

Poverty, The Distribution of Income, and Public Policy

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Introduction

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A decade of unprecedented economic growth reduced the incidence of poverty in America from the heights associated with the decade of the 1980s. But this sustained growth in incomes also increased the dispersion of wealth and economic well being. At the same time, changes in transfer and entitlement programs affected the eligibility of poor families for assistance from the federal and state governments.

Concurrent changes in American demographics – increased immigration, the aging of the population, and continued suburbanization – have affected labor markets, the demand for social services and the distribution of well being.

This volume analyzes these links between poverty and demographics, the distribution of income, and public policy from a longer-run perspective, taking stock of our knowledge of trends and causes, and identifying key areas in which positive economies can contribute further to our understanding of policy options.

The eight substantive chapters in this book are broad inquiries linking government policy and demographics to social outcomes and the distribution of well being. Although the scope of terrain is broad, the chapters are not intended primarily to represent comprehensive surveys of scholarly research. The leading figures and contributors to public finance whose papers are presented here were asked to offer their own views and to focus on issues they found most relevant to assessing these linkages. A breadth of perspective is provided in commentary by other leading scholars that follows directly after each chapter. Thus several of the papers focus

on particular issues important to understanding distributional outcomes: What determines the take-up of benefits in government programs? What is the linkage between incarceration policies and the earnings of black and white males? Other papers reflect a broad but not comprehensive assessment of policies and outcomes -- social security and poverty among the elderly, the accomplishments of the welfare reforms of the 1990s. Two of the chapters present historical assessments: What can we learn from the past about public health expenditures and demographic outcomes? How has the concentration of wealth in industrialized countries been affected by the different tax policies pursued by their governments?

The chapters in this volume demonstrate that a great deal is known about the linkages between economic policies and the distribution of income. Yet the authors are careful to emphasize important unanswered questions. As is reinforced by the commentary accompanying each of the chapters, there are a host of ways in which current research can be extended to address these unresolved issues.

In the next chapter, Rebecca Blank considers the far reaching changes wrought by passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in 1996. Blank's paper, "What Did the 1990s Welfare Reform Accomplish?" documents the course of welfare reform from the cautious experiments of the 1980s, to the more ambitious waiver programs of the 1990s, and ultimately to the passage of PRWORA. As Blank indicates, by converting the matching grant provisions of the old welfare system into a block grant and by introducing time limits, welfare reform rewarded efforts by the states to encourage the welfare-to-work transition, to increase earnings "disregards" for recipients, to impose sanctions, and to impose more stringent time limits on welfare beneficiaries.

Changes in welfare rules weren't the only policy innovations of the 1990s, and any evaluation of the effects of welfare reform must recognize these other changes in the economic environment. Importantly, the booming economy of the 1990s had an enormous impact on the low-wage segment of the labor market, making it easier to implement reforms encouraging labor force participation.

Blank's paper documents the dramatic changes brought about by this combination of policy reform and economic good fortune. Her review reveals that welfare caseloads fell by fifty percent in the decade of the 1990s, that labor force participation rates for single mothers increased sharply through 1999 before declining modestly, and that during the recent downturn unemployment rates among less educated women have not risen as fast as rates for other groups. Increases in incomes and declines in poverty rates among single mothers were substantial, but they were less dramatic than changes in caseloads and labor force participation.

Blank's paper provides the first systematic research comparing changes in income and poverty rates, caseloads and labor force participation among groups of single mothers. She presents evidence by race and level of education and by the age of the mother's youngest child. A striking result of these comparisons is the large gains in earnings shares among women who had little or no earnings in the mid 1990s. There were also large gains in labor force participation and substantial reductions in poverty among these women. All this suggests that those single mothers who were most disadvantaged in the labor market had no greater difficulty finding work after the rules were changed.

