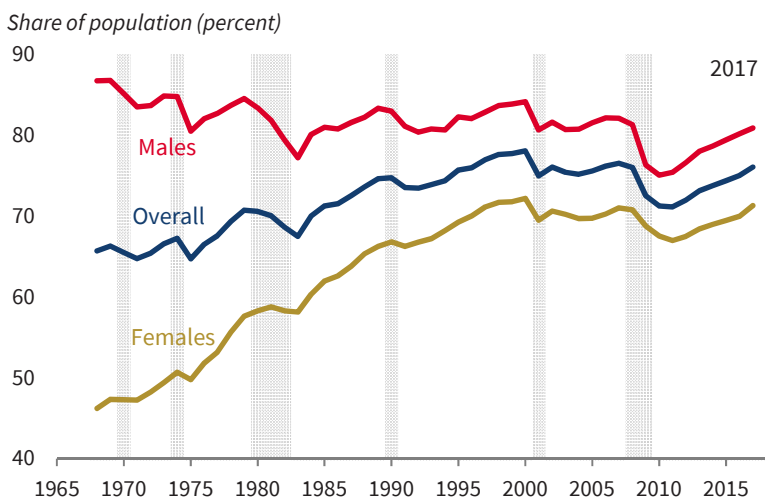


Sources: Current Population Survey; National Bureau of Economic Research; CEA calculations.  
Note: Working-age adult refers to individuals age 18-64. Disabled refers to all adult individuals who receive disability benefits (Supplemental Security Income or Social Security Disability Insurance). Welfare recipients are identified based on receipt of Medicaid, SNAP/food stamps, rental housing assistance or AFDC/TANF at any time during the full calendar year by anyone in the household. Shading denotes a recession for at least four months of a given year.

nondisabled, working-age females in the workforce reflects changing societal expectations as married mothers moved into the workforce, as well as welfare reform during the 1990s, which later incentivized single mothers to move into the workforce. Meanwhile, work rates for nondisabled, working-age males fell from 86.8 percent in 1968 to 84.1 percent in 2000, a trend reflective of various potential forces such as expanded welfare programs and rising incarceration (see Eberstadt 2016). Since 2000, the positive work trend for nondisabled, working-age females has reversed, and the decline in work among nondisabled, working-age males has continued. Overall, the work rate among all nondisabled, working-age adults fell by 2.0 percentage points between 2000 and 2017, from 78.1 to 76.0 percent. The reversal of the increase in work rates among nondisabled, working-age females and the steady decline in work rates among nondisabled, working-age males over the past five decades, in combination with dramatic increases in household reliance on welfare programs, amount to a general decline in self-sufficiency among nondisabled, working-age adults in the United States.



**Figure 9-8. Percentage of Nondisabled, Working-Age Adults Employed, by Gender, 1968–2017**



Sources: Current Population Survey; National Bureau of Economic Research; CEA calculations.  
 Note: Working-age adult refers to individuals age 18–64. Disabled refers to all adult individuals who receive disability benefits (Supplemental Security Income or Social Security Disability Insurance) during the previous year. Employment is based on work during March of each year. Shading denotes a recession for at least four months of a given year.

## Work among Nondisabled, Working-Age Recipients of Key Welfare Programs

As shown above, an increasing number of nondisabled, working-age adults are receiving assistance from major welfare programs. In table 9-2, using the SIPP for December 2013, we estimate the number of nondisabled, working-age adults who themselves received benefits (rather than living in a household in which one individual received benefits) from each of these four major welfare programs—Medicaid, SNAP, housing assistance, and TANF.<sup>7</sup> There were 17.2 million nondisabled, working-age adults receiving Medicaid, 18.4 million receiving SNAP, 4.0 million receiving housing assistance, and 1.1 million receiving TANF.<sup>8</sup> These nondisabled, working-age adults respectively represented 61, 67, 59, and 92 percent of all adults in each program.

Although the majority of adults in each of these major welfare programs are nondisabled and of working age, many do not work while receiving benefits.

<sup>7</sup> Although these data are somewhat dated, the SIPP allows us to observe welfare receipt and employment status in the same month. Using December 2013 as our reference month allows us to examine work status of welfare recipients in a two-year period beginning with January 2013 and ending in December 2014, the latest available month of SIPP data.

<sup>8</sup> These estimates adjust for underreporting of welfare benefits relative to administrative data caseloads by assuming that each type of individual listed in table 9-2 is equally likely to fail to report benefits, and using administrative data on total caseloads to scale these estimates up.

**Table 9-2. Number of People by Welfare Receipt, Age and Disability Status, December 2013**

Category	Children (millions)	Disabled or aged adults (millions)	Nondisabled, working-age adults (millions)	Total (millions)	Adult recipients who are non- disabled and of working age (percent)
Medicaid	31.8	10.8	17.2	59.8	61.5
SNAP	19.8	8.9	18.4	47.1	67.4
Housing assistance	3.3	2.8	4.0	10.1	58.6
TANF	2.7	0.1	1.1	3.9	92.2
Overall population	73.5	56.6	181.8	311.9	76.2

Sources: Survey of Income and Program Participation, 2014 Wave 1; HHS (2014); HUD (2018); Truffer at al. (2016); USDA (2018a); CEA calculations.  
Note: For each program, receipt was identified based on December 2013. “Children” refers to all individuals under the age of 18. “Working-age adult” refers to individuals age 18–64. “Aged” refers to all individuals age 65 and over. “Disabled” refers to all adult individuals who receive disability benefits (Supplemental Security Income, Social Security Disability Insurance, or Veterans disability benefits). To estimate the number of recipients in each category for each program, the share of program recipients identified using the SIPP (as of December 2013) was multiplied by the December 2013 administrative caseload for SNAP and TANF, the number of 2013 full-year equivalent recipients for Medicaid, and the number of 2013 rental housing assistance recipients (due to lack of monthly administrative data).

Table 9-3 shows that among nondisabled, working-age adults in each program in December 2013, 53 percent of the 17.2 million receiving Medicaid did not work; 54 percent of the 18.4 million receiving SNAP did not work; 45 percent of the 4.0 million receiving housing assistance did not work; and 71 percent of the 1.1 million receiving TANF did not work. The especially high nonwork rate among TANF recipients is in part a result of work-oriented reforms that have pushed many off the rolls and into the workforce, leaving behind a relatively small number who are less likely to work. AFDC enrollment peaked at 14.2 million total recipients in 1994, compared with 3.9 million total TANF recipients in December 2013, and so the number of nondisabled, working-age recipients presumably fell dramatically as well. In addition, many TANF recipients may comply with work requirements by engaging in training or other work-related activities not reported as formal employment.

The work rates of nondisabled, working-age adults receiving welfare stand in stark contrast to the overall population. In December 2013, just 26 percent of all nondisabled, working-age adults did not work. In addition, 53 percent of all nondisabled, working-age adults worked at least 40 hours a week, compared with between 9 and 28 percent working at least 40 hours a week among those receiving benefits from each program.

**Table 9-3. Percentage of Nondisabled, Working-Age Adults Working Various Weekly Average Hours by Welfare Receipt, December 2013**

	Number (millions)	Weekly hours of work (percentage of row group)				
		0	1 to 19	20 to 29	30 to 39	40+
Medicaid	17.2	53.1	7.1	8.6	9.1	22.1
SNAP	18.4	53.5	6.7	9.7	10.8	19.3
Housing	4.0	45.3	6.8	9.3	10.9	27.6
TANF	1.1	70.8	5.6	6.2	8.1	9.4
Overall population	181.8	26.3	5.1	6.0	9.8	52.8

Sources: Survey of Income and Program Participation, 2014 wave 1; HHS (2014); HUD (2018); Truffer et al. (2016); USDA (2018a); CEA calculations.

Note: For each program, receipt was identified based on December 2013. Adults refer to all individuals age 18 or over. Working-age refers to individuals age 18–64. Disabled refers to all adult individuals who receive disability benefits (Supplemental Security Income, Social Security Disability Insurance, or veterans disability benefits). To estimate the number of nondisabled working-age recipients, the share of program recipients identified using the SIPP (as of December 2013) was multiplied by the December 2013 administrative caseload for SNAP and TANF, the number of 2013 full-year equivalent recipients for Medicaid, and the number of 2013 rental housing assistance recipients (due to a lack of monthly administrative data).

