University of Wisconsin–Madison
Institute for Research on Poverty

Focus

Volume 28

Number 1

Spring/Summer 2011

ISSN: 0195–5705

Reconfiguring the social contract: A summary of *Both Hands Tied*

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This article summarizes Both Hands Tied: Welfare Reform and the Race to the Bottom of the Low-Wage Labor Market, *and is followed by a reaction to the book by Lawrence M. Mead, and a response to those comments by Jane L. Collins and Victoria Mayer.*

In early February of 2009, the *New York Times* published two articles charting trends in U.S. employment and income security. One announced that women, holding more than 49 percent of the nation's jobs, were poised to surpass men in the labor force for the first time in American history. The article reported that men's loss of good manufacturing jobs and women's greater employment in areas less sensitive to downturn left more women serving as breadwinners for their families. "Women may be safer in their jobs," the author noted, "but tend to find it harder to support a family…The jobs women have—and are supporting their families with—are not necessarily as good."[1] A few days earlier, the other article had noted that despite soaring unemployment and the worst economic crisis in decades, 18 states had cut their welfare rolls in 2008, and that the number of people receiving cash assistance in the nation was at the lowest level in more than 40 years.[2] Seemingly unrelated, these two pieces reference trends that are integrally connected in the lives of poor working families. The two news stories speak to two aspects of the increasing difficulty poor women face combining work and family responsibilities at the low end of the labor market.

Our book, *Both Hands Tied*, addresses these issues through an analysis of the intersection of welfare and work in the lives of 42 women in Milwaukee and Racine, Wisconsin, where welfare reform was launched in its earliest and starkest form and where deindustrialization and the growth of the service economy present challenges for low-wage workers.[3] We conducted extensive interviews with these women in 2004 during which we asked them to talk about the kinds of jobs they had held and how they moved through them, what crises at work or at home led them to turn to welfare, how they used its programs, and what impact welfare had on their work lives afterwards. The changes we chart in the book, and which are reflected in this article, precede the economic crisis that began in 2008. Some of these shifts are economic: for example, the massive movement of women into work since the 1970s and the increasing role they play in supporting their families that the *New York Times* documented. It is significant that most of the jobs women have found are in the low-wage service sector. Many of these jobs—such as childcare, certified nursing assistance and home health care, food service and restaurant work—actually substitute for labor formerly performed at home.

We wrote *Both Hands Tied* in the hope of inspiring discussion of how we, as a society, provide for the work of "social reproduction"—the labor of caring for children, the elderly, the disabled, and the ill; of managing the affairs of the household, of feeding, cleaning, and providing clothing. Our title refers to the ways that a failure on the part of both the state and employers to address the new realities of family care prevents women from parenting as they feel they should, on the one hand, and from gaining the economic security that has traditionally accompanied full-time work, on the other.

The connection between welfare and work

Americans tend to think of welfare and work as opposites, as polar ends of a spectrum of diligence or virtue. The industrious wage-earner occupies one end, while the other is the realm of sloth and shiftlessness occupied by imagined "welfare queens" and others who refuse to work. This dichotomy obscures the facts that "welfare" programs benefit a large proportion of the population. Imagine life, for example, without Social Security, Workers Compensation, Unemployment Insurance, tax deductions for interest on homes, or federally insured mortgages and student loans. In addition, what many people consider "welfare"—those means-tested assistance programs directed toward the poor—have always been a safety net designed to mitigate labor market and family failures. Since welfare reform in 1996, that net has become much smaller, covering far less of a family's needs, as well as being time-limited and tied to work. Since 1996, the federal government has structured revenue streams to encourage states to reduce their caseloads by any means possible. Nationally, states cut caseloads from 11.5 million recipients in 1996 to fewer than 4 million in 2008, while tying receipt of benefits to behavioral requirements including working outside the home 30 to 40 hours per week.

At the same time, conditions in the low-wage labor market became harsher. Real wages stagnated or declined, jobs became less secure, fewer carried benefits, and sick days became rare. Under these circumstances, means-tested welfare programs such as cash assistance under Temporary Assistance to Needy Families, food stamps, medical assistance, the Women, Infants and Children nutrition program, and subsidies for child care and housing—became crucial to the survival of the working poor and particularly poor single mothers. These programs increasingly subsidize the wages and benefits of the working poor, but poor women also rely on them as a substitute for the unemployment insurance, workers compensation, and maternity leave that do not come with their jobs, and for federal disability insurance that has become more difficult to access in recent years.

The context of welfare reform

While 2001–2003 were years of downturn, from a longer-term perspective the service sector jobs the women in our study held had proliferated from the 1970s onward, at least in part as a replacement for the labor of women in the home. In food service and waitressing jobs, in nursing homes and home health care, in day care and cleaning, poor women plugged gaps in other women's strategies for combining work and family, while generating care dilemmas of their own. In the 1990s, as the number of manufacturing jobs declined, service positions multiplied in Milwaukee and Racine, leading local business executives to worry about rising wages and the availability of labor in the sector. Meanwhile, in Washington, advocates of welfare reform touted the widespread availability of these jobs as evidence that women cut from the welfare rolls would be able to find work.