Blank provides a synthesis of the results of the many studies which have sought to interpret these findings -- sample surveys of women leaving welfare, analyses of government surveys such as the Current Population Survey, natural experiments, and a few controlled

experiments. Experimental studies suggest, for example, that “work first” programs, placing mothers directly into employment without regard to wages or skill requirements, can be more effective than job training programs. Other studies suggest that work programs can have modest positive effects on the well being of children.

Blank concludes by considering the important lessons from efforts during the past decade at welfare reform: the importance of interactions and synergies -- the strong economy, the Earned Income Tax Credit (EITC), the other changes in policy -- in affecting outcomes; the asymmetric responses of labor force participation during the recent slowdown in the economy; and the interactions between public assistance programs, family composition, and fertility.

Blank’s paper concludes by identifying an important set of unanswered research questions about the effects of these policy changes on outcomes, the effects of macroeconomic conditions on low wage labor markets, and the longer run effects of time limits on single parent households.

Janet Currie’s paper, Chapter Three: “The Take-Up of Social Benefits”, explores the distribution of in-kind benefits to selected recipients -- individuals or groups targeted as “deserving” as a result of their demographics or poverty status. Currie’s paper is concerned with an important feature of public assistance programs long neglected by economists, namely the imperfect targeting of beneficiaries by the design and execution of programs. These design features matter. If the take up of benefits by eligible individuals or households is too low, then a program will fail to reach its goal of providing assistance to the targeted group. If the take up of benefits by ineligibles is too high, then a government transfer program is wasteful, or worse, counter productive.

Currie reviews the received model of social stigma which would deter some eligible households from participating in public programs, finding the model of limited value. She stresses instead the variations in the costs of participation in government programs, including information, transactions, and transport costs, and the problems of principal-agent coordination.

Currie provides a comprehensive survey of the literature on the take up of means-tested transfer programs in the United States and a more limited survey of analogous programs in the United Kingdom. Her empirical results reveal an astonishing variation in take-up rates across programs, even among entitlement programs offering similar services. Currie deconstructs several of these programs, exploring the extent to which information and transactions costs could have different effects.

One important normative issue in evaluating these variable take-up rates is: Do the barriers to program participation screen out the “undeserving” people? Currie synthesizes research on disparate programs -- Supplemental Social Insurance (SSI), School Lunch Programs, Medicaid, for example -- indicating the difficulty in devising program rules to target programs only to those who “need” them.

A second and purely positive issue is: What can be done to affect take-up rates? Currie suggests that take-up rates for programs will be higher when businesses as well as individuals profit from program participation: commercial tax preparers promote take up of the EITC; hospitals also benefit if eligible pregnant women are covered by Medicaid before delivery. There may also be some benefit in bundling applications for programs so that information costs are reduced -- Medicaid and food stamps, for example.

Currie’s survey of the take up of program benefits in Britain also reveals a large variation in estimates of the fraction of eligible individuals who receive program benefits. Take up of the

British version of the EITC is roughly the same as that across the Atlantic, but take up of the British version of SSI is a good bit higher than in the United States.

Currie's survey strongly suggests that economists should pay much more attention to rules about program eligibility and to information about how those rules are enforced and disseminated. She also provides anecdotal evidence about natural variation in services and outreach across states or regions which could be exploited to learn more about these important issues.

In Chapter Four, "Government Programs and Social Outcomes: The United States in Comparative Perspective," Timothy Smeeding produces a comparative analysis of the incidence of poverty in the United States and seven other highly developed countries, Canada, the United Kingdom, Belgium, Germany, the Netherlands, Finland and Sweden. Smeeding then analyzes the extent to which government programs mitigate the prevalence of poverty in the population as a whole, as well as poverty among key subgroups, such as children and the elderly. He concludes with some comments about policies the United States might undertake to reduce the number of households living in poverty.