Altogether, table 9-3 shows that in a one-month snapshot of individuals receiving welfare benefits, a large share do not work and the vast majority do not work full-time. Others have noted that work behavior during a given month of benefit receipt does not necessarily reflect work behavior over longer time horizons. Hartley and others (2018) focus on adults age 18 to 59 who receive disability benefits and do not have a dependent child under 6, and Bauer, Schanzenbach and Shambaugh (2018) focus on a similar group of individuals except that they also exclude students. Each of these groups is narrower than our group of nondisabled, working-age adults. Using simulated data based on the CPS-ASEC, Hartley and others (2018) find that among their specified group of adults who received SNAP at any time during a given year, about 67 percent worked at some point during that same year (based on data from 2011 through 2015). Using the SIPP, Bauer, Schanzenbach, and Shambaugh (2018) find that among their specified group of adults who received SNAP at any time between January 2013 and December 2014, 70 percent worked in at least one month during this two-year period.

However, these analyses are not informative about how much the people included in table 9-3 work over an extended time frame. Instead, they focus on a different sample of people—those who receive SNAP at *any* time during a one or two-year period. A limitation of this approach is that an individual who receives SNAP for 1 month during the year is treated no differently from an individual who receives SNAP in all 12 months of a one-year period. This is the case even though the individual receiving SNAP during all 12 months is dependent on the program for 12 times as long and would cost the program 12 times as

much holding monthly benefit levels constant. As an extreme example, looking at the lifetime work behavior of people who ever received SNAP at some point during their lifetime would provide little information about the work behavior of the SNAP caseload at a point in time. The snapshots of work behavior we provide in table 9-3 implicitly weight each welfare recipient based on months of welfare receipt—because, for example, an individual receiving SNAP in all 12 months of the year is 12 times as likely to be included in the population as an individual receiving SNAP in only one month during the year.

In figure 9-9, we extend our analysis of the population of welfare recipients in December 2013 and show how their work behavior varies over a two-year period, between January 2013 and December 2014. This answers the question, for example: Of those people receiving welfare in December 2013, how many were working 10 months before this time (in February 2013) or 10 months in the future (in October 2014)? Rather than looking at how many of these December 2013 welfare recipients worked at all during this two-year period, we estimate how many worked in each of the 24 months. If December 2013 welfare recipients were mostly working in every month of this 24-month period except for December 2013, then the snapshot we provide in table 9-3 would not be reflective of a major work problem among welfare recipients. In such a case, welfare receipt may reflect short-term assistance for short-lived bouts of joblessness. However, if December 2013 welfare recipients were not only working at low rates in December 2013 but also working at low rates in January 2013 and December 2014 and the months in between, then this work problem is a longer-lasting one among this population.

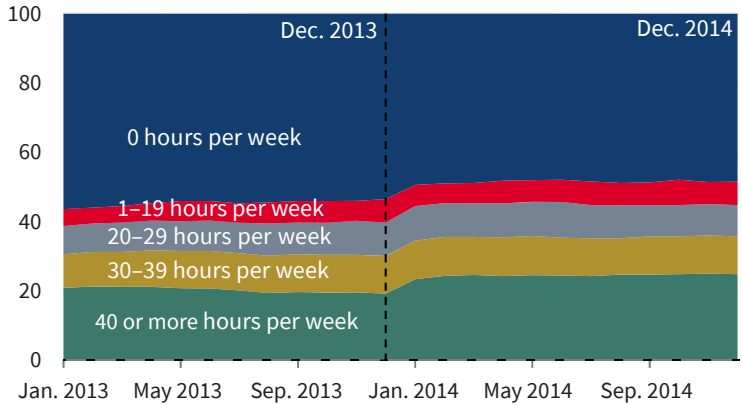
In figure 9-9, we consider the same 18.4 million nondisabled, working-age adults who received SNAP in December 2013, but we look at their work behavior in every month between January 2013 and December 2014. In December 2013, 54 percent of the 18.4 million individuals did not work, replicating the snapshot in table 9-3. According to figure 9-9, a similar share of these same people failed to work in each month during the two-year window. For example, of the 18.4 million nondisabled, working-age adults who received SNAP in December 2013, 56 percent did not work in January 2013 (among those in this group who were also nondisabled and of working age in January 2013). From January 2013 to December 2014, between 48 and 56 percent of December 2013 nondisabled, working-age SNAP recipients did not work any hours in a given month. The shares of those working for other ranges of hours are also relatively constant across months in this 24-month period.<sup>9</sup>

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<sup>9</sup> The break in work rates between December 2013 and January 2014 is likely a result of the way the SIPP is administered. Respondents were surveyed in 2014 about their activity between January 2013 and December 2013, and then again in 2015 about their activity between January 2014 and December 2014. Respondents likely have better recall about their most recent month of employment. Also, the lower work rate in January 2013 than in December 2014 likely reflects the improving economy during this period.

**Figure 9-9. Hours Worked among December 2013 Nondisabled, Working-Age SNAP Recipients, January 2013 to December 2014**

*Share of people (percent)*



Sources: Survey of Income and Program Participation, 2014 waves 1 and 2; CEA calculations.

Note: Data represent the weekly work hours distribution of December 2013 nondisabled, working-age SNAP recipients. The December 2013 nondisabled, working-age SNAP recipients are excluded during months in which they are not nondisabled or not of working age. Working-age adults refer to individuals age 18–64. Disabled refers to all individuals who receive disability benefits (Supplemental Security Income, Social Security Disability Insurance, or veterans’ disability benefits). Hours of work are based on each individual’s reported average hours of work per week during each month.

Of course, figure 9-9 does not indicate whether certain December 2013 nondisabled, working-age SNAP recipients work throughout the two-year period while others never do, or if individuals switch back and forth from work to nonwork. Based on the SIPP, 31 percent of December 2013 nondisabled, working-age SNAP recipients—who were nondisabled and working-age in every month between January 2013 and December 2014—never worked throughout the 24-month period, and 52 percent worked in 12 months or less.

Overall, figure 9-9 shows that the snapshot of work behavior among SNAP recipients given in table 9-3 is representative of the same population’s work behavior in other months within a two-year window. In addition, close to one-third work in none of the months during a 24-month window and over half work in 12 months or less (among those who are nondisabled and working-age throughout the entire 24-month window). Thus, the lack of work is an important and sustained problem for nondisabled, working-age welfare recipients. Policies that encourage and require work—or preparation for work—could help address it.

As discussed above, we use SIPP data rather than more recent CPS data because CPS data do not allow us to identify those who are working and receiving welfare in a given month. However, using the more precise but less recent SIPP data raises two important caveats to our results pertaining to December 2013 welfare recipients for those interested in what is happening

now. First, Medicaid eligibility was expanded in 27 States in 2014 to all adults with household incomes below 138 percent of the poverty line, and an additional 5 States expanded Medicaid eligibility between 2015 and the end of 2018 (Kaiser Family Foundation 2018). Thus, Medicaid is likely to both currently cover a larger number of nondisabled, working-age adults; and the proportion who work may have changed. To address potential effects of this policy reform, we use the most recent available wave of the 2014 SIPP that allows us to document Medicaid receipt and work behavior as of December 2014, after 27 out of 33 States that expanded Medicaid eligibility by the end of 2018 had already done so. We estimate that the number of nondisabled, working-age adults who receive Medicaid increased from 17.2 million (61 percent of all adult recipients) in December 2013 to 22.1 million (66 percent of all adult recipients) in December 2014. The share of nondisabled, working-age Medicaid recipients who did not work decreased from 53 percent in December 2013 to 48 percent in December 2014. Thus, policy changes to the Medicaid program do not change our basic conclusion that in any given month, the large majority of adult Medicaid recipients are nondisabled and of working age, and that about half do not work during that month. In addition, though the share of nondisabled, working-age adults who do not work modestly decreased, the absolute number who do not work increased.

