Chapter 5

Combating Poverty in a Prosperous Economy

. . . the policy of the United States [is] to eliminate the paradox of poverty in the midst of plenty in this Nation by opening to everyone the opportunity for education and training, the opportunity to work, and the opportunity to live in decency and dignity.

FOR OVER 4 YEARS the United States has had an explicit national commitment to eliminate poverty in our society, a commitment enunciated by the President in the State of the Union Message of 1964 and confirmed by the Congress in the above words later that year in the Fconomic Opportunity Act.

Americans are increasingly prosperous. Median family income in the United States (in constant 1967 prices) rose from $6,210 in 1959 to $7,974 in 1967, a gain of 28 percent in 8 years. Yet many families are still not able to attain minimum living standards. A preliminary estimate indicates that in 1968 about 22 million people lived in households with incomes below the "poverty line." While this is far fewer than in the past—more than 40 million were similarly situated in 1960—too many Americans remain poor.

This chapter examines the recent progress in reducing poverty, the nature of the task that remains, and the strategies available for eliminating poverty.

THE EXTENT OF POVERTY

A family is "poor" if its income is insufficient to buy enough food, clothing, shelter, and health services to meet minimum requirements. Universally acceptable standards for determining these minimum needs are impossible to formulate since the line between physical necessities and amenities is imprecise.

The social and psychological aspects of poverty further complicate efforts to measure poverty. As average incomes rise, society amends its assessment of basic needs. Individuals who cannot afford more than a small fraction of the items enjoyed by the majority are likely to feel deprived. Consequently, an absolute standard that seems appropriate today will inevitably be rejected tomorrow, just as we now reject poverty definitions appropriate a century ago.

DEFINITION OF POVERTY

Even a rough measure of progress in reducing poverty requires an explicit definition, although the line drawn is unavoidably arbitrary. In its 1964 Annual Report, the Council used a poverty line of $3,000 annual family income. Since 1965, the Council has employed the more refined definition of poverty developed by the Social Security Administration (SSA).

The SSA poverty lines reflect the differing consumption requirements of families based on their size and composition, the age of members, and whether their residence is farm or nonfarm. The calculations center around the U.S. Department of Agriculture's Economy Food Plan, which in December 1967 added up to a per capita weekly food outlay of $4.90. For families of three or more, the SSA measure assumes all other family needs can be obtained for an amount equal to twice the family's food requirement. In 1967, the nonfarm poverty threshold for an average four-person family was $3,335 as compared to a median income, for families of that size, of $8,995. Poverty lines for different types of households are shown in Table 14.

The problems of low-income families neither begin nor end at any arbitrary poverty line. A sharp decline in poverty may be a misleading indicator

TABLE 14.—*Poverty and near-poverty income lines, 1967*

Household characteristic [1]	Poverty income line	Near-poverty income line
Nonfarm households:		
1 member	$1,635	$1,985
65 years and over	1,565	1,890
Under 65 years	1,685	2,045
2 members	2,115	2,855
Head 65 years and over	1,970	2,655
Head under 65 years	2,185	2,945
3 members	2,600	3,425
4 members	3,335	4,345
5 members	3,930	5,080
6 members	4,410	5,700
7 members or more	5,430	6,945
Farm households:		
1 member	1,145	1,390
65 years and over	1,095	1,330
Under 65 years	1,195	1,450
2 members	1,475	1,990
Head 65 years and over	1,380	1,870
Head under 65 years	1,535	2,075
3 members	1,815	2,400
4 members	2,345	3,060
5 members	2,755	3,565
6 members	3,090	3,995
7 members or more	3,790	4,850

[1] Households are defined here as the total of families and unrelated individuals.

Note.—Poverty and near-poverty income standards are defined by the Social Security Administration; they take into account family size, composition, and place of residence. Income lines are adjusted to take account of price changes during the year.

Source: Department of Health, Education, and Welfare.

of progress if a large number of families are raised just above the poverty line. Accordingly, the SSA has also developed a "near poor" standard averaging about one-third higher than the poverty line but still less than one-half of median income for many types of families. Near-poor income standards are shown in Table 14.

The SSA poverty definitions have some limitations. Since they are multiples of food costs, the poverty lines change only when food prices change, and these prices do not necessarily parallel the prices of other essentials. Regional differences in living costs are not reflected in the poverty line. The income data take no account of income in kind such as health care, subsidized housing, and foodstuffs (except for food grown on farms). No adjustment is made for either net assets or fluctuating incomes, and yet families with savings or temporary income interruptions have different problems than the chronically poor.

These problems are currently under study in an effort to refine the poverty concept. A different threshold could affect the distribution of measured poverty among various groups but would probably show much the same trend in total poverty over the long run.

POVERTY TRENDS

With the general rise in family incomes in the postwar period, the incidence of poverty—the percentage of persons in poor households relative to the total population—has declined sharply from 30 to less than 12 percent (see Chart 10). The number of persons in poverty declined about 20 million over the past 20 years, including a drop of 12 million since 1963—an estimated 4 million in 1968 alone.

Along with the reduction in the number of poor households, the "poverty gap"—the difference between the actual incomes of the poor and the incomes necessary to place them above the poverty line—has been reduced. The poverty gap fell from $13.7 billion in 1959 to $9.7 billion in 1967, measured in current dollars.

Distribution by Community Type

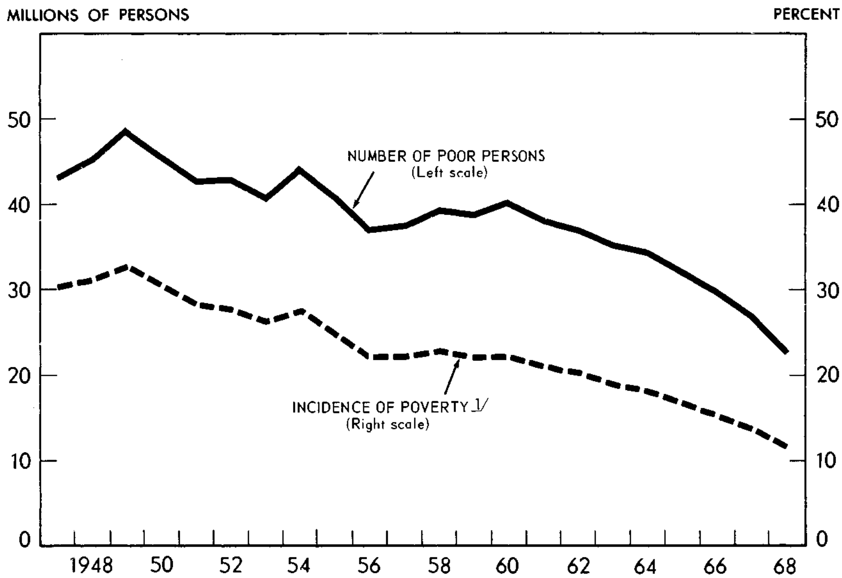
The incidence of poverty is highest—23 percent—in those rural areas not in metropolitan counties, with the heaviest concentrations in the South and Appalachia. The incidence is also quite high—19 percent—in the smaller cities and towns outside of major metropolitan areas. In the central cities, the incidence is 16 percent and in their suburbs about 9 percent.

Racial and Ethnic Distribution

Most of the poor are white. In 1967 (the latest year for which detailed data on the poor are available), 71 percent of all poor families and 83 percent of all poor unrelated individuals were white. The incidence of poverty

Chart 10

Number of Poor Persons and Incidence of Poverty



1/ POOR PERSONS AS PERCENT OF TOTAL NONINSTITUTIONAL POPULATION.

NOTE.—POVERTY IS DEFINED BY THE SOCIAL SECURITY ADMINISTRATION POVERTY-INCOME STANDARD.

SOURCES: DEPARTMENT OF COMMERCE, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE, OFFICE OF ECONOMIC OPPORTUNITY, AND COUNCIL OF ECONOMIC ADVISERS.

is far higher among nonwhites: about one household in three compared with about one in seven among whites.