Measuring poverty is, in itself, a challenging task that raises questions that have occupied economic researchers for years. First, how does one compare the living standards of families that differ with respect to size and composition? Here, the standard approach is to adjust income using equivalence scales that reflect variations in the per capita cost of living among family types. Second, should comparisons be made using a relative measure, or an absolute one? Smeeding argues that poverty should be viewed as a relative concept, and relies primarily on a measure equal to fifty percent of median income. Third, how should income and living standards across countries be compared? Smeeding uses, not market exchange rates but

“purchasing power parity” (PPP) exchange rates, which measure the relative strengths of currencies in purchasing a constant market basket of consumption goods. Fourth, how broad an income measure should one use in measuring a family’s available resources? Smeeding includes not only after-tax disposable income, but also government transfer payments.

The most novel and most challenging aspect of Smeeding’s analysis is its cross-country approach. Aside from dealing with the exchange rate issue, Smeeding and his associates have devoted considerable effort over the years to the collection of comparable data for the different countries. This work has been undertaken through the Luxembourg Income Study (in which Smeeding has played a central role).

To summarize Smeeding’s findings, by the year 2000 the United States was a clear outlier in many respects. It stood out in aggregate economic performance, with per capita GDP substantially higher than that of the next highest country (the Netherlands) and an unemployment rate that was substantially lower than all but one of the other countries (again, the Netherlands). But the U.S poverty rate also stood out. At 17.0 percent, the rate was substantially higher than the sample average of 9.8 percent, and much higher even than the second highest poverty rate in the group, the United Kingdom’s 12.3 percent. As in most of the other countries, poverty among the U.S. elderly has lessened over the past couple of decades as general poverty has declined (and poverty among households with children has increased), but the U.S. poverty rates in all subgroups stand well above the international average. In certain at-risk groups, the U.S. poverty rate is startlingly high, reaching, for example, 51.3 percent among children living in families with low-education parents.

Why is poverty so prevalent in the United States? Smeeding argues that government intervention, through the tax system, social insurance (i.e., universal transfer programs), and

social assistance (targeted transfer programs), is the main difference. Indeed, poverty rates based on market incomes alone are actually lower in the United States than in most of the other countries. But, taking market income as given, government interventions are estimated to reduce the poverty rate by 62 percent in the average country, but only by 28 percent in the United States. These measures do not provide precise estimates of the extent to which the programs actually reduce poverty, of course, because one cannot observe what market incomes would have been in the absence of government intervention. But the differences between the United States and all the other countries are nevertheless very suggestive.

Just as he identifies the lack of government intervention as a key factor in the high U.S. poverty rate, Smeeding dismisses the labor market as a source of the discrepancy between the U.S. and other developed countries. Indeed, as others have observed, the United States stands out for its high labor force participation rates and long workweeks. These patterns exist, not only in the aggregate population, but also among lower-income workers. Yet, many in the United States who work remain in poverty. For example, among single-parent U.S. families in which the household head works more than 1000 hours per year, 33 percent remain in poverty, while the figure is just 13.5 percent for the international average.

Given that the United States has a much higher average living standard than other countries, one might ask whether our high incidence of poverty, *relative* to our median income, really means that the poor are worse off, in an absolute sense. Here, the evidence is mixed. Comparing living standards among the poor – those in the tenth percentile – across countries, Smeeding finds that the U.S. poor, overall, have about the same income as those in the tenth percentile in other countries. But, among children living in one-parent families, the poor in the United States fare worse, even when an absolute standard is used.

Thus, poverty in the United States is widespread, though it is particularly acute in certain subgroups, such as single-parent families. Smeeding blames the outcome, especially in comparison to other countries, on a lack of effective government intervention, and argues that the United States can do considerably more to eliminate poverty.

In Chapter Five, “Income and Wealth Concentration in a Historical and International Perspective,” Emmanuel Saez provides another international comparison of incomes. Saez’s focus differs from Smeeding’s in a number of respects -- most importantly, Saez is concerned with activity near the top of the income distribution, rather than near the bottom. Economists have a number of reasons to investigate patterns in the concentration and composition of income and wealth among the rich, ranging from a wish to understand the role of entrepreneurship in economic growth to concerns about social cohesion and the distortions imposed by progressive taxation. During the last few decades of the twentieth century, increasing income dispersion in many countries, especially the United States, directed increased attention to the causes and consequences of concentrations of income and wealth, in some respects echoing concerns voiced a century earlier.