By the early days of the twenty-first century, however, it was clear that labor markets were not functioning as they had for most of the twentieth. Employers no longer consistently provided benefits after a probationary period, provisions for sick leave, predictable hours, or a commitment to job security if the employee performed well. From 1970 through 2008, they had held wages to 1970s levels, despite vast increases in productivity.[4] Working under these conditions was difficult for anyone, but nearly impossible for people with significant family responsibilities. And yet, women—among them single mothers—increasingly worked in these jobs.

The content of welfare reform

Historically, Wisconsin was a generous state when it came to welfare. In 1960, it ranked sixth among states in aid per welfare recipient and its rank in welfare payments has consistently exceeded its rank in per capita income since that time.[5] Beginning in the 1970s, however, the local press and some politicians began to claim that the state's benefits were too generous: critics claimed they were drawing migrants from across the state's southern border—most notably from Chicago. Wisconsin was at the forefront of welfare reform activities, beginning in 1987, leading to dramatic caseload decline long before the national-level reforms of 1996. The

This publication was supported with a grant from the U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, grant number 3 U01 PE000003-06S3. The opinions and conclusions expressed herein are solely those of the author(s) and should not be construed as representing the opinions or policy of any agency of the federal government.

state's caseload had peaked at just over 100,000 families in 1986. By the time of the implementation of Wisconsin's welfare reform program, Wisconsin Works (W-2) in September of 1997, it had dropped to just over 31,000.[6]

Policymakers and pundits around the country praised Wisconsin's welfare reforms for the way they encouraged workforce attachment. This was clearly the program's primary goal. What outside evaluations largely missed was the systematic way the reforms disadvantaged the workers sent out into the labor market, by providing inadequate support for women's family care, and leaving them with insufficient resources to weather crises. Welfare reform also made receipt of state aid contingent on giving up the right to choose the kind of job in which one would work, and the hours and locations of labor. Most workfare placements, known as community service jobs, were not subject to labor rights and protections. While policymakers may not have fully anticipated the results of these disadvantages, their terms were written into welfare reform from the very beginning.

Tying the first hand: The solitary wage bargain

The federal welfare reforms of 1996 ended the former statutory entitlement to welfare and set up a tiered system where the most employable women were placed in work, and the less employable in a set of training jobs, called community service jobs. Although requiring work meant making some provision for child care, welfare reform never adequately addressed this issue. Conservatives had initially suggested that this care could be provided by family members. "The logistics of work for these mothers are no doubt difficult," Lawrence Mead wrote in *Beyond Entitlement*, "but lack of *government* child care seems seldom to be a barrier; most prefer to arrange child care with friends or family informally."[7] When family advocates demonstrated that family members were often working, deceased, ill, or living far away, policymakers agreed to include subsidies, but this still left unaddressed many other issues surrounding work and family, including the absence of sick leave, family and medical leave, and flexibility in work schedules.

Among the women in our study, 94 percent of entries to welfare were a result of a crisis of care. Forty percent of entries were due to difficult pregnancy or birth. The remaining entries were due mainly to illness or injury, either to a child (29 percent), or to the woman herself (25 percent). Combinations of problems were far more likely than single incidents to lead women temporarily to drop out of the labor market.

So why did these women have to quit work when these episodes occurred? Because the jobs they held did not have sick leave, disability leave, or maternity leave. Why did they have to turn to the state for cash assistance through welfare? Because the state of Wisconsin, unlike some other states, did not make Unemployment Insurance available for people who needed to leave work due to "compelling family emergencies," or to those who worked part-time.

The crises of care were compounded by the fact that the low-wage service sector has the most challenging work hours and most difficult work rules in the economy: second and third shifts, mandatory overtime, and frequently changing schedules. At welfare agency training sessions, women were taught that they should not leave work to care for their children unless it was a "real emergency." Women also faced dilemmas surrounding their own health and whether they were able to work. One woman who had just had cancer surgery told us: "When the welfare office told me I had to go off medical leave—when they felt like I was feeling fine—I went out looking for a job, 'cause the doctor will tell you you don't need to do this and that, but he ain't the one that's gonna pay my bills for me and my kids."

Sociologist Susan Thistle has argued that the upsurge in women's contributions to economic growth in the second half of the 20th century coincided with the removal of provisions for care. She argues that all of the key supports for care in the home—marriage as a lifelong institution, the family wage, and the entitlement to government assistance for poor single mothers—had disappeared by the late 20th century.[8] While social scientists talk a great deal about the breakdown of marriage, they often forget that support for the tasks of household maintenance via the family wage were part of the old agreement between capital and labor that began to break down in the 1970s. The consensus that dominated our thinking from the mid-19th to mid-20th century—the so-called "family wage"—said that employers would pay (relatively privileged) white male workers enough to support themselves and their families. Most benefits and health insurance were tied to jobs. This "agreement" has broken down on all fronts, as family structure has changed and employers have off-loaded responsibilities. Instead, there is a different allocation of responsibility that we call the "solitary wage bargain," which defines workers, not as members of family units, but as individual market actors. As mothers of young children, the women in our study were not only required to work, but were cut off from earlier forms of support for their family responsibilities as the quality of jobs eroded and the public safety net became more difficult to access. This is the first hand tied behind the back of women who turn to welfare.

