

## Left Behind: The Persistence of Poverty Through the 1990s

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The Commonwealth's economic growth over the past decade has led to more jobs and an increasing median income, but the rising tide has not lifted the boats at the bottom. The bottom 20 percent of the Commonwealth's families with children have not found relief. Growth in earnings has been almost completely offset by the loss of public support, which in turn has strained the private sector's emergency support system. Poverty rates for families have dropped only slightly, child poverty rates and the percentage of families who are very poor have increased, and the need for emergency housing and food services has grown. Safety nets for the poor have unraveled.

By almost all measures, the Massachusetts economy has had a remarkable decade. The unemployment rate has fallen, and absolute levels of employment have reached new heights, surpassing the 1980s period of expansion popularly referred to as the Massachusetts Miracle. The 1980s represented a sharp demarcation in the Massachusetts economy, expanding its service and financial sectors and moving away from industrial manufacturing (a mix of both high- and low-wage work). The "miracle" not only lifted the economy from a long slump, it allowed the Commonwealth's economic growth to far outpace that of the nation. And while the miracle faded in the late 1980s, pushing the Massachusetts economy into a fairly severe recession, unemployment rates have remained at or below 6 percent since 1994, falling to 2.6 percent in 2000.

In terms of actual numbers of people employed, it was not until 1997 that Massachusetts surpassed its 1989 high mark of 3,053,000. In 1999, over 120,000 more people were employed than were a decade earlier (a 3.9 percent increase). Compared to 1993, the first full year of postrecession recovery, more than 250,000 more people were employed in 1999. This was a 7.7 percent increase.

Establishment data reveal that the Massachusetts economy had roughly 400,000 more jobs in 1999 than it did in 1993, almost a 14 percent increase.<sup>1</sup> The growth in jobs and average wages differs by industry category, however. Services generated more than three times as many new jobs as the second-largest sector, retail. Together service and retail sectors launched an additional 289,900 jobs, accounting for nearly 75 percent of all new jobs. It is important to note that these are among the two lowest-paying sectors. The three highest-paying sectors--finance, insurance, and real estate; wholesale trade; and manufacturing-- have generated just 26,800 new jobs (6.7 percent of the net growth) since 1993.<sup>2</sup>

### The Expansion Economy and Massachusetts Poverty Policies

In 1993, the Weld administration published a document titled "Choosing to Compete: A Statewide Strategy for Job Creation and Economic Growth," which was a blueprint for bringing the state out of its economic doldrums. One section addressed poverty, focusing on distressed urban areas, and succinctly argued, "The best social program is a job."<sup>3</sup> In short, the best poverty policy the state could pursue was general economic development--i.e., building a robust economy.

This sentiment was echoed even louder in policy changes directed specifically at poor families. The Weld administration, together with the legislature, aggressively pursued change to the existing welfare laws. Passed in February and enacted in November,

Chapter 5 of the Acts of 1995 radically changed the state's welfare program for low-income families with children. The changes placed a heavy emphasis on replacing public cash assistance with earnings.

Since 1995, the administration has pursued its "work first" strategy, bolstered by a strict set of rules that families receiving aid must follow to avoid benefit reductions or cutoffs. The Massachusetts Earned Income Tax Credit (EITC) program, enacted in 1997, complements the federal program, providing families who have low earnings with a refundable tax credit. Both programs reinforce employment, even at low wages, supporting the notion that a job is the best path out of poverty.

### **Family Income and Poverty in Massachusetts**

**Family income.** The U.S. Census Bureau defines a family as two or more persons related by blood, marriage, or adoption, who live in the same housing unit. In 1999, there were 2.62 million households in Massachusetts, of which 1.57 million were families. Of all families, 57 percent had at least one child under 18 years of age. Of those with children, just under 72 percent were two-adult (mostly married- couple) families, and the rest had only one adult--most often a female, usually a mother.[4](#)

Every March, the Current Population Survey (CPS) collects detailed information from a sampling of the U.S. population about income over the previous calendar year. The data are cross-sectional, and as such, do not allow researchers to look at the same families over any extended period of time. Instead, they provide a snapshot of family income and poverty.