A second caveat of our December 2013 results is that the labor market has continued to improve since then, with the national unemployment rate falling from 6.7 percent in December 2013 to 3.9 percent in December 2018. This is likely to have brought some nondisabled, working-age adults off the welfare rolls and increased the work rates of continued recipients. To address such changes brought about by the improving economy, we use the USDA's SNAP Quality Control survey, which asks a nationally representative sample of SNAP recipients during a specific month of SNAP receipt whether they were working in that month, in addition to their age and disability status. On the basis of the USDA data, the share of SNAP adult recipients in a given month who were nondisabled and of working age fell from 74.2 percent in 2013 to 70.6 percent in 2017. In addition, the portion of these nondisabled, working-age adults who do not work in a given month fell from 65.7 percent in 2013 to 62.5 percent in 2017. Although an improving economy has reduced the share of SNAP recipients who are nondisabled and of working age, and the share of them who do not work, the majority of nondisabled, working-age SNAP recipients in a given month continue not to work. Ultimately, the general patterns of welfare receipt and work behavior we identify in our December 2013 results appear to hold based on data that are more recent as well.

## A New War on Poverty

We can lift our citizens from welfare to work, from dependence to independence, and from poverty to prosperity.

—President Donald J. Trump, January 30, 2018, in his State of the Union Address to Congress

When more accurately measured, substantial progress has been made in reducing material hardship since President Johnson declared his War on Poverty in 1964. However, this success has generally been achieved more by transferring resources to low-income, nondisabled, working-age Americans than by assisting them in becoming self-sufficient. In doing so, our past policies have failed to afford all nondisabled, working-age Americans the opportunity to share in the dignity of work and of earning their own success. Going forward, continuing to focus on reducing poverty—based on modern standards of material hardship—is an important goal, but for nondisabled, working-age adults it is important to do so through work and increased earnings. On April 10, 2018, President Trump signed Executive Order 13828, “Reducing Poverty in America by Promoting Opportunity and Economic Mobility.” The order’s first “Principle of Economic Mobility” is to “improve employment outcomes and economic independence (including by strengthening work requirements for work-capable people and introducing new work requirements when legally permissible).” Other Principles of Economic Mobility focus on the importance of social networks, overcoming barriers to work, maintaining accountability and flexibility, and targeting assistance to those who need it most. The vision outlined in this Executive Order, in combination with other Trump Administration actions, can help bring about a new war on poverty that more effectively promotes work as the best route out of poverty for nondisabled, working-age adults based on modern standards of material hardship.

This section describes how this new war on poverty can be won, using as a model welfare reform in the 1990s that required, supported, and rewarded work. We document how these efforts successfully boosted work for single mothers with children. Then we discuss reforms of noncash welfare programs, showing how we can use lessons learned from that experience in the 1990s to benefit different groups of nondisabled, working-age adults—and their children—who receive assistance from major noncash welfare programs which, for the most part, do not currently reflect strong work expectations. The Trump Administration has already taken a number of important actions that better promote work among nondisabled, working-age welfare recipients, while other actions—such as continued expansion of work requirements in noncash welfare programs—could bring about further progress.

The timing for these reforms is ideal in light of the current strong period of economic growth and tight labor market. The unemployment rate was 3.9 percent in December 2018, and the strong economy has helped reduce the SNAP caseload by 4.7 million people (through October 2018) since President Trump was elected in November 2016, a decline of more than 10 percent (USDA 2018d). At the same time, indicators of material hardship have declined. For example, the share of Americans experiencing food insecurity sometime during the year declined from 12.3 percent in 2016 to 11.8 percent in 2017, and has fallen by 3.1 percentage points since 2011 (Coleman-Jensen et al. 2018). Work-oriented welfare reforms can ensure further progress, so that as many Americans as possible can partake in the benefits of a growing economy, alleviating material hardship and offering them the dignity of work.

### *The Success of Welfare Reform*

Before welfare reform in the 1990s, nondisabled, working-age adults who received welfare were not in general expected to work. The Aid to Families with Dependent Children (AFDC) program provided cash assistance to families with children without time limits or strong requirements. Those families with sufficiently low incomes received monthly cash benefits determined by States and funded in combination by the Federal and State governments. The reward for work for the mostly single mothers who qualified could be quite low, reflecting a high phase-out rate of AFDC and other welfare benefits, in addition to taxes paid on work. This structure reflected societal expectations of a previous era in which women were not expected to work in the formal sector. However, the dramatic rise in labor force participation among women, especially married mothers, led to calls for a welfare system that required, supported and rewarded work for single mothers as well. States began experimenting with reforms to the AFDC program that reduced phase-out rates for benefits, allowing mothers to keep more of their earnings when joining the workforce. States also experimented with work requirements and time limits for mothers, as well as providing training and work supports when necessary. The large tide of State experimentation with welfare reform led to the Federal overhaul of the AFDC program in 1996, creating the TANF program, which required States to impose time limits and work requirements on assistance for nondisabled, working-age parents, but gave States substantial flexibility in deciding how to do so.<sup>10</sup>

In addition to efforts to require work, new efforts were made to support and reward work by compensating for work-related costs, lost welfare benefits, and increased taxes as work effort increases. The Child Care and Development Block Grant (CCDBG) was created in 1990 and, as part of welfare reform, child care subsidies tied to the AFDC program were consolidated, devolved in large part to the States, and expanded (Long et al. 1998). In addition, the relatively

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<sup>10</sup> For a detailed account of welfare reform during this period, see Haskins (2007).



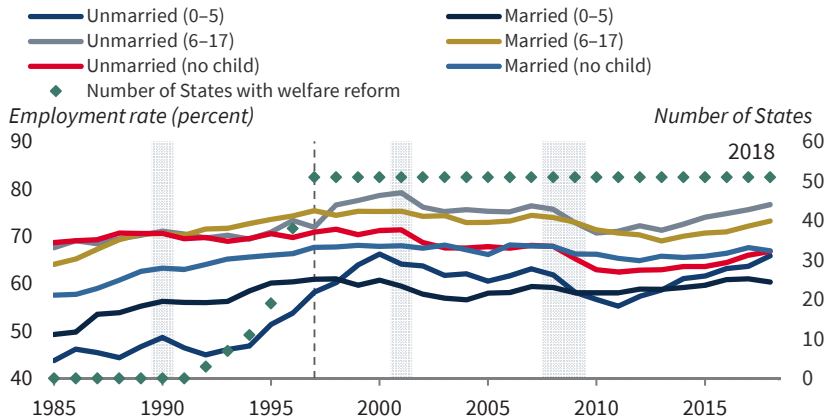
small Federal EITC was expanded several times in the early 1990s. The expansions were largest for parents with children, and especially for those with two or more children. The EITC expansions provided the largest work incentives for single mothers who did not have a spouse already bringing in earnings that would have placed the family in the phase-out or ineligible region of the benefit schedule.

Figure 9-10 reflects the success of these reforms in the 1990s. Though TANF was not made effective until 1997, the diamonds in the figure indicate the number of States (and the District of Columbia) that had implemented major reforms of their AFDC program through waivers (ranging from zero in 1985 to 51 in 1997 and later). For the groups of nondisabled, working-age adults most affected by welfare reform, employment rates grew in conjunction with reforms of AFDC and EITC expansions. Single mothers made up the group most heavily affected by welfare reforms. The share of single mothers with a youngest child under 6 who worked in the month of March increased by 18 percentage points between 1990 and 2000, from 49 to 66 percent. Work rates for single mothers with a youngest child between 6 and 17 years increased by 8 percentage points, from 71 to 79 percent, between 1990 and 2000.

Welfare reforms were less likely to incentivize married women to enter the workforce. Married women only rarely received AFDC benefits, and they were less likely to benefit from the EITC by entering the workforce. Thus, the welfare reforms of the 1990s should not have increased their work participation as much as the reforms did for single mothers. Indeed, work rates for married women with a youngest child under age 6, and those age 6–17, each increased by between 4 and 5 percentage points over this period. Finally, women without children were unaffected by welfare reforms, except for a small expansion of the EITC for childless adults. Consistent with the lack of significant policy reforms affecting them, single and married women (age 18–64) without children saw employment gains of zero and 5 percentage points, respectively, during this decade.