Tying the second hand: Challenges to economic citizenship

The politicians and policymakers who reformed welfare believed that unemployed single mothers raising children needed to be made "less free" in order to "become something closer to the disciplined workers the economy demands."[9] They argued that it was legitimate for welfare agencies to require poor women to give up certain freedoms as a condition of receiving aid.

The framers of welfare reform made clear the kinds of jobs that they believed workfare participants, and women leaving welfare, would be filling. The *New Consensus on Family and Welfare* was explicit: "among other kinds of work for which such mothers can be trained (which would, in turn, assist them in bringing up their own children) are child care and pre-school education. In most cities, where female heads of families tend to be concentrated, hotels and other service establishments have many needs for entry-level employees." They add to the list, at various points, hospital workers, maintenance workers, cashiers, and restaurant staff. The authors point out that many experts tend to think in terms of middle class jobs and therefore to prescribe training for factory or office work for poor women "while overlooking the opportunities that immigrants find so helpful in gaining a foothold."[10]

According to the framers of reform, by accepting workfare placements in these kinds of jobs, participants might not be acquiring specific skills, but they would be building the competencies and sense of self-reliance that are the prerequisites of citizenship. Reading the words of Mead and others, it is clear that welfare reform was designed to discipline workers and structure their ideas about work.

Women placed in community service jobs have little or no say about what kinds of jobs they will take, what shifts they will work, or where the jobs are located in relation to their homes and children's schools. As one woman in our study said: "you can't decide where you want to go. You have no opinion on any of this. It's like you're a child and your parents are running your life." Or as another put it: "I do what they want me to do. Things I don't want to do….Like right now, they gave me an activity to work at a food pantry that I'm not interested in whatsoever. My interest was computer and office assistant classes and they don't want to put me in that. My worker tells me 'well you just have to do it.'"

This lack of choice led to one of the most striking findings of our study: welfare agencies placed 70 percent of women in workfare assignments that were less skilled than the jobs they had held previously. Consider, for example, the case of Rowena Watson. Rowena had worked for three years as a manager of a group home for adults with disabilities. She supervised staff members and had benefits, including health and life insurance. She described this period of employment as the best time in her life. "Me and my kids were doing well," she said. "I didn't have to ask nobody for nothing." While Rowena enjoyed this job, she quit after several experiences of what she interpreted as harassment, and worked as a certified nursing assistant for the next two years. Then, during a difficult pregnancy in 2003, her doctor told her to stop working. Because her employer offered no leave, she turned to the state. When we interviewed her, her youngest daughter was seven months old, and she had been assigned to a community service job. "They send me places to work," she said. "One of them is on the north side—you help them cut down their shrubs and their trees. Another one—they send me down to the City Department of Public Works and you help them fix the streets. Or that island out there, you know, they have people on W-2 go out there and water the grass and plant the flowers. What am I going to do cutting down bushes? Am I going to put that on my resume?"

Women who reentered work through workfare programs not only lost the status and many of the prerogatives of independent workers, they also lost the means to protect themselves in the labor market. When they suffered discrimination or unfair treatment or labored under unsafe conditions, they were not clearly protected by federal and state laws and were not permitted representation by unions or other workers' groups. In fact, they were monitored by their caseworkers and sanctioned for complaints or acts of non-compliance. In many instances they did not make the minimum wage, and they entered work with none of the tools on which previous generations of workers have relied to negotiate or demand fairer and safer conditions. They thus moved into the swing shifts and poorly regulated spaces of the low-wage economy with a second hand tied squarely behind their backs.

Both hands tied: The race to the bottom in the low-wage labor market

These two "tied hands"—the inadequacy of support for women's family responsibilities while working outside the home and the erosion of economic citizenship—are inextricably connected through the institutions of reformed welfare. The ever-present and unmet need for time to care for families throws women back into a punitive and stigmatized welfare system again and again. Our case histories show that women could weather a few crises—a sick child, a divorce, an illness—while continuing to work, but combinations of crises generally led them to leave their jobs so they could get their family back on sound footing. Each time they left work and relied on welfare, they were channeled back into the workforce in ways that marked them as dependent and undermined their economic citizenship. In most cases, workfare proved to be a "downward mobility machine" placing them in jobs less skilled and remunerative than the one they had left. And each time they worked their way up out of workfare positions and back into the labor market, gaining a better salary and seniority, the lack of flexibility and supports in their jobs left them just one illness or injury away from being churned back to the bottom.