Of the 2.4 million nonwhite households in poverty, 2.3 million are Negroes; the remainder are mostly the original Americans—Indians and Eskimos. A 1964 survey revealed that 74 percent of the 55,000 families living on Indian and Eskimo reservations had incomes under $3,000.

Only recently has the reduction of poverty among nonwhites matched the reduction among whites. Between 1959 and 1962, the number of whites in poverty declined 2.8 million, but during the same period the number of poor nonwhites rose by 0.9 million. Between 1962 and 1967, white poverty was reduced another 7 million or about 28 percent, while poverty among nonwhites fell by 3.2 million—also about 28 percent.

The relative position of nonwhite families, after deteriorating in the late 1950's, has improved since 1961. (See Appendix Table B–20.) Only since 1966 has nonwhite median family income as a fraction of white median family income surpassed its previous peak of 57 percent in 1952. Unemployment among nonwhite men age 25 to 54 has recently fallen below 1951–53 levels, but unemployment rates for nonwhite women and nonwhite teenage males are much higher than during the early 1950's.

Most poor white families in the United States are not members of identifiable ethnic groups; however, two groups—Mexican-Americans, living largely in southwestern States, and Puerto Ricans, concentrated in New York City—exhibit disproportionately high incidences of poverty. In 1966, unemployment rates among Mexican-Americans in southwestern cities ranged between 8 percent and 13 percent, two to three times the national average. Subemployment—the sum of unemployment, employment producing earnings too low to provide an escape from poverty, and nonparticipation in the labor force by individuals who have given up hope of finding work—ranged from 42 to 47 percent in the Mexican-American sections of southwestern cities. And while Puerto Ricans constitute only about 8 percent of the New York City population, they have been estimated to represent over one-third of the recipients of welfare and about one-third of all occupants of substandard housing.

STRATEGIES FOR REDUCING POVERTY

A program for reducing poverty has four principal economic dimensions.

First, sustained high employment and economic growth—key objectives of economic policy for a wide variety of reasons—are prime essentials.

Second, education, training, medical assistance, and access to well-paying jobs are needed by many of the poor to escape from chronic unemployment and low-paying dead end jobs.

Third, three-fifths of the heads of poor households cannot easily enter the labor force because of age or disability, or because they are mothers with sole responsibility for the care of young children. Some workers with large families are not likely—even with training and other types of employment assistance—to earn an income sufficient to pull their families out of poverty. Because increased employment opportunities will not eliminate poverty among these groups, some form of income maintenance is required.

Fourth, poverty is concentrated in "pockets"—city "ghettos" and certain rural areas. The numbers of poor in poverty pockets can be reduced by promoting public and private investment in these communities and by providing relocation assistance to those with employment opportunities elsewhere.

In addition to economic policies, social and psychological strategies have an important role to play. These include information about family planning for those who request it, legal assistance, and the encouragement of self-help organizations. Such programs lie outside the purview of this Report.

PROSPERITY AND THE REDUCTION OF POVERTY

Virtually all the progress in reducing poverty over the past 20 years has occurred during periods of general prosperity. In three periods of sustained economic expansion—1949–53, 1954–56, and 1961 to the present—

the annual decline in the number of individuals in poverty averaged two million or more a year. In contrast, during recessions the number of poor people has increased. The brief recession of 1954 wiped out half of the gains of the preceding 4-year expansion, and several successive years of sluggish economic performance in the late 1950's increased the number of persons in poverty to about the level of 7 years earlier. (See Chart 10.)

EFFECTS OF PROSPERITY

Poor families are affected unequally by economic growth and high employment, depending upon their ability to take advantage of expanded employment opportunities. Recent trends in poverty reduction for different groups are shown in Table 15.

Households with Heads of Working Age

Economic expansion has caused significant reductions in poverty among households headed by a working-age man. Tightening labor markets raise wages for the poor who are employed, and provide better employment opportunities for the unemployed and for those with very low-paying or part-time jobs. Furthermore, when prosperity pushes unemployment rates to low levels among skilled workers, business is more inclined to train poorly qualified workers for skilled jobs. From 1964 to 1966, the number of poor households headed by a working-age man with work experience fell 400,000 a year; in contrast, there had been no decline from 1959 to 1961.

The number of poor households headed by a working-age woman with job experience has not changed during the 1960's. The decline in the incidence of poverty among this group reflected a rise in the total number of households headed by working-age women.

Prosperity is less effective in reducing poverty among households headed by women for several reasons. Women are far less likely to be employed than men; only about three-fifths of the women who head families have some job experience, compared to about 90 percent for male family heads. Many women who head families, being the adult solely responsible for young children, are unable to accept full-time employment unless day care is provided for their children. Furthermore, women are far less likely to escape poverty even if they do work, because their employment is less steady and they earn lower wages. Nonwhite families are more than twice as likely—and white families are more than three times as likely—to be poor if headed by a woman than if headed by a man.

Elderly Households

During the 1960's, the number of poor elderly households fell slightly, while the incidence of poverty among this group decreased substantially. High employment has some immediate effect on poverty among the aged

TABLE 15.—*Number of poor households and incidence of poverty, selected years, 1959–67*

Characteristic of head of household	1959	1961	1964	1966[1] Originally published	1966[1] Revised	1967
	Millions					
Number of poor households:[2]						
Total	13.4	13.0	11.9	10.9	10.7	10.2
Head 65 years and over	3.9	3.9	3.8	3.9	4.0	3.8
Unrelated individuals	2.5	2.5	2.8	2.7	2.7	2.7
Families[3]	1.4	1.3	1.1	1.2	1.2	1.1
Head under 65 years	9.4	9.1	8.0	7.0	6.8	6.4
Unrelated individuals	2.6	2.4	2.3	2.1	2.1	2.2
White	1.9	1.8	1.8	1.6	1.6	1.6
Male	.6	.6	.6	.5	.6	.5
Female	1.3	1.2	1.2	1.1	1.0	1.1
Nonwhite	.7	.7	.5	.5	.5	.5
Male	.3	.3	.2	.2	.2	.2
Female	.4	.4	.3	.3	.3	.3
Families[4]	6.8	6.7	5.7	4.9	4.7	4.2
White	4.9	4.7	4.0	3.3	3.1	2.8
Male	3.8	3.7	3.0	2.3	2.2	2.0
Female	1.1	1.0	1.0	1.0	.9	.8
Nonwhite	1.9	2.0	1.7	1.6	1.5	1.4
Male	1.3	1.3	1.1	.9	.9	.7
Female	.6	.7	.6	.7	.7	.7
	Percent					
Incidence of poverty:[5]						
Total households[2]	24.0	22.6	19.9	17.8	17.5	16.2
Head 65 years and over	48.6	43.8	40.0	38.5	38.9	36.3
Unrelated individuals	68.1	64.4	59.9	55.3	56.3	53.4
Families[3]	32.5	27.2	21.6	23.0	23.1	20.3
Head under 65 years	19.8	18.8	16.0	13.7	13.3	12.2
Unrelated individuals	36.8	33.9	31.0	28.3	28.7	27.0
White	32.9	29.7	28.3	25.8	25.5	24.4
Male	24.6	22.8	22.0	20.1	21.0	18.0
Female	39.1	35.2	33.0	30.0	28.8	29.0
Nonwhite	54.8	55.0	45.1	41.7	45.3	40.1
Male	47.1	45.5	34.6	29.1	35.5	29.4
Female	63.5	66.8	58.1	54.1	55.1	51.7
Families[4]	16.8	16.1	13.3	11.2	10.6	9.5
White	13.4	12.6	10.4	8.4	7.9	7.1
Male	11.4	10.7	8.5	6.5	6.1	5.4
Female	35.9	33.9	31.2	29.1	27.9	25.3
Nonwhite	48.6	47.8	27.8	34.3	33.4	29.9
Male	42.1	40.2	32.3	25.9	25.1	20.9
Female	71.3	72.8	62.4	61.2	60.3	54.9

[1] The revised estimates differ slightly from those originally published because of the use of a somewhat different estimating procedure. For an explanation of the two methods, see "Current Populat.on Reports Series P–60, No. 54."
[2] Households are defined here as the total of families and unrelated individuals.
[3] Consists only of two-person families whose head is 65 years or over. All other families included in "head under 65 years."
[4] All families other than two-person families whose head is 65 years or over.
[5] Poor households as percent of total households in the category.