A number of studies have attempted to parse out which elements of welfare reform and a concurrent strong economy produced the employment gains shown in figure 9-10. They generally find that the strong economy, expanded EITC, and reform of the AFDC program through State experimentation and the conversion into TANF were the most important factors (e.g., Meyer and Rosenbaum 2001; Grogger 2003; Fang and Keane 2004). Though instructive, quantifying the precise roles of all the various components of welfare reform is difficult. Many changes were enacted simultaneously with potentially interacting effects; it is difficult to accurately and consistently categorize specific AFDC/TANF reforms and their effective dates; and it is difficult if not impossible to measure changes in attitudes by welfare caseworkers and the broader societal messages received by welfare recipients. Still, the evidence is clear that welfare reforms that incentivize work—at least when pursued as a combination of work

**Figure 9-10. Female Employment, by Marital Status and Youngest Child's Age, and Number of States with Welfare Reform, 1985–2018**



Sources: Current Population Survey; Grogger (2003); National Bureau of Economic Research; CEA calculations.  
 Note: The universe is all females age 18–64. The ages of the youngest children are shown in parentheses. The number of States with welfare reform refers to any Statewide reform to the State's AFDC program, as categorized by Grogger (2003), including the District of Columbia. Employment is based on work during March of each year. Shading denotes a recession for at least four months of a given year.

requirements, supports, and rewards—can substantially boost employment and reduce welfare dependency.

### Lessons from Welfare Reform for Work Requirements in Noncash Programs

Welfare reform was a success in reorienting the primary cash assistance program for nondisabled, working-age adults around work. However, noncash welfare programs have not undergone the same transformation. As seen in figure 9-7, the share of nondisabled, working-age adults living in a household in which one member receives Medicaid increased from 12.4 percent in 2000 to 25.6 in 2017, and for SNAP it increased from 4.3 to 7.7 over the same period. These noncash programs have come to serve a much larger number of non-disabled, working-age adults than TANF cash-based assistance. In December 2013, there were 1.1 million nondisabled, working-age adults receiving TANF cash assistance, compared with 17.2 million receiving Medicaid, 18.4 million receiving SNAP, and 4.0 million receiving housing assistance (table 9-4). Thus, there were at least 16 times more nondisabled, working-age adults receiving noncash assistance (from Medicaid, SNAP, or housing assistance programs) than TANF cash assistance in December 2013. Table 9-4 also shows which types of nondisabled, working-age adults receive benefits from each of these

programs. Adults with children in the household make up the large majority of nondisabled, working-age adults in each program, and adults with children under age 6 make up the majority of those with children. Out of the 17.2 million nondisabled, working-age adults on Medicaid in December 2013, 5.1 million had no children, 5.2 million had a youngest child age 6 to 17, and 6.9 million had a child under age 6 in the household. Of the 18.4 million nondisabled, working-age adults receiving SNAP in December 2013, 6.0 million had no children in the household, 5.1 million had a youngest child age 6–17, and 7.4 million had a child under age 6. Housing assistance follows a similar pattern for its much lower 4.0 million total nondisabled, working-age adults.

The large number of nondisabled, working-age adults receiving benefits from Medicaid, SNAP, and housing assistance shown in table 9-4 largely avoid facing work requirements in these noncash programs, especially compared with the extensive TANF work requirements. The work requirements in each program are summarized in the next paragraphs.

*Temporary Assistance for Needy Families.* TANF has strong work requirements that cover a large share of its relatively small population of nondisabled, working-age cash recipients. Although specific provisions vary across States, all nondisabled, working-age adults are potentially subject to work requirements, generally with the exception of single parents with infants. For example, only California and Vermont exempt single parents with children under age 2 from work requirements, 23 States only exempt single parents with children under age 1, 11 States only exempt single parents with a child between the ages of 1 month and 11 months, and 9 States have no such exemption (Urban Institute 2018). Single parents with a child under age 6 are required to work or engage in work activities for at least 20 hours a week, assuming that child care (not necessarily subsidized) is available. Single parents with no child under age 6 must work at least 30 hours a week. Two-parent families must work a combined 35 hours a week, and those with federally subsidized child care must work a combined 55 hours a week. States retain significant discretion in defining the sanctions for violating requirements and determining which recipients to exempt based on hardship or other factors. States must meet the Federal Work Participation Rate, which requires a portion of the caseload to participate in work or allowable work activities for the federally mandated minimum number of hours (the statute requires a 50 percent work participation rate for overall caseloads and a 90 percent rate for two-parent caseloads, but various credits allow States to lower these targets).

*Medicaid.* The three major noncash welfare programs have much weaker work requirements that cover smaller shares of their nondisabled, working-age recipients. Medicaid insurance, which covered over 15 times as many nondisabled, working-age adults as TANF in 2013 (table 9-4), does not in general impose any work requirements, in accordance with Title XIX of the Social Security Act. The Trump Administration has, however, supported recent

**Table 9–4. Number of Nondisabled, Working-Age Adults by Welfare Program Receipt, by Category, December 2013**

Category	Medicaid (millions)	SNAP (millions)	Housing (millions)	TANF (millions)
No child, age 18–49	3.5	3.6	1.2	0.1
No child, age 50–64	1.6	2.3	0.5	0.1
Youngest child age 6–17	5.2	5.1	1.0	0.4
Youngest child age 0–5	6.9	7.4	1.2	0.5
Total	17.2	18.4	4.0	1.1

Sources: Survey of Income and Program Participation, 2014 wave 1; HHS (2014); HUD (2018); Truffer et al. (2016); USDA (2018a); CEA calculations.

Note: For each program, receipt was identified based on December 2013. Only nondisabled, working-age adults were included. Working age refers to individuals age 18–64. Disabled refers to all adult individuals who receive disability benefits (Supplemental Security Income, Social Security Disability Insurance, or Veterans disability benefits). No child, age 18–49 (no child, age 50–64) refers to nondisabled, working-age adults between the ages of 18 and 49 (50–64) who have no children in the household. Youngest child age 6–17 (youngest child age 0–5) refers to nondisabled, working-age adults who have a youngest child age 6–17 (0–5) in the household. To estimate the number of recipients in each category for each program, the share of program recipients identified using the SIPP (as of December 2013) was multiplied by the December 2013 administrative caseload for SNAP and TANF, the number of 2013 full-year-equivalent recipients of Medicaid, and the number of 2013 rental housing assistance recipients (due to a lack of monthly administrative data).

State-level efforts to expand community engagement incentives in their Medicaid programs, which are discussed in detail in box 9-3.

*Supplemental Nutrition Assistance Program.* SNAP, which served over 17 times as many nondisabled, working-age adults as TANF in 2013 (table 9-4), does have Federal prescriptions for work requirements, albeit ones that cover a smaller share of nondisabled, working-age recipients than TANF requirements. Nondisabled adults age 18–49 with no dependents under age 18 face the strictest work requirements. They may receive SNAP benefits for only three months every three years unless they meet the work test—80 hours of work (or work activities) each month. However, States can obtain waivers from this requirement based on poor economic conditions. States make extensive use of these waivers to avoid work requirements for SNAP recipients, even when job market conditions are favorable (see box 9-4). A recently proposed rule from the U.S. Department of Agriculture would address this problem and ensure that waivers are obtained only in areas where it is truly difficult to find jobs. Other SNAP recipients face less strict work requirements. Nondisabled SNAP recipients age 16–59 face a general requirement that they must accept suitable jobs available to them. SNAP recipients age 60 and over and recipients with dependent children under age 6 are completely exempt from work requirements. Though States may choose to impose stronger work requirements than those mandated by Federal law, few have chosen to do so.

*Housing assistance.* Housing assistance programs (including Section 8 housing vouchers, Section 8 project-based assistance, and public

### **Box 9-3. Medicaid Community Engagement Demonstration Projects**

In response to State interest, on January 11, 2018, the CMS (2018b) announced that it would consider approving demonstration projects by States that proposed to implement community engagement requirements for nonpregnant, nondisabled, working-age adults. A total of 15 States have applied to implement demonstration projects through Section 1115 waivers (Kaiser Family Foundation 2018). The CMS intends to evaluate whether incentivizing work and other forms of community engagement in these States improves health outcomes and facilitates upward mobility out of poverty and toward independence, and whether such incentives help to ensure the long-term fiscal sustainability of the Medicaid program. States can design their own community engagement requirement definitions, which can include activities such as paid employment, job training, community service, education, and drug treatment.