Saez also departs from Smeeding in the types of data sources used. A key finding of the cross-country research that Saez summarizes (much of which he has produced himself, independently and in collaboration with others) is that there is great heterogeneity among those at the very top. In particular, it is useful to disaggregate even within the top percentile of the income distribution, as patterns within the top 0.1 percent differ markedly from patterns among those in the “bottom” of the top percentile. Given how much of a country’s income and wealth may accrue even to those in the top 0.1 percent of the population, very fine groupings may be productive from a research perspective. But survey data are not very helpful for these purposes

because there is scant coverage of the very rich. Thus, following methods first developed in the 1950s by Kuznets, the line of research pursued by Saez uses statistics from income tax returns to measure the incomes of those at the top, and he compares these incomes to aggregate measures based on national accounts. To a lesser extent, the same methodology can be used to analyze wealth concentrations, using estate tax returns.

An advantage of using data from income tax returns is that, although income taxes have grown in their population coverage over time, they applied earliest to those with the highest incomes. Thus, one can look back several decades, to early in the twentieth century when income taxes were first established. A disadvantage is that any researcher is constrained by the components of income covered by the tax system, so that income intentionally or unintentionally excluded from the tax base (through tax evasion, for example) is not directly observable. Nonetheless, the research that Saez organizes and discusses has yielded rich time series for several countries that provide fascinating details on what the course of top concentrations of income and wealth during the twentieth century. These time series invite the formulation of hypotheses to explore the causes of these patterns.

Saez provides time series on top income shares since around World War I for six countries: the United States, Canada, the United Kingdom, France, the Netherlands, and Switzerland. In all countries except Switzerland, the patterns through the end of World War II are similar. First, there was a sharp decline in income concentration over this period, which Saez attributes to the successive shocks of the Great Depression and World War II. Second, this decline is largely attributable to a reduction in the concentration of capital income. Among those with the highest incomes, capital income has come to represent a much smaller share of income than was true a century ago. Switzerland, by contrast, did not experience a drop in its income

concentration, which Saez attributes at least in part to its avoidance of the World War II conflict. This prevented severe economic disruptions and reduced the sharp pressures for increases in progressive income taxation experienced by the other countries.

After World War II, the common trends of all the countries (excluding Switzerland) break down, with income concentration rising sharply in the “Anglo-Saxon” countries (the United States, Canada, and the United Kingdom), but not in the “Continental” countries (France and the Netherlands). This increase in concentration has brought the share of income in the top 0.1 percent of the population back up to levels not seen since World War I, at least for the United States. But the driving force this time is labor income, not capital income and, perhaps because it takes time for accumulations from labor income to translate into wealth, there has yet to be such a sharp rebound in the concentration of U.S. wealth.

How can one explain this divergence? One possible explanation is the significant declines in top marginal tax rates, which could have spurred not only increases in actual income, but also shifts in the composition of income towards components not subject to tax. This explanation is more plausible for the United States and the United Kingdom than for Canada, which managed to avoid significant reductions in top marginal tax rates. Saez argues that Canada’s proximity to the United States may have forced incomes up there as well, too, to keep mobile workers from leaving. But the timing of income increases in the United States does not match perfectly the changes in income tax rates, suggesting that the process may relate more to a long-term tax environment than to specific legislation or particular tax changes. This leaves open alternative, and possibly complementary explanations, such as changes in the strength of corporate governance that may have permitted surges in executive compensation.

If there is one “success story” in the area of poverty alleviation, it is the reduction in

poverty among the elderly that has been accomplished by old-age pension systems. As noted earlier in the discussion of Smeeding's international comparison of poverty, old-age poverty has been trending downward even as the frequency of poverty among children has been rising. Nowhere is this development more noticeable than in the United States, where the establishment and continual growth of the Social Security system has been given credit for a substantial decline in poverty among the elderly. But how much of this decline is due directly to Social Security, and how much to other factors that have increased economic well being over the same period? This is the question that Gary Englehardt and Jonathan Gruber address in Chapter Six, "Social Security and the Evolution of Elderly Poverty."