Note.—Poverty is defined by the Social Security Administration poverty-income standard; it takes into account family size, composition, and place of residence. Poverty-income lines are adjusted to take account of price changes during the period.

Detail will not necessarily add to totals because of rounding.

Sources: Department of Commerce and Department of Health, Education, and Welfare.

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by providing more jobs for elderly individuals wishing to continue work. This opportunity is particularly important for those with retirement income below the poverty line.

Over the longer run, prosperity permits more workers to accumulate assets and to achieve higher pension rights prior to retirement. At present, an individual earning the minimum wage and working full-time in a job covered by social security is entitled to old-age benefits of approximately $120 a month upon retirement—only about $10 a month below the poverty line.

Reflecting both the higher lifetime earnings of the aged and statutory improvements, social security retirement benefits have increased greatly and have been the most important factor in reducing poverty among the elderly. Since 1961, legislation has increased social security retirement benefits 21 percent across the board,—substantially greater than the increase in consumer prices. The minimum benefit increased 37 percent.

The Disabled

The ill and disabled have benefited least from recent prosperity and other efforts to alleviate poverty. Although the *incidence* of poverty among households whose heads are under 65 and not working for health reasons fell from 1959 to 1967, the *number* actually rose. Some disabled can be retrained, and these individuals can obtain jobs more readily when unemployment is low. But many who are ill or disabled cannot take advantage of job opportunities.

The Near-Poor

Table 16 shows the number of households and the number of persons who were in the near-poor category in 1959 and 1967.

The compositions of the poor and the near-poor categories differ considerably. Most striking is the difference in the proportion of nonelderly households headed by a working-age woman. These households account for 46 percent of all nonelderly poor households; among the near-poor, they account for 22 percent. Except for the elderly, most near-poor families are headed by men who are employed, but at low wages.

The number of near-poor showed a considerable decline between 1959 and 1967. Many who rose from poverty were added to the near-poor, but at the same time an even larger number of the former near-poor moved to a higher income level.

PROSPECTS FOR FURTHER PROGRESS

As indicated above, prosperity has played a key role in reducing poverty and is essential to further progress. But sustained growth and high employment—in the absence of other more direct efforts to help the poor—cannot maintain the recent rate of decline in poverty.

TABLE 16.—*Number of near-poor households and incidence of near-poverty by age and sex of head of household, 1959 and 1967*

Age and sex of head of household	Number (millions)		Incidence of near-poverty (percent)[1]	
	1959	1967	1959	1967
Near-poor households[2]	4.3	3.7	7.7	5.9
Families	3.8	2.9	8.3	5.8
Head 65 years and over[3]	.7	.8	15.2	14.0
Head under 65 years[4]	3.1	2.1	7.6	4.8
Male head	3.4	2.4	8.4	5.5
Female head	.4	.5	8.2	8.7
Unrelated individuals	.5	.8	5.1	6.0
Head 65 years and over	.2	.5	6.1	9.1
Head under 65 years	.3	.3	4.6	4.0
Male head	.2	.3	5.5	5.8
Female head	.3	.5	4.9	6.1
Addendum: Near-poor persons	15.8	12.0	9.0	6.1

[1] Near-poor households as percent of total number of households in the category; near-poor persons as percent of total persons.
[2] Households are defined here as the total of families and unrelated individuals.
[3] Consists only of two-person families whose head is 65 years or over. All other families included in "head under 65 years."
[4] All families other than two-person families whose head is 65 years or over.

Note.—Near-poverty is defined by the Social Security Administration near-poverty-income standards; it takes into account family size, composition, and place of residence. Near-poverty-income lines are adjusted to take account of price changes during the period.
Detail will not necessarily add to totals because of rounding.

Sources: Department of Commerce and Department of Health, Education, and Welfare.

If the 1961–68 reductions in the number of poor persons could be continued, poverty would be eliminated entirely in about 10 years. If the record of 1968 could be continued, poverty would be eliminated in about 5½ years. Maintenance of these rapid reductions will become increasingly difficult because, as poverty declines, an increasing fraction of the remaining poor are members of households whose economic status is least affected by prosperity. Households headed by women with children, disabled persons, or elderly persons accounted for 6.0 million or 59 percent of all poor households in 1967.

Much of the progress in the 1960's has been due to the lowering of the unemployment rate. As that rate fell, further declines were increasingly effective. The hard-core unemployed, the educationally disadvantaged, and the victims of discrimination are the last to be hired during a return to high employment and the first to be fired during a slowdown. Upgrading the unskilled and uneducated to fill shortages in skilled labor takes time. Consequently, if high employment is maintained, these adjustments will continue to reduce poverty, but their effects will gradually diminish. In the absence of increased direct assistance to the poor or further reductions in unemployment, present annual declines in poverty must be expected to become smaller.

The elimination of poverty will be long in coming if the incomes of the poor grow only at the same pace as the incomes of other households. If the real income (including transfer payments) of each poor household were to grow at 3 percent a year—approximately the average gain for all households during normal conditions of economic growth—eliminating only half of poverty would take 12 years for poor families and 17 years for unrelated individuals. To shorten substantially the period needed to reduce poverty, the incomes of the poor must grow faster than average income—some redistribution to the poor must be made from the benefits of growth.

INCOME DISTRIBUTION

Only a relatively small redistribution of the benefits of growth is needed to speed greatly the reduction in poverty. If the approximately 85 percent of households that are not poor and receive about 95 percent of total income are willing to make only a small sacrifice of the estimated 3 percent yearly growth in their real income per capita, the prospects for poverty reduction can be greatly transformed. If the increase in real income for the nonpoor is lowered merely from 3 percent to 2½ percent a year and if that differential of about $2.8 billion annually is effectively transferred to those in poverty, then family incomes for those now poor can grow about 12 percent annually. This redistribution would eliminate the 1967 "poverty gap" of $9.7 billion in less than 4 years. Since any program of redistribution would be likely to reach some of the near-poor and might raise some poor families substantially above the poverty line before others are affected, perhaps a better projection of the time required would be 6 to 8 years.

The rapid reductions in poverty during the 1960's paralleled a significant rise in the share of total family income going to the lowest income groups. In part, this shift in distribution has been accomplished by increased employment of poor adults at higher wages.