Figure 9-i shows the 15 States that have submitted applications to the CMS in order to implement community engagement requirements in their Medicaid programs (Kaiser Family Foundation 2018). Among these, 10 States (Arizona, Alabama, Kansas, Maine, Michigan, Mississippi, North Carolina, Ohio, South Dakota, and Utah) have waivers pending approval; 4 States (Indiana, Kentucky, Wisconsin, and New Hampshire) had their waivers approved but have not yet implemented their projects; and 1 State (Arkansas) has already begun implementing its project.

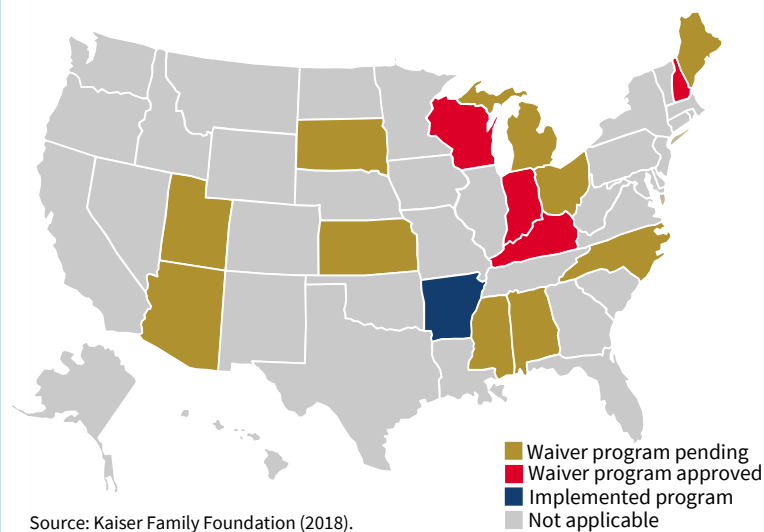
Arkansas was the first State to implement its demonstration project, with its waiver granted in March 2018 and community engagement requirements going into effect in June 2018. The State currently requires that certain adults receiving health coverage under Arkansas Works—the program serving the State’s new Medicaid expansion population—work, volunteer, or participate in other work-related activities for at least 80 hours a month in order to retain eligibility for health insurance coverage under the program. Failure to comply (either through self-reporting or automatic reporting of work status through other means) for three months during a year results in a termination of coverage until the beginning of the following year. Only adults age 30–49 were subject to requirements as of October 2018. Adults age 19–29 are subject to requirements as of January 2019 (Rudowitz, Musumeci, and Hall 2018).

Only a small fraction of Arkansas Medicaid recipients are covered by these community engagement requirements, and the large majority of those covered comply with the requirements in a given month. As of October 1, 2018, there were just over 915,000 Medicaid recipients in Arkansas. Just over 496,000 of those recipients were adults, of whom about 253,000 had coverage through Arkansas Works (Arkansas Department of Human Services 2018b). Among the 253,000 Arkansas Works enrollees, just over 69,000 were covered by community engagement requirements in October 2018. About 57,000 (82 percent) complied with the requirement in October (mostly through an

exemption from the need to report work hours), while the remaining 12,000 (18 percent) did not. Of those who did not comply in October, 3,815 recipients lost Medicaid coverage due to three months of noncompliance with the community engagement requirement (Arkansas Department of Human Services 2018a).

A total of 16,932 Arkansas Works recipients have had their coverage terminated during the demonstration project due to three months of non-compliance with the work requirement in 2018 (Rudowitz, Musumeci, and Hall 2018). These recipients were allowed to reenroll beginning in January 2019. Further evidence from Arkansas and other States will help determine whether community engagement requirements are effective in improving overall health and upward mobility toward independence.

**Figure 9-i. States with Medicaid Waivers Implemented, Approved, and Pending, 2018**



housing)—which served more than three times as many nondisabled, working-age adults as TANF in 2013 (table 9-4)—generally lack strong work requirements. Though a requirement exists in the public housing program for nondisabled, working-age adults who are not working or enrolled in a self-sufficiency program to participate in 8 hours per month of community engagement or other activities, it is not necessarily enforced (HUD 2015). Under the Moving to Work demonstration program, authorized public housing authorities may

#### **Box 9-4. Addressing Problems with SNAP Work Requirement Waivers**

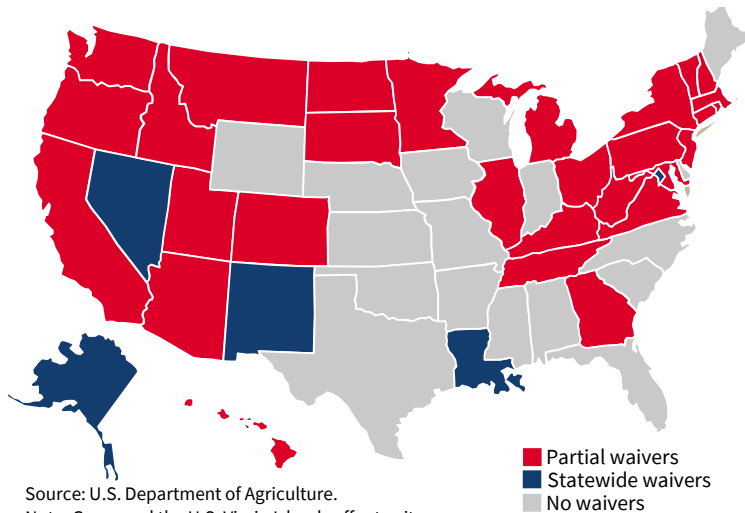
The 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) implemented significant work requirements in SNAP for some nondisabled, working-age adults. Specifically, so-called able-bodied adults without dependents (ABAWDs) who are age 18–49 could receive SNAP benefits for only 3 months in a 36-month period unless they worked for at least 80 hours each month or participated in a job program. These work requirements can be waived, however, in places with poor macroeconomic conditions when it is difficult to find work. According to section 6(o) of the Food and Nutrition Act of 2008, the USDA Secretary is required to waive work requirements for ABAWDs if (1) the unemployment rate in an area is 10 percent or higher, or (2) if there are not sufficient jobs in an area. The “lack of sufficient jobs” criterion has been interpreted in current regulations to be satisfied by several possible conditions, including an area average unemployment rate that is 20 percent higher than the national unemployment rate for a recent 24-month period. Regulations also give States substantial flexibility in defining an area where requirements can be waived. For example, a State can apply for a Statewide waiver or for waivers that cover any set of contiguous counties (or other jurisdictions).

Although waivers were intended to exempt ABAWDs from work requirements when finding a job was especially difficult, they have frequently been used to waive requirements even in areas with ample job opportunities. In December 2018, the U.S. unemployment rate was 3.9 percent. The criterion that work requirements can be waived when the area’s unemployment rate is 20 percent higher than the national unemployment rate allows areas with an unemployment rate of 4.9 percent to qualify (assuming a 20 percent higher unemployment rate than the national rate over a 24-month period). A 4.9 percent unemployment rate is near the natural rate of unemployment—currently about 4.6 percent—which reflects normal churn in the labor market rather than insufficient jobs for those who want them.

Another issue with waivers is that States have wide discretion in combining counties, cities, and other types of jurisdictions into an “area” that, in the aggregate, can satisfy the relevant conditions and gain eligibility for a waiver. States can strategically form these areas to maximize the number of ABAWDs that are covered by a waiver. For example, they can combine low-unemployment counties with high-unemployment counties so that, in combination, the area narrowly exceeds the threshold for a sufficiently high unemployment rate relative to the national average. States can then pair remaining high-unemployment counties with other low-unemployment counties in a similar fashion to exempt as many ABAWDs as possible. States can form an unlimited number of such areas as long as the counties or other jurisdictions within any combined area are contiguous to at least one other jurisdiction in the area.