As Englehardt and Gruber note, the drop in the U.S. poverty rate among the elderly has been very rapid, from 35 percent in 1960 to 10 percent in 1995, from a rate more than twice that of the non-elderly population to a rate lower than that of the non-elderly population. But there have been many other changes over time as well that could also have exerted important influences on elderly poverty -- in the labor market, living arrangements, health status, private and pension saving, and so forth. How is one to determine the separate impact of Social Security? Here, an unintentional variation in policy -- a temporary mistake in the structure of Social Security benefits during the 1970s -- has provided us with a quite powerful large-scale experiment.

As the United States moved to a regime in which Social Security benefits were indexed for inflation, the indexation scheme initially implemented was inadvertently structured so that recipients' *real* benefits actually rose with inflation, the result of a "double-indexing" of nominal benefits. This mistake was soon corrected in 1977, but not before real benefits among those retiring had risen sharply. To deal with the political difficulty of cutting benefits that had

resulted from this windfall, the government allowed those born prior to 1917 – those who, roughly, had already reached the early retirement age of 62 – to keep the higher level of benefits. Those born after 1921 received benefits based on the corrected formula, with a transition from higher to lower benefits being implemented for those in the transition birth cohort, born between 1917 and 1921 – the so-called “notch” cohort. Because the full, large swing in real benefits applied to generations born just six years apart, and because the changes related only to birth year, the variation in benefits can be used to distinguish the effects of changes in benefit *rules* from other contemporaneous changes.

Using as their measure of poverty an income below 40 percent of the median income among the non-elderly, adjusted for family size, Gruber and Englehardt estimate the impact of Social Security benefits on the incidence of poverty among different subgroups of the elderly over time. Because actual benefits also may have changed as a result of behavioral changes, such as variations in labor force participation, the authors construct an instrument for benefits by calculating the benefits that would have been received in each birth cohort by an individual with the work history and real income profile of a median male earner born in 1916. Using this instrument for actual Social Security benefits, and a number of other controls (such as education) that one would also expect to matter, the authors estimate the impact of changes in Social Security benefits on the poverty rate.

The results, although varying by specification, are very strong, suggesting an elasticity of around one – a decline of ten percent in the poverty rate for each ten-percent increase in the level of benefits. This responsiveness is large enough to explain *fully* the drop in elderly poverty between 1967 and 2000, when the poverty rate fell by more than half. Interestingly, the effect is larger for elderly *families*, defined as families headed by elderly persons, rather than for elderly

households, defined as households in which elderly families live. As Gruber and Englehardt discuss, this difference can be reconciled by the fact that changes in benefits also influence living arrangements, with higher incomes making it more likely for the elderly to live alone rather than with children or with other non-elderly relatives. To the extent that choices to live alone are voluntary, the apparent increase in household poverty associated with living alone biases downward the observed impact of increased benefits on poverty.

Thus, increases in Social Security benefits have had a powerful effect on the elderly poverty rate and have altered living arrangements as well. The impact of these benefit increases on other aspects of behavior, such as labor force participation, has been considered in earlier work, but Gruber and Englehardt identify a further important question to be addressed by future research: How has this poverty alleviation affected consumption and other, broader, measures of well-being.

A key element of well-being is health. This is particularly so among the elderly, for whom significant health problems are common, for whom health expenditures are very large, and among whom health status and life expectancy vary considerably. In Chapter Seven, “The Measurement and Evolution of Health Inequality: Evidence from the U.S. Medicare Population,” Jonathan Skinner and Weiping Zhou analyze trends in health care spending and outcomes in the U.S. elderly population, considering how these measures have varied by income level over time. They analyze variations in access to health care and the effectiveness of the U.S. health care system by income class. They analyze changes in these measures over time, especially with the development of the Medicare system.