Pooling Massachusetts income and poverty data for the first three years and the last three years of the 1990s expansion (1993-95 and 1997-99) ensures statistical reliability and allows a closer look at low-income families before and after welfare reform. Median family income (adjusted for price changes using the CPI) from 1993 to 1995 was \$53,621, which grew by 5.4 percent to \$56,491 in 1997-99. The median income for families with children was \$51,856 in 1993-95 and rose by 2.7 percent to \$53,271 in the 1997-99 period. Changes in family income are uneven, however. Splitting the number of families into quintiles, ranked by income, gives a better sense of how families in different income brackets are faring.[5](#)

**Family poverty.** The Census Bureau defines persons and families as poor if their incomes are below a particular threshold, which differs by family size. In 1999, a family of three was poor if their annual income was \$13,290 or less; for a family of two the income threshold was \$10,869. While these thresholds do not take into account the value of non-cash assistance (such as food stamps) or of taxes paid or tax credits received, they do include government cash assistance, such as Social Security or welfare. Nonetheless, these amounts are far below the recent estimates provided by the Women's Educational and Industrial Union on self-sufficiency for families of this size, with or without children.[6](#)

Poverty rates for all families and for families with children fell slightly during the 1990s boom, while those of all persons rose slightly. Surprisingly, child poverty rates rose over the boom. Poverty rates for Latino families fell, while those for Black families rose (though none of the changes are statistically significant). However, both Black and Latino families are still six times more likely to be poor than White families in Massachusetts.

The data also reveal an important trend in the poor population: There is a discernible shift toward an increase in the very poor. That is, those who are poor are much more likely to be *very poor*. There was a sharp percentage rise in the "very poor" category for female-headed families with children. The percentage of very poor children rose significantly, from 6.5 percent to 9.6 percent.

History shows that poverty rates fall during economic expansions. That Massachusetts poverty rates for all persons and families have hardly budged is surprising and unlike the trend for the nation as a whole. The average poverty rate for all persons and families in the United States, while at higher levels than for Massachusetts, fell considerably over the two periods--from 14.5 percent to 12.6 percent for all persons and from 11.6 percent to 9.9 percent for families.

### **Public Assistance Caseloads Decline, Emergency Services Use Increases**

Poverty policies and the expanding economy have succeeded in reducing the number of people using cash assistance. Current Population Survey and administrative data show a tremendous drop in the number of families using public assistance. After rising during the recession of the early 1990s to more than 114,000 families, caseloads dropped steadily, both before and after welfare reform. By 1999, the Department of Transitional Assistance reported fewer than 50,000 families receiving welfare. U.S. Department of Agriculture data reveal an equally sharp drop in food stamp use in the state. The Current Population Survey asks if families benefit from any type of government-sponsored programs. Responses reveal a rather steady decline in both the welfare and food stamp rolls.

The post-welfare reform years show a substantial drop in welfare and food stamp use, even though poverty rates have barely declined. Most revealing is the drop in poor families' use of assistance. While almost one out of every two poor families received welfare before welfare reform, the number dropped to one in three after the reform went into effect. Similarly, 56 percent of all poor families received food stamps before reform; fewer than 44 percent did thereafter. One expects reliance on public assistance to drop in economic expansions, but there is little reason to expect the percentage of poor families (who are likely to be eligible) who use public assistance to fall so dramatically, especially as the percentage of those who are very poor rises.

Administrative data and information gathered from surveys and focus groups reflect emergency services use and needs.<sup>2</sup> The number of families receiving Department of Transitional Assistance (DTA) and privately funded shelter has increased steadily, with the private sector stepping in to provide shelter to families deemed ineligible for state-funded shelter. These data reflect only a segment of homeless families in Massachusetts.

The membership of soup kitchens and food pantries in food banks across the state has also risen since welfare reforms were implemented. Information obtained directly from emergency services providers in six Massachusetts communities confirms the trends identified by administrative sources. Housing assistance programs reported as many or more people served since welfare reform. Nearly half of the community agencies surveyed reported an increase in the number of families they had provided with food assistance between 1995 and 2000, including the state's three largest food banks. The Massachusetts Emergency Food Assistance Program has provided new

state funding for food banks, up from \$1 million at its inception in 1994 to more than \$7 million in 1999. More than two-thirds of the 104 parents surveyed were using food stamps; nearly half reported using food pantries on a monthly basis.

Low-income families' use of emergency services is neither occasional nor episodic. Though the term "emergency" implies a crisis that is temporary in nature, the growing need to respond to families struggling to survive has led to the establishment of a permanent array of emergency services in Massachusetts. Further, homeless shelters, homeless prevention programs, and food banks report a shift in the population they serve since welfare reform; more are extremely poor, more are employed, and fewer are "welfare poor."

### **Working More Without Much to Show**

A closer look at families with children in the bottom income quintile shows that average earnings and income from the Earned Income Tax Credit have increased, but these increases are completely offset by the decreases in food stamps and welfare benefits. In short, low-income families with children are working more but do not have more family income than they did before.