As a result of these waiver criteria, many ABAWDs are exempted from work requirements even when they live in areas with low unemployment rates. As of the fourth quarter of fiscal year 2018, despite a national unemployment rate of 3.8 percent, seven regions received exemptions for their entire State, district, or territory, and 29 States received exemptions for a part of their State (see figure 9-ii). Nevada, for instance, had a statewide exemption despite an unemployment rate of 4.4 percent in December 2018 (USDA 2018b). California had a full-State waiver beginning in fiscal year 2009 that continued through the third quarter of fiscal year 2018. Starting in September 2018, California excluded 3 of its 58 counties so that the remaining 55 counties would have a sufficiently high unemployment rate to retain eligibility for a waiver (USDA 2018a). California did so by grouping together 55 counties with a combined average unemployment rate of 5.9 percent over the 24-month period between April 2015 and March 2017, exactly 20 percent higher than the 4.95 percent national unemployment rate during the same period. Other States have also sought to waive work requirements in the midst of strong labor markets. During the first quarter of 2016, when the national unemployment rate was under 5 percent, 32 States and territories had a full-State waiver (including California, Florida, New York, Pennsylvania, Illinois, and Georgia), and 12 had a partial-State waiver (USDA 2016). Only 9 States (Delaware, Iowa, Indiana,

**Figure 9-ii. States Waiving SNAP Time Limit for Able-Bodied Adults (18–49) Without Dependents, Fourth Quarter of Fiscal Year 2018**



Source: U.S. Department of Agriculture.  
Note: Guam and the U.S. Virgin Islands offer territory-wide waivers.



Kansas, Maine, Nebraska, Oklahoma, Texas, and Wyoming) had no waiver (USDA 2016).

On December 20, 2018, the USDA published a Notice of Proposed Rulemaking in the *Federal Register* that would address these issues with ABAWD work requirement waivers. For areas seeking a waiver under the criterion that the unemployment rate exceeds 20 percent of the national average, the area's unemployment rate would be required to meet or exceed a floor of 7 percent. Also, States would no longer be permitted to combine various counties and other jurisdictions in order to maximize waiver eligibility. Instead, each area, as defined by the Bureau of Labor Statistics, must qualify on its own merit, with few exceptions.

experiment with stronger work requirements. However, out of close to 3,000 public housing authorities across the United States, only 39 authorities, or about 1 percent, are designated as Moving to Work agencies, and of these, just 9 had implemented work requirements for some portion of recipients as of 2015 (Levy, Edmonds, and Simington 2018). Thus, strong work requirements are not common in housing assistance programs.

*Evidence supporting the expansion of work requirements.* As described in detail in the 2018 CEA report *Expanding Work Requirements in Non-Cash Welfare Programs* (CEA 2018), continued efforts to expand work requirements in noncash programs similar to those in TANF would likely boost the work effort among the much greater number of nondisabled, working-age recipients currently receiving assistance from noncash programs. There are two sets of evidence for such an effect. First, welfare programs that lack work requirements tend to reduce employment. Imposing work requirements in these programs should therefore increase employment, because the only way for nonexempt recipients to avoid losing benefits is to work. Second, experiments in the 1990s that applied work requirements to States' AFDC programs generally increased work effort, supporting evidence from statistical studies showing that these interventions tended to increase employment.

A number of studies, based on randomized experiments or quasi-experimental designs, provide empirical support for noncash welfare programs discouraging work. Hoynes and Schanzenbach (2012) utilized the staggered, county-wide rollout of the food stamp program in the 1960s and 1970s to estimate that food stamp receipt reduced hours worked among female heads of households by over 50 percent and reduced employment by up to 27 percentage points among recipients in general. More recently, East (2018) found that after welfare reform in 1996, the receipt of food stamps by unmarried, non-citizen immigrant women reduced their hours worked by 51 percent and their employment by 43 percent. Recent studies find significant employment effects

of Medicaid on work rates among childless adults: Garthwaite, Gross, and Notowidigdo (2014) find that *losing* Medicaid coverage *increases* employment by 63 percentage points; and Dague, DeLeire, and Leininger (2017) find that gaining Medicaid coverage reduces employment by 5 percentage points for this population. Meanwhile, Dave and others (2015) find that Medicaid receipt substantially reduces employment among pregnant women. However, other studies find weaker or no effects of Medicaid on employment. For example, Baicker and others (2014) find that employment only fell by a statistically insignificant 1.6 percentage points based on a randomized controlled trial in Oregon. Regarding housing assistance, Jacob and Ludwig (2012) evaluated the impact of receipt of a Section 8 housing voucher on adult employment, utilizing a random lottery in Chicago to allocate vouchers. They found that labor force participation fell by 6 percent and earnings fell by 10 percent as a result of receiving these vouchers. Two randomized, controlled trials funded by the U.S. Department of Housing and Urban Development provide additional evidence that housing vouchers reduce employment in the short run among both TANF recipients and homeless families (Mills et al. 2006; Gubits et al. 2015, 2016). Taken as a whole, the empirical evidence suggests that noncash welfare programs reduce work—and thus expanding work requirements in these programs should tend to increase work. This would especially be true if work requirements were applied to all major noncash welfare programs, given that many nondisabled, working-age recipients receive benefits from multiple programs that can in the aggregate result in strong work disincentives.

Experience from 1990s-era welfare reforms, which transformed AFDC into TANF, can also inform how expanded work requirements in noncash programs would affect work. Before the 1996 passage of PRWORA, States conducted experiments with a number of specific changes to their cash welfare programs. Bloom and Michalopoulos (2001) analyzed the results of 29 randomized controlled trials conducted in the 1980s and 1990s on the effects of various welfare reforms. The 20 experiments that included work requirements overwhelmingly showed that work requirements increased employment and earnings while reducing welfare spending. Hamilton and others (2001) found that employment-focused programs that prioritized employment over education had larger effects. The results of these experiments complement statistical studies showing that employment among single mothers, who were most directly affected by welfare reform, saw the largest increases in employment during this reform's early years. Though a number of factors can explain these trends, including the growing generosity of the EITC and the growing economy, the preponderance of the research suggests that reforms to the AFDC program, including time limits and work requirements, played an important role as well (for a review of this literature, see Ziliak 2016).

## ***Complementing Work Requirements with Work Supports and Rewards***

Although solely expanding work requirements in noncash welfare programs would bring more nondisabled, working-age recipients into the workforce, complementary policies that support and reward work can promote work even further. The success of work requirements in increasing work effort among welfare recipients in the 1990s was supported in part by improvements made to child care assistance programs. In 1990, the Child Care and Development Block Grant program was created to provide Federal funds to States for child care, complementing the child care assistance that was being newly provided in the former AFDC program. In 1996, PRWORA consolidated these separate child care programs into one mandatory child care block grant and reauthorized CCDBG; together, these were referred to as the Child Care and Development Fund, which provided funding to States—through the mandatory child care block grant and the discretionary CCDBG—to help low-income families access child care, with minimal Federal rules and broad flexibility for States.

*Supporting work.* Although the improvement of child care programs targeted to low-income families supported an increase in work, it was not the major factor in employment gains during the 1990s. Meyer and Rosenbaum (2001) find that the expansion of Federal child care assistance played only a minor role in encouraging work among single mothers between 1984 and 1996. More recent evidence on the impact of child care provision on work among single mothers similarly suggests that the effects may be modest (Fitzpatrick 2010; Morrissey 2017). In addition, lower-income mothers commonly use informal types of child care that do not require direct payment, or work non-standard hours during which formal child care is unavailable (Rachidi 2016).

Although child care subsidies alone may be insufficient to promote work among recipients of noncash welfare programs, they can nonetheless play a complimentary role in encouraging work. As discussed in chapter 3 of this *Report*, child care costs can make up a substantial share of wages for many parents of young children. This is particularly true for the large share of non-disabled adults receiving noncash welfare benefits who have children under the age of 6, because child care costs can make up an especially large share of wages for these workers with low wages. Based on 2017 State-level data from ChildCare Aware, the combined hourly child care cost for two children (one infant and one four-year-old) exceeded the minimum wage in 38 States. These child care costs can thus substantially reduce the reward for work for those with low wages, and potentially eliminate the reward for work altogether for those with multiple children requiring care. Work requirements may be insufficient in this context for stimulating parents to seek employment.