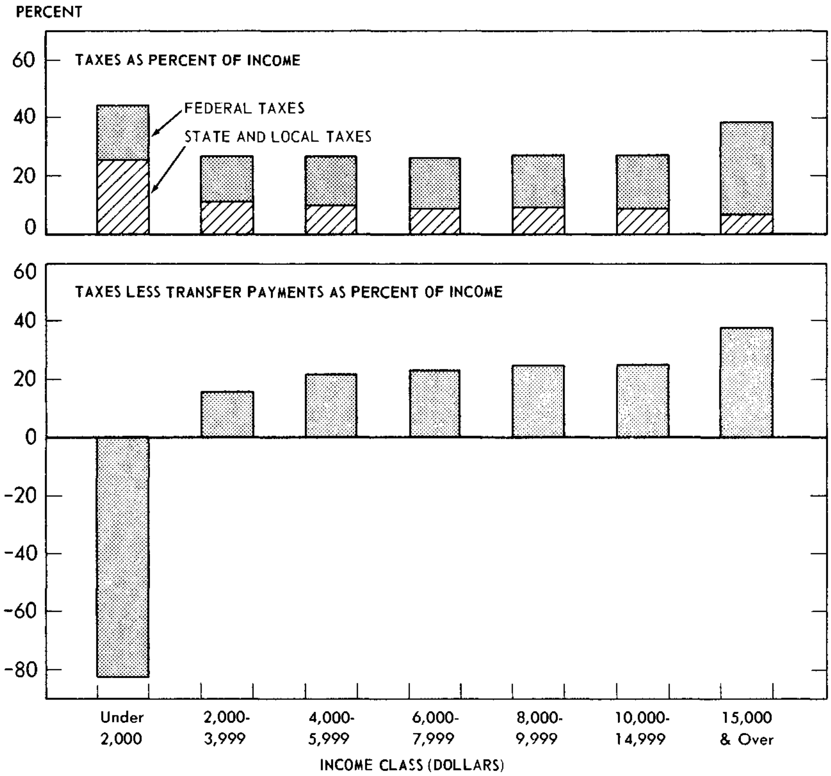
The combined effect of the tax and transfer payment systems at all levels of Government also operates to redistribute income to the poor. The net gain or burden from the public sector for any group depends on the difference between all the benefits received from government expenditures and all the taxes paid. Many programs—like national defense—have benefits that are difficult to allocate by groups; however, the benefits of transfer payments—such as social security benefits, welfare payments, and unemployment compensation—can be allocated and compared with the tax burden. The impact of Federal, State, and local taxes and of transfer payments on the distribution of income in 1965 is shown in Chart 11.

The tax system by itself redistributes income away from the poor. As a share of income, higher taxes are paid by households in the lower income classes than by those with incomes between $6,000 and $15,000. This reflects the heavy tax burden on low-income families from State and local taxes—primarily sales, excise, and property taxes. Federal taxes also contribute to this burden through the social security payroll tax.

The poor receive nearly as much from transfer payments as from all other

Chart 11

Taxes and Transfer Payments as Percent of Income (Excluding Transfers), by Income Class, 1965



SOURCE: COUNCIL OF ECONOMIC ADVISERS, BASED ON DATA FROM A VARIETY OF SOURCES. DESCRIPTION AVAILABLE ON REQUEST.

sources. While these payments do not go exclusively to the poor, they do have a powerful redistributive impact. The ratio of receipts to household income (excluding transfers) is very high in the lowest income classes. As household incomes rise, the proportion of transfers to other income falls sharply.

When government transfer payments and taxes are combined, the concentration of transfer payments in the lower income groups much more than offsets their tax burden. But since average transfer payments fall rapidly as income rises, the excess of taxes over transfer payments as a fraction of income rises much more sharply from $0 to $4,000 than in higher income classes.

EDUCATION, JOBS, AND TRAINING

Education and training measures can improve job opportunities for the poor and their children.

EDUCATION AND POVERTY

Education can help prevent the children of the poor from remaining poor when they grow up. They are already better schooled than their parents. About three-fourths of poor youths between 16 and 21 either are attending school or are high school graduates, whereas more than half of their parents had no high school education. Yet these youths still have less schooling than their more fortunate contemporaries, 90 percent of whom are in school or are high school graduates.

Although most poor children of all ages are now in school, inferior facilities and poorly qualified teachers lower the value of the education many of them receive. Even schools equivalent to those of the prosperous would not yield equal education. Poverty imposes handicaps that children of more prosperous families do not have.

Children of the poor are less likely to receive good health care and good nutrition, both of which affect success in school. They are also less likely to receive the verbal and intellectual stimulation in their early years that prepares them to master school work. They start school somewhat behind other youngsters, and they receive less parental assistance. Since school does not meet the challenge of helping them catch up, it becomes a place of defeat, leading many to drop out.

Poor children from minority groups suffer another handicap, segregation. More than 60 percent of all Negro pupils in the first grade attend elementary schools in which at least 90 percent of the students are Negro. Not only are facilities and instruction inferior in many of these schools, but studies of educational performance suggests that segregation itself has an adverse effect on school performance.

If poor children are to have equal opportunity to compete successfully for good jobs, they need special help in the preschool years. They also need compensatory education, with expenditures exceeding those made on other pupils. Finally, they need financial help and other encouragement to stay in school and continue their education.

Major efforts have been made to upgrade education provided children of the poor in programs such as the Elementary and Secondary Education Act, the Economic Opportunity Act, and the Vocational Education Amendments of 1968. Head Start, Title I of the Elementary Education Act, and Follow Through are comprehensive programs, combining health care, nutrition, and the involvement of the child's family, as well as education. Most of these special Federal efforts have been in operation for 3 years or less. While too little experience has been gained to allow a full evaluation, enough positive results are evident to justify continuing the programs.

HIRING STANDARDS

Poverty is perpetuated by hiring standards that arbitrarily discriminate against the disadvantaged.

Racial Discrimination

The persistence of racial discrimination in hiring frustrates the efforts of nonwhites to realize full returns from schooling and discourages the young from remaining in school. For example, a larger portion of white male *dropouts* 16 to 21 years of age secure skilled and semiskilled jobs than nonwhite males who *graduate* from high school, and the average earnings of nonwhite high school *graduates* are lower than those of white *dropouts*.

Attacks are being made on discrimination in higher level occupations, although most of the initial progress is in clerical jobs. The public sector has a better record than the private sector in eliminating discrimination in hiring. For example, 20 percent of the Federal and municipal white collar workers in metropolitan New York City are Negro. In contrast, Negroes hold only 6 percent of the white collar jobs in large private firms in New York City.

Restrictive Hiring Practices

Arbitrary hiring standards and customary employment practices, as well as outright racial discrimination, curtail work opportunities. During World War II, industry successfully adjusted standards and restructured work patterns to fit jobs to the level of workers' skills.

All too often, recruitment and testing procedures currently used by Government and business do not take sufficient account of innate intelligence and aptitude.

TRAINING AND JOB ACCESS

On-the-job training is an important route to employment. Consequently, the Government increased the number of on-the-job trainees financed under the Manpower Development and Training Act from 11,000 in fiscal 1965 to 125,000 in fiscal 1968. By the end of 1968, half the trainees had less than 4 years of high school, and 53 percent were from families with incomes below the poverty line.

Through the Job Opportunities in the Business Sector (JOBS) program sponsored by the National Alliance of Businessmen, nearly 12,000 cooperating business firms have helped disadvantaged workers find employment. The premise of the program is that the best job training is a job. JOBS encourages waiving of some hiring standards and provides counseling and training to raise the productivity of the trainees. The interim goal of employers pledging to place 100,000 disadvantaged persons by June 1969 has already been met far ahead of schedule. JOBS contracts have been issued to about 800 employers who are reimbursed an average of $3,000 per trainee for the extra costs.

The rapidly growing public sector has no counterpart to the JOBS program. Such a program would usefully supplement the present expansion of job opportunities in the private sector.

Two other major programs are designed for young workers. The Job Corps helps the most severely disadvantaged youths without job prospects. As of mid-1968, the program had provided health care, food, and job training for 195,000 enrollees since 1965. From 1965 to 1968 the Neighborhood Youth Corps provided jobs for over 1.3 million youngsters from low-income areas. While the part-time and summer work is too low skilled to provide useful job training, the modest pay helps youths from low-income families stay in school.