Conclusions and policy implications

State data on employment and social program use in 2006 support the pattern we had identified: a period of work would end and in that quarter a woman would receive cash payments. This pattern suggested that women continued to work until childbirth or a health or care dilemma led them to turn to the state for aid. After the immediate crisis or need was resolved, caseworkers would switch them to a community service job; most would then return to work. There were some exceptional cases, and, as in the major quantitative studies of welfare leavers, some women simply disappeared from the records. We could not know whether they had moved out of state, were being supported by family or friends, were working in the informal economy, or had died. Trends in the state data, like our earlier interviews, spoke to how closely work and welfare intertwined. This connection was apparent in the lives of participants, but it emerged from policymakers' visions of how the two *should* be connected—from their vision of welfare as an institution that could discipline participants and teach the value of work.

We have argued that to understand welfare in any era, we must pay attention to changes in the low-wage labor market. Since 1980, these labor markets in the United States have been shaped by two trends: one economic and one political. The economic trend is an explosion of low-wage service sector jobs, fueled by the growth of fast food chains, big box retailers, daycare centers, cleaning franchises, and other businesses that replace the labor of women in the home. The political trend is the ascendance of a "market orthodox" mentality that eschews regulation and has provided the rationale for dismantling many of the labor protections built up over the 20th century. These two developments have shaped policy in arenas of welfare and work.

These trends were not unique to the United States, but were part of a global reconfiguration of working arrangements and social safety nets. In the 1970s, manufacturing industries faced with declining profits began to lobby government for roll-back of regulations and to renegotiate their bargains with workers. They experimented with sending jobs overseas. This started a global "race to the bottom" in wages and working conditions in the manufacturing sector, as employers used the threat of closing plants and moving jobs to extract new bargains from industrial employees, and then often left anyway. These events devastated industrial cities like Milwaukee and Racine. But during this period, service sector industries experienced profitability crises as well. Many low wage service sector jobs—like cleaning hotels and serving food or caring for children or the elderly—cannot be moved. By placing women in low wage service jobs, attenuating their rights as workers and "reschooling" them in what to expect from low-wage employers, the designers of welfare reform fostered a race to the bottom in the service sector as well.

What are the alternatives to such a punitive and ineffective system? An outpouring of work from scholarly collaborations and think tanks has addressed this question.[11] Many suggested reforms are targeted at low-wage employers or entail new state programs outside of welfare, such as universal health care, paid family leave, expanded subsidies for child care, living wage ordinances, an expanded Earned Income Tax Credit, making unionization easier, new ways to promote asset ownership, or expanded education and training opportunities. There is no shortage of new ideas for ways to recreate a safety net for low-wage workers and to reconfigure a societal division of labor that would support social reproduction. While we have not weighed the pros and cons of such programs, our analysis of what is wrong with the system that exists—and of the way its failures play out in the lives of individuals, suggests two key starting points for any program of change.

First, such programs must be based on the recognition that poor women with children are already working, and thus wage work must be compatible with the care they must provide. In some cases—for example, if they are disabled or if they are caring for the seriously ill—work outside the home will not be practicable.

Second, new programs to replace workfare must be premised on what Alice Kessler-Harris has called economic citizenship.[12] She uses this term to refer to the ability to work at an occupation of one's choosing and to the "customary and legal acknowledgement of personhood" that flows from it. This means that all who work should be entitled to societally agreed-upon protections. We should work toward a wage that can support families—no longer paid only to certain groups of men, as in the family wage bargain—but to all workers. Perhaps the best way to do this is to insure that workers have the tools and resources to negotiate their own bargain with employers through unions.

The women in our study had a vision of such changes—not fully formed, in most cases, but in fragments. It structured their responses to those aspects of programs that they found profoundly unfair, such as mandatory placements. It animated their frequently expressed desire for more time at home with infants, their worries about their older children, and their wishes for the future. "I want my kids to have more than what they have;" "I need a better job;" "If I could just go to school." Touching in their modesty, these goals spoke of an alternative vision of economic justice. Policymakers have made poor women raising children a demonstration project for market-led deregulation of work—a move that has figuratively tied their hands as they negotiate the low-wage labor market. We hope that the struggles of the women in our study might serve as another kind of demonstration project—as a guide to the supports needed by embodied and encumbered workers and a call for a new vision of economic citizenship.■

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[2]J. De Parle, "Welfare Aid Isn't Growing as Economy Drops Off," *New York Times*, February 2, 2009, accessed at www.nytimes.com/2009/02/02/us/02welfare.html.

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[8]S. Thistle, *From Marriage to the Market: The Transformation of Women's Lives and Work* (Berkeley: University of California Press, 2006).

[9]Mead, *Beyond Entitlement*, p. 87.

[10]Mead, *Beyond Entitlement*, p. 86.

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FOCUS is a Newsletter put out two times a year by the

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Focus is free of charge, although contributions to the UW Foundation–IRP Fund sent to the above address in support of *Focus* are encouraged.

Edited by Emma Caspar

Reactions to *Both Hands Tied*

Lawrence M. Mead

Lawrence M. Mead is Professor of Politics and Public Policy at New York University and an IRP affiliate.