Skinner and Zhou do not have information on health measures and income by individual, so they use instead observations grouped by postal code. That is, they classify U.S. zip codes by

average income, and consider how their health measures vary by neighborhood income. A more significant problem is that there are no perfect measures of health care access and effectiveness.

One simple measure is health care expenditures per capita. Although Skinner and Zhou do not have direct observations on expenditures, they do observe Medicare expenditures per capita, which accounts for a large share of health care spending for the elderly. But, of course, health care spending is not a direct measure of either access or effectiveness. Spending may be higher for one group simply because that group is sicker, or because prices vary geographically. Moreover, as Skinner and Zhou suggest, some increases in health care spending may be of little benefit to those on behalf of whom the spending is made.

If not all increases in health care spending translate into increased health care outcomes, then why not look directly at outcomes instead? Skinner and Zhou do this as well, considering how life expectancy has changed over time among different income groups. But here, too, there are problems in relating the measure to the question of health care access and effectiveness, because other factors may lead to variations in mortality, including individual choices such as diet and lifestyle as well as local environmental conditions.

Thus, in addition to analyzing the “inputs” and “outputs” of the health care system, Skinner and Zhou consider a third type of variation in the access and effectiveness of the health care system, namely, the penetration of significant medical technologies. Given the rapid technological progress in health care, it is often the case that different generations of technology coexist for serious medical conditions, the newest and most effective treatments gradually forcing out older, less effective ones. In some cases, however, the new treatments are deemed so effective, relative to cost, that they should be used on the entire population for which they are applicable, i.e., they are simply dominant technologies. In the words of Skinner and Zhou, “the

target rate approaches one hundred percent regardless of income or demographic group.” Lack of usage, then, indicates a failure of the health care system to provide access to the most effective care, and this fact can be used to gauge how well the health care system performs, at least in one dimension.

The use of these three approaches proves useful, because the resulting trends differ. If one considers trends in Medicare spending, then it appears that Medicare growth has effected a remarkable redistribution of resources to the poor elderly over time. Between 1987 and 2001, Medicare spending grew rapidly for all income groups, as did medical spending for the U.S. population as a whole. But spending among the lower income groups among the elderly grew especially fast, so that the dollar change in spending per capita in the lowest income decile *exceeded* that in the highest decile by \$1410, a number nearly as large as the *total* increase in median household income over the same period and larger than the average *level* of per capita benefits from the EITC, a major income support program for the working poor.

But this apparently huge transfer of health care resources to the poor stands in stark contrast to the trend in survival probabilities, which shows a much greater improvement among higher-income groups. Comparing ten-year survival rates in 1992 to those in 1982, Skinner and Zhou estimate find a 0.2-year increase in the bottom decile, a 0.5-year increase in the fifth decile, and a 0.8-year increase in the top decile – a large divergence over so short a period.

It is hard to know how much of the differing trends in inputs (spending) and outputs (life expectancy) is due to trends in other, unmeasured inputs (e.g., diet or exercise) and how much is due to the variations in the effectiveness of health care spending. Skinner and Zhou’s results do suggest that a large part of the surge in Medicare spending on home health care was wasteful. This brings them to their third measure of health care access and effectiveness, the penetration of

cutting edge treatments. Here, the results are mixed. They find that individuals in lower-income deciles are less likely to be exposed to leading technologies, with limited evidence that this gap has diminished over time. However, they conclude that these differences, alone, would account for only a very small fraction of observed differences in mortality.

In Chapter Eight, Stephen Raphael provides a sobering assessment of the importance of incarceration in explaining differences in the incomes and labor force attachment of black and white males. Raphael's chapter, "The Socioeconomic Status of Black Males: The Increasing Importance of Incarceration," documents the alarming trends in incarceration rates among African Americans. Using data from the public use samples of the last four decennial censuses, Raphael estimates that the fraction of employed black males declined from 73 percent in 1970 to 57 percent in 2000; for black high school drop outs, the employment rate declined from 71 percent to 34 percent.