IMPROVEMENTS IN INCOME MAINTENANCE

The United States now has a substantial commitment to income maintenance, spending about $60 billion in fiscal 1968 (Table 17). Each program serves the special needs of a particular group, and many are not designed specifically to help the poor. Individuals who can normally earn an adequate living are served by social insurance systems which protect against loss of income through death, disability, and unemployment, and which provide retirement income. Individuals with inadequate earning

TABLE 17.—*Selected major income maintenance programs, fiscal year 1969*

Program	Total outlays (millions of dollars)	Beneficiaries [1]	
		Number (thousands)	Percent in households with income less than $3,300 [2]
All programs [3]	58,679	(4)	(4)
Aid to families with dependent children	3,206	6,146	100
Unemployment insurance:			
Federal-State unemployment compensation	2,300	5,196	20
Federal employees and ex-servicemen	111	489	10
Railroad	52	92	(4)
Disability programs:			
Workmen's compensation	[5] 1,686	(4)	(4)
Federal employees	57	40	15
Veterans' compensation	2,611	2,390	24
Railroad	77	41	(4)
Social security	2,691	2,278	39
Aid to the blind	92	84	100
Aid to the permanently and totally disabled	726	721	100
Assistance to those 65 years and over:			
Social security retirement and survivors' benefits	24,681	21,931	31
Old-age assistance	1,833	2,123	100
Military retirement	2,265	681	(4)
Civil service retirement	2,364	918	(4)
Railroad retirement	1,542	969	34
Veterans' pensions	2,127	2,252	80
General assistance	32	700	100
Assistance-in-kind [6]	10,226	(4)	(4)

[1] Estimated.
[2] Income including cash benefits.
[3] Data exclude State and local government retirement systems and all private retirement and charitable programs.
[4] Not available.
[5] Estimate by Council of Economic Advisers.
[6] Federal outlays only. See Table 18.

Source: Bureau of the Budget (except as noted).

ability may be assisted by welfare, veterans pensions, in-kind payments (such as food stamps or public housing), and manpower training allowances.

Despite recent improvements, existing income maintenance progams provide neither adequate coverage nor sufficient benefits to prevent poverty.

Rarely are able-bodied working-age individuals, or families headed by healthy, nonelderly men, eligible for existing cash benefit programs yet, these groups make up two-thirds of poor nonelderly households. Even among some of the groups for which programs are available, coverage is much less than complete.

Benefits are rarely adequate to raise households above the poverty line. The average Aid to Families with Dependent Children (AFDC) payment in mid-1968 was just over $2,000 a year per family; in five States, it was less than $1,000 a year. Average benefits in mid-1968 for a retired couple under old-age insurance were about $1,800—below the poverty line for such families by about $200.

WELFARE PROGRAMS

Important improvements in public assistance have been made. The courts have overturned the controversial "man in the house" rule, which had denied AFDC benefits to children when a man not legally responsible for their care lived with the family. Courts have also declared invalid some State residency requirements for public assistance. States have recently been instructed to determine income need by affidavit, rather than personal investigation, a change to a more efficient and less demeaning method. The work incentive principle was introduced in the 1967 Social Security Amendments, which call for welfare benefits for AFDC mothers to be reduced by less than the full amount of earnings. Finally, the average AFDC benefit rose $17 per family (11 percent) between mid-1967 and mid-1968.

These improvements have led to the paradox of growing welfare rolls and costs amidst a general reduction in poverty. Not only have welfare applications increased, but between 1960 and 1967, the fraction of applicants declared eligible for benefits rose dramatically. Reform of eligibility rules and increased awareness of welfare programs by the poor have probably been responsible for the substantial rise in applications.

The Freeze on AFDC Rolls

While the welfare system generally has been improved in recent years, the enactment of a sharp limitation on the number of AFDC beneficiaries, now scheduled to take effect July 1, 1969, was a major step backward. The "freeze" forbids Federal financing for any increase in a State's ratio of deserted or illegitimate children receiving AFDC assistance to the total child population.

In all States, the freeze places a very tight limit on the expansion of welfare rolls; in some it will even cause a decline, unless the States are willing to assume the Federal share of the costs. Eligibility for federally aided public assistance should not be determined on the basis of the place of a family in the waiting line at the welfare agency, but upon the need of the family. Repeal of the AFDC freeze is the most urgently required step toward a more humane and rational welfare system.

Raising and Equalizing Welfare Benefits

In federally assisted welfare programs—AFDC, old-age assistance, aid to the blind, and aid for the disabled—benefits vary widely among States but are well below the poverty line nearly everywhere. For example, the monthly AFDC benefits for a family of four range among the States from a low of $40 to a high of $290 but exceed the poverty threshold in only one State.

Establishing minimum welfare benefits—wholly financed by the Federal Government—could raise the lowest benefits significantly. This minimum could be modest initially and then increased until benefits are adequate in all States. Since poverty is a national problem which happens to be geographically concentrated, federalization of most of the cost of welfare expenditures, perhaps including even administrative costs, would be desirable over the long run. Federal administration would reduce the difficulties arising from major differences in local standards of benefits, eligibility, and administration.

Improving Work Incentives in AFDC

Currently, if a State elects, mothers receiving AFDC may earn up to $30 a month without having their welfare benefits reduced. Beyond $30, benefits are reduced by two-thirds of additional earnings. By July 1, 1969, all States must adopt this work incentive formula. While these new provisions are an important advance, work incentives are still too small and do not extend to other welfare categories.

If child-care facilities are available, welfare mothers may be required to work or to accept training in order to receive benefits. At present, shortages of child-care facilities and training assignments limit the impact of this provision. Nevertheless the rule raises fundamental social issues: whether children are better off in a child-care center or at home with their mothers, and whether a mother should be required to work while also performing household tasks for her family.

These issues are not easily resolved. Nevertheless an equitable system should not penalize those who work and should provide adequate benefits to those who cannot work.

BENEFITS IN KIND

Many assistance programs provide goods and services rather than cash. In-kind assistance is often designed to promote those types of consumption by the poor that also benefit other members of society. For example, society may subsidize housing or health care because eliminating poor housing and ill health benefits the community as a whole. Some in-kind programs, such as school lunches, provide specific goods and services especially important to the young.

In-kind benefits often reflect the standards, tastes, and values of the majority and their desire to influence the consumption patterns of recipients. The well-being of the poor is raised by such programs, but the poor would probably consider themselves better off if they had equivalent amounts in cash and the accompanying freedom of choice.

Present Programs

Outlays in fiscal 1969 for the major in-kind programs which directly benefit the poor are summarized in Table 18.

Health. Medicare and Medicaid account for 84 percent of in-kind expenditures. Medicaid benefits go primarily to the poor, and one-third of Medicare beneficiaries are poor. Because of high maternal and infant mortality rates among the poor, expansion of comprehensive health care for mothers and babies in poor families is especially desirable.

Food. The next largest in-kind program is food assistance, which includes food stamps, school lunches, and the distribution of commodities from surplus stocks. Food programs reach a significant number of the poor but as few as 20 percent in some concentrated poverty areas. The coverage

TABLE 18.—*Major Federal income-in-kind programs substantially benefiting the poor, fiscal year 1969*

Program	Federal outlays (millions of dollars)	Beneficiaries[1]	
		Number (millions)	Percent in households with income less than $3,300[2]
Total programs	10,226		
Food programs	665	11.3	
Food stamps	273	3.6	100
Child nutrition	128	3.9	100
Special supplementary package	9	.2	100
Other direct distribution	255	3.6	100
Housing programs	484	2.9	
Public housing	456	2.8	57
Rent supplements	28	.1	67
Health service programs	9,077	23.6	
Medicare	6,222	9.5	36
Medicaid	2,384	9.5	75
Maternity and infant care	193	[3] 3.2	70
Public Health Service medical programs:			
Indians, seamen, etc.	175	.6	55
Neighborhood health centers	103	.8	75

[1] Estimated.
[2] Income including cash benefits.
[3] Includes children and mothers benefiting from more than one service of the Children's Bureau.

Source: Bureau of the Budget.

of the food stamp program will expand from 2.8 to 3.6 million persons by the middle of 1969, largely as a result of expansion into new areas and lower stamp charges. The child nutrition program, providing free or low-cost school lunches, is now being expanded.

Housing. Two programs to be expanded significantly under the Housing Act of 1968 are directed toward low-income groups—rent supplements and public housing. By midyear, 19,000 families—nearly all poor—will be receiving rent supplements. In fiscal 1969, the number of public housing units available will increase by 75,000, bringing the total to 780,000. Roughly half the occupants are poor.