The following comments refer to Both Hands Tied: Welfare Reform and the Race to the Bottom of the Low-Wage Labor Market. *A response from the book's authors follows.*

I read *Both Hands Tied* with close attention; it is one of the most serious rejoinders I have read to the argument I make in *Beyond Entitlement*.[1] I appreciate the attention given by the authors to my ideas, and also the fact that they quote me accurately—not all of my critics have.

I differ only on one detail: The authors say that I and other advocates of welfare reform supported the cuts in worker rights that they criticize, the better to get welfare mothers serious about work. I have never said that. My goal was only that welfare adults should have the same rights and obligations as other citizens, no more and no less. In the private sector, they should certainly enjoy the same protections as other workers. I took no definite view on whether the protections now recognized are enough or not. I am not antigovernment and I have never advocated cutbacks in the welfare state.

It is true, as the authors emphasize, that recipients placed in workfare get fewer protections than regular workers. However, this is because they do less—they are placed in work rather than finding jobs on their own. In Wisconsin Works (W-2), recipients who get no cash aid receive the same rights as others. I believe that it is misleading to emphasize the workfare component of W-2; while most recipients *on the rolls* were assigned to workfare, they were vastly outnumbered by those who left cash aid to work in the private sector. For that much larger group, there was no reduction in labor rights.

To assess welfare reform fairly, it is necessary to look at its effects on the whole low-wage working population, not just on the very few still receiving cash aid. With the new child and health care and the enhanced wage subsidies that came as part of reform, the average former recipient is better off than before reform, provided she works and claims remaining benefits such as SNAP (Supplemental Nutrition Assistance Program, formerly food stamps).

The authors make an important contribution by describing the work experience of welfare recipients today. There has been little other research on this topic. Most of the research on welfare reform, including W-2, has focused on the changes in welfare itself rather than on the work experiences of mothers. Also, what study there was of employment after leaving welfare was mostly during the prosperous 1990s and not during the more difficult 2000s. *Government Matters*, my own book on the Wisconsin reform, ended in 2002.[2] The authors' description of W-2 is largely consistent with mine.

The authors found that mothers mostly use W-2 episodically, to tide them over during periods when work is too difficult, due to childbirth, health problems, or family demands. Soon they are put in workfare and go back to regular jobs. This is how the system was supposed to operate, avoiding the long-term dependency that developed under Aid to Families with Dependent Children (AFDC).

The picture that the authors paint of the new system is surprisingly benign. They find that it is overly demanding, but not abusive. W-2 caseworkers are described as generally responsive to the mother's needs; advocates of the new system would hardly claim more.

The main criticism in the book is that welfare reform, as well as changes in private employment, have left poor mothers insecure. They now have no way to support their families other than through a "solitary wage bargain." They have to deal with employers as if they were men without dependents, ignoring their family needs.

I would agree that some advocates of welfare reform, myself included, initially paid too little attention to the family responsibilities of poor mothers. However, since *Beyond Entitlement* I have given this topic considerably more attention, and I still stand by my original recommendation. It is fairest to society and best for the mother and child if the mother is required to work. While working in today's labor market is difficult, mothers who are not on welfare get no better. America never promised more.

The hard evidence on welfare reform programs shows mostly good effects. Evaluations show that most mothers benefit, both economically and personally, if they face a work test. Their children are less affected, but on balance they too gain. Surveys also show clearly that most recipients accept the work test.[3] The women interviewed for *Both Hands Tied* did not appear to question it, although they had many specific complaints.

I disagree, as the authors claim, that business or government ever accorded workers a right to a "family wage." Some unions won high wages, but I doubt the employers accepted any overt responsibility for families, only for the workers themselves. And, as the authors concede, workers enjoying such deals were never more than a small minority of all workers. Government never accepted a "family wage" either. It did establish a minimum wage, but again with no explicit reference to family. It also, in 1939, added survivor benefits to Social Security, but this was for families after the worker retired or died, not during his or her working years.

There was certainly never any idea that workers had a right to public support while *not* working for family reasons, or even to be particular about when and how they would work. Rather, workers qualified for Unemployment Insurance (UI) only if they had a steady work history and were fired involuntarily, and they were expected to begin searching for another job immediately. "Suitable work" rules limited how selective they could be. As the authors note, poor women typically work too erratically to qualify for UI.

On the whole, welfare reform meant applying similar expectations to cash welfare. One need not have worked prior to claiming welfare, as in UI, but a mother must now work or seriously look for work while receiving aid. One must work alongside the taxpayers on whom one relies. That was not a reactionary change as the authors present it, but rather the revocation of the right not to work that AFDC had come to embody.

I also would contest that either employers or government deliberately cut back worker or family protections in the same jobs as the authors suggest. It is true that the service jobs that poor women hold today provide worse pay and benefits than the unionized factory jobs of earlier decades. But the latter were never typical of the economy, and few mothers ever held them. Industrial employers did not cut pay and benefits so much as they simply moved their factory jobs elsewhere. The service jobs that then dominated had never paid so well. To present the shift from factory jobs to services as if it were a deliberate cut in wages and benefits is to misrepresent what happened, to compare apples to oranges.