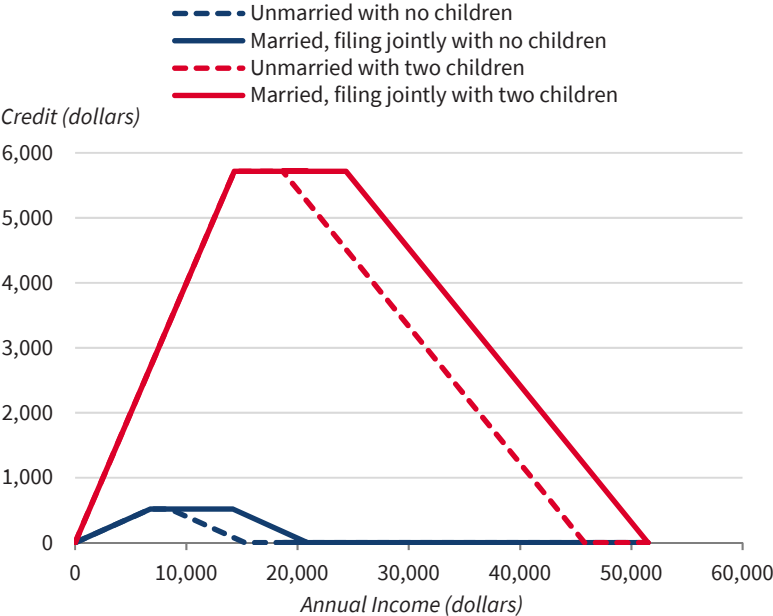
The Trump Administration has mitigated these work disincentives by substantially bolstering child care programs for low-income families. In 2018,

the CCDBG was increased by \$2.4 billion, and this increase was sustained in 2019. The Child Care and Development Fund, which includes CCDBG and other funds, distributed a total of \$8.1 billion to States to offer child care subsidies to low-income families who require child care in order to work, go to school, or enroll in training programs. In addition, Federal child care assistance is offered through TANF, Head Start, and other programs.

In addition to these direct forms of child care assistance, both SNAP and housing assistance programs already provide significant potential child care assistance that is automatically available to all families that are induced to work via any future expanded work requirements in these programs. This is because both programs allow recipients to deduct child care expenses from their income when determining benefit levels. For every \$1 spent on child care, a child care expense deduction provides families with a child care subsidy (in the form of food or housing benefits) equal to the rate at which benefits phase out with income, as long as their income does not exceed its eligibility limits. The phasing-out rate ranges from \$0.24 to \$0.36 per \$1 in income for SNAP, and is about \$0.30 for the rental housing assistance programs. For families enrolled in both SNAP and a housing program, the deduction can be taken for both programs, creating a combined subsidy of about \$0.54 to \$0.66 for every \$1 spent on child care. Of course, one limitation of these child care subsidies is that they cannot exceed the total benefit received, and families are still subject to gross income tests, which can be important given that families may deduct housing and medical expenses in SNAP as well.

*Rewarding work.* In addition to child care policies that support work, rewarding work via the EITC was a central component of efforts in the 1990s to make work pay, and has been highly successful in increasing work and reducing welfare receipt among single mothers (Eissa and Liebman 1996; Ellwood 2000; Meyer and Rosenbaum 2001; Grogger 2003). The EITC was established under the Tax Reduction Act of 1975, and it was made permanent in 1978. The maximum EITC benefit remained small until several expansions during the late 1980s and early 1990s. In 2018, the maximum annual credit was \$6,431 for a family with three or more children, \$5,716 for a family with two children, \$3,461 for a family with one child, and \$519 for a family without children. About half the States supplement these Federal credits with their own State EITC. The EITC incentivizes work because it is available only to tax units with earnings. Starting with the first \$1 earned, the Federal EITC increases by between \$0.34 and \$0.45 for families with children, and by \$0.0765 for those without children. EITC benefits are phased in with each \$1 in earnings until reaching a plateau, and eventually the EITC is phased out as earnings increase further. For an unmarried adult with two children, the EITC is phased in until earnings reach \$14,290, and is phased out starting when earnings reach \$18,660, with the EITC fully phased out at earnings of \$45,802. As shown in figure 9-11, the EITC is

**Figure 9-11. Earned Income Tax Credit Schedule, by Number of Children and Filing Type, Tax Year 2018**



Source: Internal Revenue Service.

phased out at a somewhat higher level of earnings for married couples, reflecting the fact that both parents may earn income.

Despite the success of the EITC in encouraging work among single mothers during welfare reform, there are limitations on the effectiveness of further expansions for families. The current maximum EITC is already high for families with children, which means that the benefits must be phased out over a substantial range of income. This can result in high implicit tax rates for single mothers moving from part-time to full-time work, and can discourage work by second earners in married couples (see CEA 2018). Chetty, Friedman, and Saez (2013) find evidence of decreased work effort in the phase-out region of the EITC, and Eissa and Hoynes (2004) find that second earners in married couples work less in the phase-out region as well. Though the overall employment effect of the EITC is still likely positive, further expansions of the EITC could exacerbate these issues.

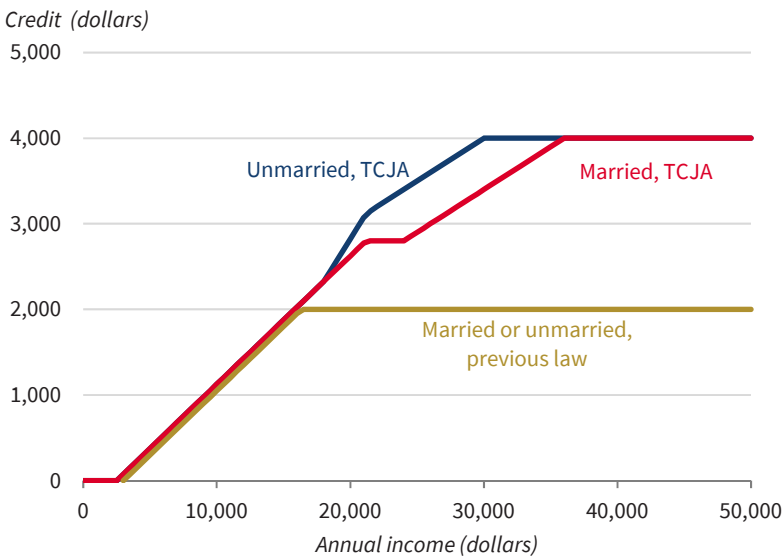
The EITC for childless adults is much less generous, with a maximum benefit of just over \$500, so modest expansions would not have the same effect on implicit tax rates faced by families with children whose higher EITC benefits must be phased out over a larger range of earnings. However, the ability of EITC expansions to promote work by focusing on childless adults may nonetheless be limited. First, as seen in table 9-4, the majority of nondisabled,

working-age adults receiving benefits from Medicaid, SNAP, and housing assistance programs have children, so EITC expansions for those without children would affect a smaller segment of the welfare caseload. Second, childless adults receive lower maximum benefits from welfare programs due to their smaller family sizes, and as a result, their benefits fully phase out sooner and so their implicit tax on work is lower. This suggests that additional incentives to join the workforce may have less of an impact. In fact, a recent randomized controlled trial that provided an expanded EITC-type benefit of up to an extra \$2,000 annually to low-income childless adults found a relatively modest 1.9-percentage-point effect on work participation (Miller et al. 2018). Third, childless adults in general have high employment rates, and so most of the cost of an expanded EITC for childless adults would go toward those who are already working, leading some to reduce their number of hours worked. Thus, an expanded EITC for childless adults may ultimately not be a cost-effective way to increase the workforce participation of nondisabled adults receiving noncash welfare benefits.