The average monthly rental in public housing is about $50, more than many poor families can afford. In the North, the lowest income families in public housing spend more than 30 percent of their income on rent. In contrast, occupants with incomes over $5,000 pay about one-sixth of their income in rent. Only in the South are the majority of nonelderly public housing tenants below the poverty line.

Public housing could be made more accessible to the very poor in a number of ways. First, higher welfare benefits would help recipients pay present rents. Second, rents could be lowered if the Federal Government subsidized a larger share of public housing costs. Third, rents for the poorest families could be reduced if rents for all tenants were more closely tied to income.

SOCIAL INSURANCE SYSTEMS

For the vast majority of Americans, social insurance guards against a fall in income due to retirement, disability, survivorship, or unemployment. These programs prevent much of the poverty that in the past resulted from interruptions in wage income. They make remaining poverty problems more manageable.

Retirement

The largest American income maintenance program is social security. About 22 million Americans now receive about $25 billion in annual benefits from Old Age and Survivors Insurance. The goal of providing every elderly American citizen with a decent retirement income is becoming a reality. Similarly, more and more widows with young children and disabled individuals are being supported above the poverty line.

Rising prices should not be permitted to erode the purchasing power of the retired. Social security benefits should now be increased 10 percent across the board, in line with changes in the cost of living since benefits were last raised and to allow for additional improvement. A revised method of computing benefits, effective in fiscal 1971, would provide another increase.

Many individuals receiving low social security benefits have little if any other income. Increasing the monthly minimum benefit from $55 to $80—

and to $100 for workers with 20 years of coverage—would reduce poverty by more than half a million persons.

The earnings test should be liberalized. At present every dollar earned in excess of $1,680 a year reduces benefits by 50 cents; earnings over $2,880 reduce benefits dollar for dollar. Because earnings are subject to other taxes, additional earnings above $2,880 actually reduce total after-tax income. The tax-free earnings allowance should be raised to $1,800. Fifty percent of earnings beyond $1,800 up to $3,000 and 75 percent of earnings thereafter would be deducted from benefits.

Virtually all workers are now covered either by social security or similar retirement programs. Regular employment will provide retirement benefits above the poverty line for all but the very lowest-paid workers. Most future recipients of low social security benefits will be either individuals covered by other retirement programs or housewives with only a few years of work experience. Neither group will constitute an extensive poverty problem. The most efficient mechanism for assisting the elderly poor is either expansion of Old Age Assistance or establishment of an income-related social security minimum—perhaps financed out of general revenues—far above the standard minimum. Under the latter proposal, social security benefits could be high enough, together with other income, to bring all the elderly above the poverty line.

Disability

The number of poor households headed by the disabled has not declined since 1959. Better Disability Insurance under social security can improve this record.

At present, to qualify for benefits, workers must be disabled 6 months, and the disablement must be expected to last another 6 months or to result in death. To remove this hardship, the waiting period for benefit eligibility should be reduced from 6 to 3 months, and eligibility should not be limited to disabilities which last more than 1 year.

The burden of unusually high medical expenses could be lifted by extending Medicare to the permanently and totally disabled.

The other major disability income program is workmen's compensation, intended to pay medical expenses and provide income for workers (and their survivors) disabled through work-related accidents and diseases. Workmen's compensation is governed by State laws which require employers to obtain insurance from private companies or a State fund, or to establish self insurance.

The present weaknesses of workmen's compensation are inadequate benefits and the exclusion of large groups of workers.

In 1966 the maximum cash benefit (including dependents' allowances) under workmen's compensation was below the poverty line for a four-person family in 39 States; over half the States have maximum benefits less than 50 percent of income prior to disability. About 11 million workers—

mostly domestics, agricultural employees, and employees of small businesses—currently are not covered at all by workmen's compensation.

Improvements in workmen's compensation ought to come through State laws. To provide an incentive for such action and to protect workers in its absence, Federal action may be required. Consideration should be given to legislation requiring States to extend coverage and to improve benefits. If States fail to act, the law might require employers to purchase insurance providing additional coverage and higher benefits.

Unemployment Insurance

Unemployment insurance contributes significantly to the prevention of poverty by providing income to regular members of the labor force during periods of involuntary unemployment. Yet more than a fifth of the employed labor force are excluded, a large number of whom are in low-wage occupations such as domestic service and farm work.

The original aim of unemployment insurance was to restore at least half of wages lost. Average weekly benefits—about $42 in 1966—are roughly a third of weekly earnings in covered industries. Most States now pay benefits for a maximum of 26 weeks in a single year; over one-fifth of the recipients exhaust their benefits, even in periods of high employment.

For a fair and modern unemployment insurance system, legislation is needed to broaden protection, ensure higher and more uniform benefits, provide special training, and eliminate abuses.

MAJOR REFORM

Proposals for more fundamental reforms of the income maintenance system merit consideration along with the more evolutionary suggestions outlined above.

Major reform can be undertaken in two ways. First, the categorical approach can be expanded and improved by reforming eligibility requirements, raising benefit levels, and—in particular—adding programs for poor families headed by a working man and for other groups not now covered. Alternatively, present welfare programs could be replaced by a single universal Federal program—supplemented by social insurance—having no eligibility requirements other than low income.

Benefits for Poor Families Headed by Working-Age Men

The largest omission from the present income maintenance system is a program to assist families headed by able-bodied working males who are not eligible for unemployment insurance or who have exhausted its benefits. Unconditional cash benefits to working-age men are often opposed on the grounds of possible adverse effects on work incentives. Whatever society's attitude toward fathers in poverty, failure to assist their children makes the children likely candidates for a new generation of poor. Furthermore, under the present system a father can often increase the income of his family by deserting them to make them eligible for welfare.

Children's Allowances. Children's allowances are systematic payments by the Government to families with children. The United States is the only Western industrialized nation without a children's allowance. The program has been adopted in some nations as a vehicle for both providing income to the poor and promoting population growth.

Children's allowances can take several forms. To channel aid effectively to the poor, the allowances have to be related to family income. If children's allowances are not income-related but go to all families, they are an exceedingly inefficient way to help the poor.

An income-related children's allowance is one method of attacking poverty among two categories of poor households—those with moderate incomes and large families and those with low incomes and average-size families.

Guaranteed Work. A program of guaranteed work opportunity for poor, employable fathers is especially attractive because it offers a workable compromise between those who favor income maintenance and those who favor expanded employment as a vehicle for ending poverty among these families. Fathers suffering from long term unemployment would certainly be eligible for the program. Eventually others with very low incomes might be included. Each enrollee would receive cash benefits and would be required to participate in steps—including acceptance of placement services or training—leading to private employment paying at least minimum wages. Those for whom private employment could not be found would be given meaningful public service jobs at minimum wages that provide opportunities for advancement.

The guaranteed work program could ultimately allow any man to earn the minimum wage, which at present would bring families of 4 or fewer near the poverty line. By itself, this would not solve the problem of poverty for large families. Nevertheless, the largest gap in the present income maintenance system would be closed in a manner consistent with the traditional American attitude toward welfare for able-bodied fathers.

The Negative Income Tax. The negative income tax would provide a minimum-income guarantee to all individuals. Benefits would be reduced by a fraction of income, as is currently the practice for AFDC mothers and individuals receiving social security.

A minimum-income guarantee would end society's attempts to distinguish between the "deserving" and "undeserving" poor, establishing the principle of social responsibility to aid those in need without questioning whether the fault was individual or social.

As a substitute for other income maintenance programs, the negative income tax is bound to be expensive. If the guaranteed income is set at or near the poverty line—and if the proportion of earnings by which benefits are reduced is low enough to provide adequate work incentives—substantial benefits must be provided to middle-income families, swelling the cost. To illustrate, suppose the minimum-income guarantee for a family of four is $3,300—about the income required to escape poverty in 1967. Suppose that every dollar earned reduces benefits by 50 cents—a reduction that probably approaches the maximum consistent with providing work incentives. Under this plan, a family earning $5,000 a year would have benefits reduced by one-half of $5,000 (or $2,500), leaving the family eligible for $800. All families of four with less than a $6,600 income would receive some assistance. Adoption of this particular plan now would cost about $20 billion over and above present income maintenance outlays; roughly half would go to families not now in poverty.