In fact, wages for low-skilled women in service jobs rose in the 1990s. Without those gains, we could not have seen the sharp reductions in child and family poverty that Wisconsin and the nation achieved in that decade, although poverty has rebounded since. The case made by the authors would be stronger if they could say that jobs were simply unavailable or wages had fallen compared to what the same jobs used to pay. At most, they say that wages have not risen and that service employers have resisted increases.

Nor did government cut back its efforts. The authors present welfare reform as if it meant the wholesale dismantling of social programs. That was true neither in Wisconsin nor the nation. Wisconsin saved money on reform in the short term, as I showed in *Government Matters*, but only because the caseload fall in AFDC and W-2 was far greater than projected.[4] The new child and health care provided to facilitate work eventually proved too heavy to carry, forcing the cutbacks described by the authors, but spending did not fall relative to before reform. On the national level, the shift of spending from cash aid to support services was less drastic, and spending grew. Part of this was EITC, which is vastly more generous since 1993 than it was before, including a state supplement for Wisconsin residents.

While it is true that many of these support services and benefits have been cut back in the current state fiscal crisis, that has nothing to do *per se* with welfare reform. It is a crisis that has hit all domestic programs, including those serving the middle class.

The main reason that poor mothers are struggling today has nothing to do with these changes—rather, it is the sharp rise in unwed pregnancy. The collapse of marriage is the principal reason why combining work with family has become more difficult for poor families. In the past, more families benefited from the inherent efficiencies of having two parents. It was then possible for women to reconcile children with work (usually part-time) without huge difficulty. With two parents (usually) working, there was a *de facto* family wage even if there was no explicit policy. That is still true today for intact families.

Far from ignoring the marriage problem, government has tried to compensate by providing far more child and health care than it ever did before welfare reform. That safety net is highly visible in the authors' account of how poor mothers mix erratic work with occasional welfare. None of these supports existed in the 1930s, or even in the 1960s. Far from abandoning the poor, government's role has grown. It is now doing part of the job that intact families used to do. Welfare reform has not changed that. If anything, government's role has increased, since it now includes promoting employment as well as just transferring resources to families.

In only one respect is government less generous than it was—the denial of entitlement. The new benefits are mostly conditioned on employment. Mothers must be accountable for the support they get, and are no longer the sole judges of whether to work. Government has decided that to expect work is fair and also best for families. The authors obviously differ in this opinion, but they do not rebut these judgments directly throughout most of their book. Rather, they make the more limited argument that the new work-based safety net is insufficient. Mothers need not only child and health care, but also more flexibility about leaving work to deal with child and health emergencies. It is true that Europe has more generous family leave policies than we do, and that a case can be made for improvements. I am open to that, as I take no definite view of how much government should do for workers, either men or women.

My point, rather, is that the case for improved leave must be a general one, pitched to the needs of all mothers. Leave cannot be a privilege confined to welfare mothers, as the right not to work used to be. And it cannot amount to a *de facto* cancellation of the work requirement.

At the end of the book, the authors finally reject the work requirements *per se*. They say that the poor single mother deserves support because she is "already working" by caring for her child or other family members. They also call for improved pay, benefits, and other conditions if she does work. But implicitly, work would again be the mother's choice, as it was under AFDC. This is a lot less persuasive then improving work benefits and conditions. It is unfair to taxpayers, few of whom have a choice not to work, and it would mean a loss for most mothers and children.

The authors say that Stuart White and others defend caretaking as "civic labor" that should be accepted in lieu of paid work. In fact, White in *The Civic Minimum* sets conditions on civic labor that, in my view, would deny support to a welfare mother caring for her own child without work.[5] Christopher Beem, however, has developed an argument for supporting the mother during infant care that differs from entitlement because the mother has to satisfy several civic conditions. She must have worked or be enrolled in education and training, and she must receive instruction in parenting.[6] That position is not far distant from the authors' call for improved family leave and support services. All these arguments are set out in *Welfare Reform and Political Theory*, which Beem and I edited in 2005.

The authors' case against conditionality ultimately rests on the same conviction as AFDC, that mothers coping with children alone cannot be expected to work. The authors virtually ignore the major cause of the mother's dilemma—runaway unwed pregnancy. No response is fully satisfactory. Society is not about to enforce marriage, but single parenthood is too damaging for society not to hold the mother accountable in some way (as we also do the father through child support). We cannot simply hold the mother harmless, as the authors' proposals would do. That shifts all the responsibility to society. The moderate position, embodied in current policy, is to require work and also help the mother to work. Thus, she gets some support, but she is still accountable for some functioning to the larger society, just as other adults are.

In *Both Hands Tied*, the authors have usefully portrayed the work experience of many mothers after welfare reform. However, I find their larger indictment of the system unpersuasive. While well-paid factory jobs are gone, on balance poor single mothers are better off than they used to be. Their greatest problem is single parenthood, not anything the society has done to them. Their conditions might be improved, but there is no cause to return to entitlement. We have already been down that road.■

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[1]L. M. Mead, *Beyond Entitlement: The Social Obligations of Citizenship* (New York: Free Press, 1986).