One might argue that even without more income, families would fare better with a "self-reliant" member, rather than by receiving public assistance. The biggest gain in income is from the EITC, which is public assistance. Further, this type of self-reliance is not assuring self-sufficiency. In both time periods considered, about 70 percent of families with children in the bottom 20 percent of all families were officially poor, based on the Census definition.

Finally, income measures--either in-kind or in cash-- do not take into consideration the new costs to families associated with replacing cash assistance with earnings. These include clothing, transportation, prepared food expenses, and child care, all of which increase when parents are employed. Families who have more employment and higher costs--but no more income--may actually be worse off with this new income composition.

### **Data Signal Continued Cause for Concern**

The economic boom has clearly benefited some families. Many, however, especially those with children, have been left behind. Family poverty rates have barely budged. Poverty rates for children and for Black families have actually increased, while the percentage of very poor persons, families, and children is rising. Income inequality, already high, is escalating.

The loss of welfare income and job growth has not ameliorated poverty among single-mother families with children. The decline in two major forms of public assistance to poor families--Transitional Aid to Families with Dependent Children/Temporary Assistance for Needy Families, and food stamps--has not been relieved with increased earnings or the Earned Income Tax Credit. The private, nonprofit sector is picking up some of the slack, but they are not fully up to the task and find themselves trying to serve a group of people they are not well equipped to serve. These populations often fall between the cracks of public assistance programs. They are the working poor.

The widening income gap for families with children should be of grave concern to policymakers. The benefits of expanded educational opportunities that parents

purchase on the market--which are often costly but pay off tremendously in cognitive and financial success--span childhood from early education to private tutoring and from after-school activities to college. The top 60 percent of families with children gained income at a rapid rate, and it is likely that the educational enrichment opportunities for children in these families have also expanded. Similarly, as the bottom 40 percent of families with children face real income losses, and as single-mother families grow relatively less prosperous, the opportunities for children in these families are probably shrinking.

Massachusetts has made K-12 educational success a major political and fiscal priority. These income trends-- occurring as the economy expands--are likely to work against the state's goals.

What accounts for the inability of the Massachusetts economic expansion to trickle down? Without further analysis, it is impossible to know. Shared income growth is not theoretically or empirically predetermined. In many ways it is as much a political question as an economic one.

In the 1990s, those in the higher echelons reaped the rewards of the economic boom in the form of higher salaries and growing wealth. They were able to keep more of their income as both the state and federal governments reduced income taxes. Unions, which traditionally have been able to demand higher wages during periods of high growth and productivity, have seen declining membership. The poor economic performance among families with children may be related to state and federal policies toward poor families. Major welfare reforms in the state have resulted in vastly reduced caseloads, a reduction in welfare income, and deep cuts in the food stamp rolls.

Earnings growth and the Earned Income Tax Credit are almost completely offset by corresponding losses in public assistance. During a boom period these results are alarming; with a potential recession on the horizon, they signal serious cause for concern.

1 Household and establishment data often differ. Household data depict jobs people hold, while establishment data record jobs in firms.

2 From U.S. Bureau of Labor Statistics. Employment and wage numbers are reported by the Federal Reserve Bank of Boston in its publication **New England Economic Indicators** and at their Web site: <http://www.std.com/frbbos/economic/nee/nee.htm>

3 See "Choosing to Compete: A Statewide Strategy for Job Creation and Economic Growth" (Boston: Commonwealth of Massachusetts, Executive Office of Economic Affairs, 1993): 72.

4 For example, in 1999, 86 percent of single-parent families with children were headed by women.

5 When looking at the entire sample, median income provides a better snapshot than does average. Median is the midpoint, indicating that 50 percent of the population made more while 50 percent made less. Because of wide income disparity, an average is somewhat distorted. When examining income within quintiles (a much smaller range), average income provides a better snapshot than a median.

6 See Jean Bacon, Laura Henze Russell, and Diana Pearce, **Self-Sufficiency Standard: Where Does Massachusetts Stand?** (Boston: Women's Educational and Industrial Union in collaboration with Wider Opportunities for Women, January 2000).

7 With funding provided through a grant from the U.S. Department of Health and Human Services, an interdisciplinary group of researchers at the University of Massachusetts in Boston collected and compiled data on

households as well as emergency food and housing services. The group also administered surveys to directors of emergency services in six Massachusetts communities and conducted focus groups with emergency services providers and clients in those same communities. The communities are Brockton, Greenfield, Lowell, North Dorchester/Roxbury, Upper Cape Cod, and Worcester. A copy of that full report is available at [http://www.mccormack.umb.edu/Centers/SocPol/CSP\\_site/csp\\_home.htm](http://www.mccormack.umb.edu/Centers/SocPol/CSP_site/csp_home.htm)

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