At the same time, the proportion of black males institutionalized increased from 3 to 8 percent. For high school drop outs, the proportion increased from 4 to 19 percent. For black high school drop outs between 26 and 30 years of age, the fraction incarcerated increased from 6 percent in 1970 to 34 percent in 2000.

Of course, these static estimates of the prison population substantially underestimate the fraction of prime age males with a record of conviction and jail time. Raphael makes use of administrative records on all prison terms served in California prisons in the 1990s to estimate the likelihood that individuals of differing sociodemographic characteristics have served a term in prison during the previous decade. For white high school dropouts between 45 and 54 years of age, Raphael estimates that 17 percent have served a prison term in the past decade. For blacks the estimate is 90 percent.

As Raphael observes, “for black high school drop outs, serving time in prison is virtually a certainty.” Raphael then goes on to estimate the effect of incarceration on the labor market prospects of workers -- estimating the time lost from other labor market activities and the effects of the stigma of a prison record on the employability of workers.

Finally Raphael’s empirical analysis suggests the extent to which the large differential in black-white employment rates can be attributed to the much higher involvement of blacks with the criminal justice system. His estimates make sobering reasoning, and his projections suggest that the proportion of black males with criminal records will increase -- even if current incarceration rates remain unchanged.

Raphael’s analysis suggests that policies about sentencing, in particular differential sentences for apparently similar behavior (i.e., trafficking in powdered or crystallized cocaine) and the extent of judicial discretion are relevant. Importantly, prisoner re-entry programs, largely absent, appear to be crucial to reducing the labor market consequences of the criminal justice system.

The final chapter in this volume, by Dora Costa and Matthew Kahn, provides a historical analysis of public assistance in large U.S. cities during the early twentieth century. This was the era in which the United States was spending twice as much on hospitals and health as it was on public transfers, poor relief and welfare. Costa and Kahn argue that the public infrastructure investments in reducing mortality during the period between about 1910 and 1930 represented “the foremost public policy success of the twentieth century.”

Costa and Kahn begin by investigating the determinants of state and local generosity in public programs in the early twentieth century. Analyzing data from large U.S. cities in 1907 and in 1930, the authors reach conclusions contrary to those found in research on more recent

periods: localities with more minorities and immigrants appeared to be more likely to support redistributive expenditures than homogeneous cities. They attribute this, not to changes in altruism over time, but rather to the more heightened possibilities for contagion and epidemics at the turn of the last century.

Costa and Kahn investigate a historical version of the “welfare magnet” hypothesis, that immigrants were attracted to cities with more generous redistribution policies. They find little support for this in the historical record. They also investigate whether public spending “crowded out” private philanthropy, finding some support for a substitution between private and public provision of redistributive activities.

Costa and Kahn report an extensive series of tests to establish whether these public expenditures “mattered” in improving the health of the populations benefiting from them. The authors present two kinds of evidence -- micro data from the 1910 and 1940 censuses, and aggregate data for cities. They study mothers’ expected experiences with infant deaths and child mortality -- finding significant effects of spending upon outcomes for whites and little or no effects for blacks. Public expenditures, sewer connection, and health examinations had important effects on mortality, at least for whites, in the first third of the twentieth century.

In summary, this book’s chapters provide a very broad perspective on the role played by government policy in affecting the distribution of income and the prevalence of poverty. While much of the focus is on the United States today and in recent times, there are valuable lessons to learn from experiences in other countries and from our own history.

A number of conclusions are evident. First, the problems of poverty, particularly among certain groups in the population, have not disappeared with growing affluence and cannot be expected to do so in the future. Second, for a variety of reasons, even extensive policy

interventions do not ensure success at poverty reduction. At the same time, though, one can identify clear evidence of successful intervention, from such policy endeavors as improved sanitation, welfare reform, and the expansion of public pensions. The continuing study of successes and failures will help inform future decisions in this most critical area of public policy.