[2]L. M. Mead, *Government Matters: Welfare Reform in Wisconsin* (Princeton: Princeton University Press, 2004).

[3]T. Brock, D. Butler, and D. Long, "Unpaid Work Experience for Welfare Recipients: Findings and Lessons from MDRC Research," (New York: Manpower Demonstration Research Corporation, September 1993), table 5.

[4]Mead, *Government Matters*, ch. 10.

[5]S. White, *The Civic Minimum: On the Rights and Obligations of Economic Citizenship* (Oxford: Oxford University Press, 2003), ch. 5.

[6]C. Beem, "Restoring the Civic Value of Care in a Post-Welfare Reform Society," in *Welfare Reform and Political Theory*, eds. L. M. Mead and C. Beem (New York: Russell Sage, 2005), ch. 7.

The Minimum Wage and Labor Market Outcomes

Christopher J. Flinn

In *The Minimum Wage and Labor Market Outcomes*, IRP affiliate Christopher Flinn argues that in assessing the effects of the minimum wage in the United States and elsewhere, a behavioral framework is invaluable for guiding empirical work and the interpretation of results. Flinn develops a job search and wage bargaining model, and uses previous studies from the minimum wage literature to demonstrate how this model can be used to evaluate the diverse results found in widely varying institutional contexts. He also shows how observed wage distributions from before and after a change in the minimum wage can be used to determine whether that change improved people's well-being. More ambitiously (and perhaps controversially), Flinn proposes the construction and formal estimation of the model using commonly available data; model estimates then enable the researcher to determine directly the welfare effects of observed minimum wage changes. This model can be used to conduct counterfactual policy experiments—even to determine "optimal" minimum wages under a variety of welfare metrics. The development of the model and the econometric theory underlying its estimation are carefully presented so as to enable readers unfamiliar with the econometrics of point process models and dynamic optimization in continuous time to follow the arguments. Although most of the book focuses on the case where the unemployed search for jobs in a homogeneous labor market, later chapters introduce on-the-job search into the model, and explore its implications for minimum wage policy.

The book is dedicated (in memoriam) to Arthur Goldberger and Irving Piliavin, two longtime associates of and contributors to the IRP and close friends of the author from his days on the faculty at the University of Wisconsin.

MIT Press, March, 2011, 344 pp.,
http://mitpress.mit.edu

Response from the authors

Jane L. Collins and Victoria Mayer

We want to thank Larry Mead for the thoughtful reading of and response to our book. We clearly consider our work in dialogue with some of the ideas he has put forward in *Beyond Entitlement* and other writings, and we welcome the opportunity to keep the dialogue going. We appreciated his acknowledgement of the gaps our book fills in the literature on the work experience of welfare participants, as well as our documentation of the episodic nature of welfare use in recent history, and our picture of how the system of provision works on the ground.

We agree with Mead that structured welfare programs have an important role to play in our society. We also agree that low-wage workers require supports, such as child care subsidies and medical assistance. However, we believe that Mead misreads our main point when he suggests that we are calling for a return to "entitlement" as it previously existed or argue that "mothers coping with children alone cannot be expected to work." Rather, our critique of the current system is not aimed at the expectation that citizens work, but at the way that contemporary labor markets and mediating institutions allocate and reward work. As Mead notes, many of the mothers in our study really wanted to work. "If they could just make sure we have enough health care and child care benefits …" one woman told us, "it would change the outcome." Therefore, we think this exchange establishes a good basis for the discussions we hoped the book would spark—a broad rethinking of the proper responsibilities of government, employers and families for providing the support working American families need.

If this assertion of shared responsibility seems surprising at first glance, we need only remind ourselves that workers do not arrive on the scene fully grown and ready to labor; they need to be cared for and educated as children, their health needs to be safeguarded, they need clean water, food, and safe housing. In our book we use the rubric of "social reproduction" to refer to the work necessary to keep households and communities functioning and to allow them to send productive members out into the world. Because labor has a dual character, being both a commodity traded in the market and a human activity that cannot be "detached from the rest of life, stored or mobilized" as market demand changes, workers and their families require social protection.[1] The politicians who enacted New Deal legislation recognized this, regulating labor conditions and creating social programs to insure families against the risks entailed in depending on labor markets for income, including unemployment, retirement, and disability. In the post-World War II era, government-administered programs were augmented by an extensive private benefit system administered by employers but publicly subsidized and regulated. For middle class workers, these benefits included medical insurance, guaranteed benefit pension programs, and sick leave. In the book we refer to this model as the "family wage" bargain. Finally, although the welfare state attached its most valuable benefits to wage work, federal lawmakers also created a series of programs that comprised a "second channel" for providing benefits to poor families who could not participate in the workforce.[2] Initially limited to Aid to Dependent Children, these benefits were later expanded when policymakers allowed widows and children to claim social security earned by a deceased breadwinner, and again when they created new means-tested programs such as food stamps, medical assistance and Supplemental Security Income.