However, the CTC is not restricted to low- or-moderate income families, and thus it avoids some of the issues with further expansions of the EITC. The CTC was first established in 1997 and was then expanded in 2001. Like the EITC, the CTC is only provided to families with earnings, although the CTC requires the presence of children under 17 (who have Social Security numbers). Through 2017, the maximum CTC was \$1,000 per child, with no limit on the number of children a family could claim. As long as a family's Federal income tax liability exceeded the number of dependent children multiplied by \$1,000, it received this full amount—for example, a family with two children that had a tax liability of at least \$2,000 received a \$2,000 credit. The CTC also had a refundable portion—the Additional Child Tax Credit—that provided a refundable credit worth up to 15 percent of earned income above \$3,000, up to a maximum of \$1,000 per dependent. Unlike the EITC, the CTC did not phase out until much higher levels of earnings. In 2017, it first began to phase out at \$75,000 of income for unmarried filers and at \$110,000 for joint filers.

The 2017 Tax Cuts and Jobs Act (TCJA) substantially expanded the CTC. Relative to 2017, the TCJA (1) doubles the per-child, nonrefundable credit from \$1,000 to \$2,000; (2) increases the maximum refundable portion from \$1,000 to \$1,400 per dependent; (3) phases in the refundable portion beginning at \$2,500 instead of \$3,000 of earned income; and (4) increases the income level at which the CTC begins to phase out to \$200,000 (from \$75,000) for unmarried filers and \$400,000 (from \$110,000) for joint filers. Figure 9-12 illustrates how these changes affect the combined ACTC and CTC for a single parent with two children. For any given level of earnings above \$2,500, the reward for work from the combined credit is higher. For example, in 2018 a single mother with two children who earns between \$3,000 and \$16,000 a year would receive \$75 more under the TCJA than under the previous law. If she earns \$20,000 a year (or 40

**Figure 9-12. Child Tax Credit for a Family With Two Children, Unmarried and Married Parents, Under the the Previous Law and Tax Cuts and Jobs Act (TCJA), 2018**



Sources: Internal Revenue Service; Open Source Policy Center (n.d.); CEA calculations.  
Note: The combination of the Child Tax Credit and the Additional Child Tax Credit is shown.

hours per week for 50 weeks, earning \$10 per hour), she would receive \$825 more. At \$25,000 in earnings, she would receive \$1,500 more. With earnings of \$30,000 or more, she would receive an additional \$2,000 (until entering the phase-out range). Although other tax provisions also changed under the TCJA, the overall reward for work is higher than under the previous law. For example, a single mother with two children and \$20,000 (\$25,000) in earnings received \$601 (\$1,078) more in 2018 than in 2017 (Open Source Policy Center n.d.).

The expanded CTC under the TCJA substantially increases the reward for full-time, full-year work for nondisabled, working-age adults on noncash welfare programs without exacerbating strong work disincentives for unmarried part-time workers and second earners in the vast majority of families. Part-time work at low wages by unmarried adults receives only a small additional reward, although the EITC already provides substantial benefits in these cases. In addition, the greater reward for work from the expanded CTC would complement expanded work requirements in noncash welfare programs. Mead (2014) argues that the success of the EITC expansions in the 1990s was due to work requirements that ensured people initially entered the workforce and then received higher EITC benefits that rewarded work and hence ensured that they remained there. Similarly, the expanded CTC under the TCJA could most effectively draw more nondisabled, working-age adults on noncash welfare

programs into full-time, full-year work to the extent that work requirements in these programs are also further expanded.

## *Benefits for Children*

In addition to encouraging work among nondisabled, working-age welfare recipients, requiring, supporting, and rewarding work may benefit children living in families with parents who are subject to these reforms. Evidence from randomized controlled trials on welfare reforms in the 1990s suggests that when programs required work but offered no additional financial incentives, children's academic achievement was unaffected, but when work requirements were paired with additional financial incentives, children's outcomes improved (Morris et al. 2001; Duncan, Morris, and Rodrigues 2011). Meanwhile, research shows that tax credits that link benefits to work significantly improve child outcomes. The EITC leads to improved test scores, educational attainment, adult employment, and infant health (Dahl and Lochner 2012, 2017; Chetty et al. 2011; Hoynes, Miller, and Simon 2015; Manoli and Turner 2018; Michelmore and Bastian 2018). In an extensive review of the literature on the EITC, Nichols and Rothstein (2016, 187) note that "there is robust evidence of quite large effects of the EITC on children's academic achievement," compared with the "relatively small estimates of effects of family income on student outcomes that come from non-EITC settings." In explaining why the EITC may lead to larger improvements in child outcomes than those due to housing assistance, Jacob, Kapustin, and Ludwig (2015) suggest one reason for the discrepancy could be that the EITC simultaneously provides income and encourages adult employment, potentially exposing children to higher-quality child care environments at early ages.

Consistent with these positive effects on childhood outcomes, welfare reform during the 1990s tended to increase resources available for consumption among affected families. Meyer and Sullivan (2008) find that after welfare reform, consumption increased (or at least did not decrease) among single-mother families across the distribution, even for those in the bottom decile of consumption. Moreover, Meyer and Sullivan (2004) find that consumption by single mothers appears to have increased more than consumption by single women without children and married women with children, groups that were less affected by welfare reform. This suggests that welfare reform served to reduce material hardship, or at least did not increase it. These reductions in material hardship have persisted, with Meyer and Sullivan (2012b) estimating that consumption-based poverty rates among single-parent families fell from 28 percent in 1990 to 23 percent in 1995 to 15 percent in 2000, and down to 9 percent in 2010.

The actions taken by the Trump Administration that promote work among low-income Americans could thus both increase work among non-disabled, working-age adults and improve child outcomes. Expanding work



requirements for childless adults, increasing child care assistance for low-income families, and increasing tax-based rewards for work among adults with children, in combination with strong economic growth, are already bringing more nondisabled, working-age adults into the workforce and, at the same time, reducing reliance on welfare programs. Further progress could be achieved by expanding work requirements in noncash welfare programs to additional groups of nondisabled, working-age adults, including those with children who make up the majority of these recipients, as described in the report *Expanding Work Requirements in Non-Cash Welfare Programs* (CEA 2018). These efforts will help ensure that progress in reducing poverty based on modern standards of material hardship will increasingly be achieved by helping nondisabled, working-age adults increase their earnings through work.

## Conclusion

President Lyndon B. Johnson declared a War on Poverty in 1963. Based on 1963 standards of material hardship, his War on Poverty is largely over and has been a success. Limitations in both the OPM and the SPM that the Census Bureau produces each year make them incapable of fully capturing this success. When we use a new FPM that is anchored to 1963 standards—and that thus includes the full impact of government taxes and transfers (both cash and in-kind, including the market value of health insurance); that better accounts for inflation, by using the Personal Consumption Expenditures Price Index; and that uses the household instead of the family as the sharing unit—we find that the poverty rate declined from 19.5 percent in 1963 to 2.3 percent in 2017. This is far more than the decline from 19.5 to 12.3 percent that the OPM reports for the same period. Of course, the FPM would count a larger share of Americans as poor if it increased the standards of material hardship to reflect economic growth since 1963. However, the task of establishing these new poverty thresholds is the responsibility of elected policymakers rather than researchers.

Although the War on Poverty was successful in reducing material hardship, it did not do so through increases in self-sufficiency, as President Johnson envisioned. Rather, it was substantial increases in the availability and generosity of government transfers to households in the bottom part of the income distribution that lifted nondisabled, working-age people out of poverty. The proportion of nondisabled, working-age adults (age 18–64) living in a household that receives welfare benefits (AFDC/TANF, food stamps / SNAP, housing assistance, and Medicaid) increased from 4.0 percent in 1967 to 27.6 percent in 2017, whereas growth in their work rates began to reverse after 2000. This decline in self-sufficiency has resulted in the situation today where millions of nondisabled, working-age adults receive these welfare benefits while not working.

A new war on poverty should focus on reducing material hardship (based on modern standards that are explicitly determined by policymakers) through work for nondisabled, working-age people whenever possible. The highly successful welfare reforms during the 1990s that required, supported, and rewarded work can serve as a model for current efforts. The Trump Administration has taken important actions along these lines—strengthening work requirements in noncash welfare programs; increasing child care assistance for low-income families; and increasing the reward for full-time, full-year work as part of the Tax Cuts and Jobs Act of 2017 by increasing the Child Tax Credit. Additional progress could be achieved by further expanding work requirements in noncash welfare programs, such as food stamps / SNAP and Medicaid, including for nondisabled, working-age adults with children.