The cost can be reduced by increasing the rate at which benefits go down as income increases. But this approach would reduce work incentives. The cost could also be reduced by setting the guaranteed minimum income well below the poverty line; however, if a low-income guarantee were adopted, poverty would not be eliminated. To deal with this problem, the income guarantee could be supplemented by State—or even Federal—welfare programs for particular categories. But then attempts to distinguish between the "deserving" and "undeserving" poor would not have been eliminated.

Another way of dealing with the problem of different categories of the poor within the framework of the negative income tax is to establish separate minimum-income guarantees and benefit-rate reductions for various types of households. Again such modification would introduce complexities and reduce the appeal of the plan as simple and universal.

Nevertheless, a minimum-income plan may be acceptable both in terms of cost and of the beneficiaries served. If the guaranteed minimum income is at or close to the poverty line, and if the rate of benefit reduction is low enough to limit adverse incentive effects, the plan would meet the tests of a good income maintenance system.

The Commission on Income Maintenance has been asked to study in detail the appropriate long-run direction of policy in this area. The Commission will report at the end of this year.

SPECIAL PROBLEMS OF POVERTY POCKETS

Poverty in the United States is unevenly distributed, both racially and geographically. Two particularly visible concentrations of poverty are big city ghettos and declining rural areas.

Many difficulties faced by residents of poverty pockets are simply virulent local outcroppings of national problems. Others are peculiar to the community in which the concentrations of poor occur. The discussion below separates the elements of poverty problems in ghettos and rural communities into those amenable to general, national solutions and those that require special programs aimed at the areas in question.

STRATEGIES FOR ATTACKING GHETTO PROBLEMS

The most visible—and certainly most explosive—concentration of poverty is in the ghettos of large cities. Here deteriorating physical facilities, inadequate public services, low income, and high unemployment combine with high population density to create a dehumanizing, hostile environment.

The ghetto contains a concentration of people whose health, age, family status, and limited training are obstacles to full-time employment in well-paying jobs. It has vastly inferior educational and health services. These are national problems, and strategies discussed elsewhere in this chapter could produce significant rewards in the ghetto.

Other ghetto problems—and the programs required to deal with them—are unique. First, unemployment is extremely high. The Department of Labor reported that in the fall of 1966 the unemployment rate in the low-income neighborhoods of eight large cities was 9.3 percent. More striking, subemployment was an additional 23 percent.

The second problem of ghetto areas is extensive deterioration of the physical environment—housing, commercial buildings, even open spaces.

Restoration of the cities will be expensive, whether publicly or privately financed, but a large-scale facelifting of urban America offers the opportunity for a rational, coherent attack on the problems of the ghetto.

Fiscal Disparities Within Metropolitan Areas

Roughly an eighth of welfare benefit costs, half of elementary and secondary education expenditures, and virtually all police, fire protection, and sanitation costs are borne by local government. Central cities, with their large concentrations of poor, have difficulty meeting these costs. The property tax base per capita is substantially higher in the suburbs than in the central cities, but suburbs collect less total tax revenue per capita and spend far less per capita on social services—health care, welfare, police, fire protection, recreation, and sanitation. Suburbs spend far more per capita (and per student) on education than does the central city. Responding to lower taxes and better educational systems, a stream of middle income families flows from the central city to suburban communities. Central cities must then cut back on services or raise taxes even higher, in either case increasing incentives to leave the city. The heavy burden of providing services to the poor thus threatens the viability of the central city.

Access to Employment

The residential patterns of the poor affect their opportunities for employment. Because few lower income families can afford automobiles, their mobility is severely limited. Jobs, shopping, health care, and social contacts must all be within walking distance or accessible through inexpensive public transportation.

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Total Employment. Most jobs are in the central cities. Even in sectors such as manufacturing, wholesale and retail trade, nonprofessional business services, entertainment, and government, with relatively more jobs in lower skill occupations, the ratio of employment to population is over 40 percent higher in the cities than their suburbs. Employment in the city is also less physically dispersed than in the suburbs, and public transportation is more readily available.

For the foreseeable future, most ghetto residents will continue to have a greater chance of finding a job in the central city. Job vacancies created by normal attrition are far more numerous than those created by entirely new positions, and consequently the number of job openings is greater in the city with its much larger total employment. Some big city ghettos—such as Watts—are isolated from the areas of greatest employment density, but Harlem and Bedford-Stuyvesant are only a few minutes on the subway from the most dense center of employment in the world. Job problems in such areas are not explained by physical isolation from sites of employment.

Job Growth. Most of the growth in employment is occurring in the suburbs, and job opportunities for low-income people will continue to grow there. Many ghetto residents already hold suburban jobs. A recent study of commuting patterns in Pittsburgh indicated that employed, low-income Negroes, on balance, traveled away from the central city to reach their jobs, while whites in the same employment class traveled toward the central city—and traveled fewer miles.

Access for ghetto residents to the growing number of suburban jobs can be improved by both better transportation and less discrimination in suburban housing. The transportation requirements for those taking better paying suburban jobs are greatest in the first few months of employment. After that, workers tend to buy their own cars or form car pools. Transportation needs of domestics and other low-paid workers are not so easily solved.

Suburban housing is already becoming more available to ghetto residents. Between 1966 and 1968, the number of Negroes residing in the suburbs grew by half a million, although Negroes continued to account for only about 5 percent of the suburban population. Access to suburban housing should continue to improve as the fair housing provisions of the Civil Rights Act of 1968 become effective.

Living Costs for the Poor

The central city ghetto is an expensive place to live. Ghetto residents often pay higher prices for comparable merchandise and are frequently sold inferior goods. To some extent, these higher prices reflect higher selling costs resulting from smaller average purchases, increased pilferage, slower turnover of perishable items, and higher insurance rates. Easy credit, along with high-pressure salesmanship and door-to-door selling techniques, also adds to the costs of ghetto retailers. A Federal Trade Commission study of Washington, D.C., furniture and appliance stores revealed that prices in ghetto stores averaged $255 for each of $100 of wholesale cost, compared to $159 in the rest of the city. Even so, net return on investment was considerably lower than for retailers elsewhere.

If ghetto residents had greater access to general market retailers, they would pay significantly lower prices. This access requires improved transportation facilities in some cities and education—educating general retailers that low-income families can carry moderate amounts of installment credit, and educating low-income shoppers about price differentials.

The Role of Private Enterprise in Ghetto Development

Reconstruction of the cities will require deeper involvement of private enterprise.

The major asset of private business is its efficiency in accomplishing specific tasks at minimum cost. The Federal Government has recognized the contribution business can make. For example, local housing authorities are now permitted to turn over much of the planning, site acquisition, and supervision of construction of public housing to private developers. This "Turnkey" policy has reduced costs and greatly cut the time required to produce public housing.

Without government inducements, profits are low in ghetto areas—a deterrent to private investment. Despite higher prices, retail business has difficulty thriving in the ghetto. Investing in new housing for low-income families—particularly in big cities—is usually a losing proposition. Indeed, the most profitable investment is often one that demolishes the homes of low-income families to make room for businesses and higher income families. Much of the blemished reputation of early urban renewal programs came from pursuing the most profitable development of renewal areas.

Many business leaders are willing to sacrifice some profits in order to invest in the ghetto, but they cannot be expected to shoulder the major part of a financial burden that is properly the responsibility of all society.

Participation by the private sector is also limited by the large scale normally needed to make a ghetto project economically viable. Costs are far lower and prospects for permanent improvement far greater if redevelopment of an entire neighborhood is undertaken in a relatively short period. Only the largest corporations are likely to be able to afford efficient renewal efforts.

Government aid to provide profit opportunities will be needed to induce significant participation by the private sector. The Federal Government can provide such aid by direct subsidies to firms willing to build under its program specifications. Alternatively, a tax credit or a deduction from taxable income could be given for a broad class of ghetto development expenditures.

Three considerations bear on the choice of the proper techniques for attracting private enterprise into ghetto reconstruction.

First, the efficiency of Federal assistance is reduced if subsidies are paid for activities that would have been undertaken anyway. Tax incentives automatically apply to all investment in the subsidized category. Even in the most depressed urban areas, some investments are still being made without subsidies.

Second, a dollar of direct expenditure and a dollar of tax incentive have identical effects upon the budget, requiring either a reduction in other Federal programs or an increase in taxes. One technique adds to Federal expenditures; the other lowers Federal tax receipts.

Finally, tax incentives are not effective for encouraging indigenous businesses. Large corporations, earning profits in other operations, benefit from tax incentives, but firms operating only in the ghetto—where profits are low—receive less benefit. New firms often receive no benefits from tax incentives since fledgling enterprises typically earn low profits. Since support of new, ghetto-owned businesses is a particularly promising vehicle for promoting ghetto development, a more direct form of assistance for these firms is necessary. Such firms need loans and management assistance as well as the subsidies that would be provided to established businesses through tax incentives.

The Federal Government has moved to assist indigenous businesses. Projects in Model Cities areas must, where possible, be constructed by labor and businesses from the "model neighborhood." The Small Business Administration, through federally guaranteed loans and technical assistance, aided 2,300 minority-owned businesses in fiscal 1968. It plans to raise this number to 6,500 new firms in fiscal 1969 and 14,000 in fiscal 1970.

The Federal Government can also assist in establishing other social institutions. Community Action Agencies, supported by the Office of Economic Opportunity, provide a fulcrum for involving the residents of low-income areas in the revitalization of their neighborhoods. These agencies also provide a single, knowledgeable source of information on the programs available to assist the poor, as well as supplying many of these services themselves.

STRATEGIES FOR REDUCING RURAL POVERTY

Over two-fifths of America's poor live in rural communities, even though only about one-fourth of the population is rural. Rural poverty, though not as visible as urban poverty, is a major national concern.

Rural communities face two special problems. First, average family incomes in these areas are often low. Rural communities have difficulty making sufficient investments in public facilities and schools. Expansion of Federal support for income maintenance, education, and other social services for the poor would relieve rural communities of some of the burden of caring for their relatively large dependent population.

The second special problem stems from the persistent outmigration of the past half century. Migration to the city occurs largely because of declines in the principal sources of rural job opportunities—agriculture, mining, and foresty. Most migrants improved their living conditions by moving. In areas where jobs were limited and migration took place, those who stayed obtained more employment at better wages than if migration had not occurred.

A reduced rural population creates serious problems of public finance. Those who leave tend to be more employable, more highly skilled, better educated, and younger than those who remain. Some rural communities are thus left with a skilled labor force too small to support new industries. In many areas, excess capacity has developed in public facilities built for larger populations than currently exist. The cost of maintaining these facilities limits the ability of local governments to finance other public services.

Other rural communities are growing vigorously. Manufacturing employment is increasing more rapidly in the less urbanized States than in those containing large urban centers. Furthermore, from 1962 to 1966 nonfarm employment grew most rapidly in the counties with the smallest population centers.

Net migration out of most rural counties is continuing, but at a slower pace than in the 1950's, particularly in the rural South and Midwest. For example, of the 100 nonmetropolitan counties in Kansas, only 7 gained in population through migration in the 1950's; 32 have done so since 1960. Annual net migration from nonmetropolitan counties in the South has fallen from 400,000 between 1950 and 1960 to 50,000 since 1960. These trends indicate that a selective rural development policy, concentrating on those counties which have begun to grow in the 1960's can produce substantial economic progress in much of rural and smalltown America.

The Federal Role In Rural Communities

Federal aid for education, planning, and public facilities overcomes barriers to future development arising from the low income of rural communities. Title I of the Elementary and Secondary Education Act provides funds to defray part of the costs of education in areas with high concentrations of poverty. About 30 percent of these funds go to rural areas.

The Federal Government has also taken an active role in promoting areawide planning in rural areas. Forty million Americans reside in seven areas served by Regional Action Planning Commissions established under the provisions of the Public Works and Economic Development Act. These agencies help to plan over-all regional economic development and to coordinate Federal, State, and local community assistance.

The Department of Agriculture provides technical assistance to private and public groups in rural areas undertaking coordinated planning and development activities. Loans, grants, and technical aid to low-income rural areas from the major Federal Departments amounted to over $1 billion in fiscal 1968.

Diversification of the Rural Economy

Since economic development programs are more effective if some growth has already taken place, Federal rural development assistance should be oriented toward more densely settled "growth centers," such as smaller growing cities or small metropolitan areas. With a population of viable size, a community can diversify its economy and cushion itself against employment fluctuations in one industry. As more firms settle in an area, they interact with mutual benefit by forming a sufficient market for the growth of business services and of cheaper communications and transportation—increasing the attractiveness of the community for further business development.

This strategy has largely been adopted by the Department of Agriculture and the Economic Development Administration in aiding depressed, nonmetropolitan regions. In addition, Federal agencies should give explicit consideration to the development effects of Federal installations. Military bases and scientific installations, for example, have a profound effect on the community in which they locate.

Some rural communities, suited only for traditional resource-based industries, will continue to decline. The Federal Government should ensure that the remaining population is not required to carry the whole burden of declines in the industries many rural communities have depended upon. Adequate income maintenance, support for education, and federalization of other costs associated with economic and population decline are the most equitable steps that can be taken to assist these areas. Federal support for the costs of moving low-income individuals to employment opportunities elsewhere is also desirable in certain situations. Job training and job location services are also needed to help both migrants and those who remain. These last two measures are discussed in Chapter 3.

FULFILLING THE NATIONAL COMMITMENT

With a "poverty gap" of slightly more than 1 percent of GNP, the United States can—if it will—rapidly reduce poverty. This effort will require that the incomes of the poor grow faster than average income. Otherwise, conquering poverty will take a long time indeed.

The long-run objective should be to reduce dependency, as well as poverty. To this end, education and training will be required so that all Americans can qualify for a decent job. In addition, programs are needed to expand employment opportunities in poverty pockets. But many of these efforts will take years to become fully effective.

To meet the most pressing income needs of the poor promptly, expansion of income maintenance is required. Welfare and social insurance programs have brought us a long way in combating poverty among the covered groups; further benefit increases can close the poverty gap among those covered.

The most difficult policy issues pertain to families headed by an able-bodied man, for whom no major income support programs now exist. Most of these men now work but with insufficient earnings to take their families—particularly large families—out of poverty.

Maintaining high employment is essential to eliminating poverty among families headed by a working man. Continued prosperity will raise the incomes of some of these men above the poverty line. For the rest, a desirable policy could be compounded out of job training, placement, income support, and public employment. The poverty gap in 1967 for these families—containing 10.7 million persons—was $2.7 billion. The actual costs of a program to assist this group would exceed this amount. Supplementary employment services and, for reasons of equity and work incentive, some benefits for the near-poor, would have to be provided.

Federalization of more of the costs of providing the poor with welfare, education, health care, training, and public facilities would spread the costs of combating poverty more equitably. Caring for the poor now places a severe financial burden on communities with concentrated poverty.

The choice as to how poverty will be eliminated has begun to enter into public discussion and debate. A number of good alternatives are available. After appropriate and intensive deliberation, the American public must find mechanisms for effectively attacking poverty—mechanisms and programs that can command widespread support. The success of any program is jeopardized if assistance is handed out begrudgingly and becomes demeaning to the recipients. Beyond this, the most essential requirement is a program of a scale adequate to guarantee *rapid progress* toward ending poverty.

Fulfilling the Nation's commitment is far more important than the details of the precise tactics used.