These arrangements were designed to compensate for economic insecurity experienced during the post-World War II period; however, that economy and the labor market agreements we associate with it are largely gone now. When product markets became more volatile and profitability declined during the 1970s, companies began restructuring work and workplace contracts through automation, relocation, subcontracting and new contingent labor agreements. Structural unemployment and new labor contracts shifted much of the risk produced by market instability onto working families. Jacob Hacker points out that even those workers who were able to hold onto jobs or to find new long-term employment have had to assume greater responsibility for retraining and for their medical care and retirement.[3]

These shifts are consistent with the labor market models envisioned by free market advocates who designed welfare reform. In our book, we discuss how they "imagined a labor market in which each worker was free to pursue his or her best interest and was on his or her own (unaided by employers and unencumbered by family responsibilities) in doing so." To highlight how these shifts strained the ability of working families to engage in social reproduction, we called this new set of labor agreements the "solitary wage bargain." In the book, we show how Wisconsin's Temporary Assistance for Needy Families program buttressed this new contractual model when it required welfare agencies to press mothers to take positions in low-wage jobs which left them dependent on the government for food, child care, and medical insurance. In his response to our book, Mead rejects our characterization of changes in low-skilled work, casting doubt on the prior significance of the family wage model. Nevertheless, dramatic increases in income inequality and income instability from the mid 1970s on suggest otherwise.[4]

Supporters of welfare reform and others have noted the movement of working class and middle class mothers into wage work after 1970. This movement helped to offset declining male income, but it also created a care shortage and new forms of income vulnerability when parents separated or when a parent had to leave the labor market to care for a young child or an ill or disabled family member. Mead mentions several times that welfare reformers were simply asking of poor women what our society asks of all women. This is something we often receive questions about: "Isn't it just incumbent on poor women to figure out how to do what other women are doing?" And we agree this makes some sense. But how do middle class and working class women manage to combine work and family? They do it by purchasing services on the market that substitute for their labor in the home, services such as day care, nursing home care, and restaurant food. We argue in the book that the ability of women of all classes to work—their ability to purchase on the market services they formerly performed at home—depends on some women (poor women) working non-standard hours in low paid work in these venues. And we argue that we need to have a discussion, in our society, about whether this is the way things should be.

Mead points to the importance of out-of-wedlock births in creating difficulties for poor women. We agree that loss of the family supports that came with marriage are part of what has changed for poor mothers over the past few decades. But as we note in the book, social policy has paid a great deal of attention to this issue while neglecting, relatively speaking, changes in jobs. The fact is that single-parenting has increased across the socio-economic spectrum over the past twenty years. Furthermore, as our research and child support research demonstrate, deindustrialization and employment discrimination in southeastern Wisconsin have made it very difficult for many low-skilled fathers to provide economic support for their children whether they live with them or apart from them.

We believe that the best way forward is to provide services and supports for working families that allow them to combine work and care. This could include things like Unemployment Insurance for compelling family emergencies and more broadly accessible healthcare. We agree with Mead when he writes that "the case for improved leave must be a general one, pitched to the needs of all mothers." This goes to the heart of our points about economic citizenship in the book. If these programs are universal, they will not compromise the dignity and citizenship of those who participate. The worst thing about the old system of welfare was that it stigmatized participants (and we would argue that the kinds of paternalism Mead advocated in *Beyond Entitlement* were intertwined with and increased that stigma).

In conclusion, we argue that the array of social programs designed to protect families during the latter half of the twentieth century, and redesigned under welfare reform, needs to be reassessed in light of changing labor market practices and the new strategies families pursue to maintain their income. We disagree with Mead's assertion that "[n]either employers [n]or government deliberately cut back worker or family protections." Just as the welfare state was constructed through many political contests over social relations across multiple institutional sites, welfare state retrenchment has been an ongoing process prosecuted by multiple actors in the public and private sectors. Service sector jobs that comprise a majority of employment opportunities today are not degraded by nature—we trust the health and education of our children and our parents to service sector workers. Employers have used labor restructuring to weaken unions as we document in the book, and employer-funded foundations like Milwaukee's own Bradley Foundation promote legislation banning "living wage" and mandatory sick leave ordinances, and lobby against the minimum wage.[5] The passion with which political struggles over the future of unions, good jobs, and social programs are being waged today—in Wisconsin and elsewhere—suggests that recent trends in labor contracting and neoliberal policy-making do not represent a social consensus on the way Americans want to move forward as a country. For this reason we especially appreciate this opportunity to participate in debates over how the division of responsibility for social reproduction—between government, employers, and families—might be recalibrated.■

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[1]K. Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Press, 1957): 72.

[2]B. Nelson, "The Origins of the Two-Channel Welfare State: Workmen's Compensation and Mother's Aid." in *Women, the State, and Welfare*, ed. L. Gordon (Madison: University of Wisconsin Press, 1990).

[3]J. Hacker, *The Great Risk Shift: The New Economic Insecurity and the Decline of the American Dream* (New York: Oxford University Press, 2006).

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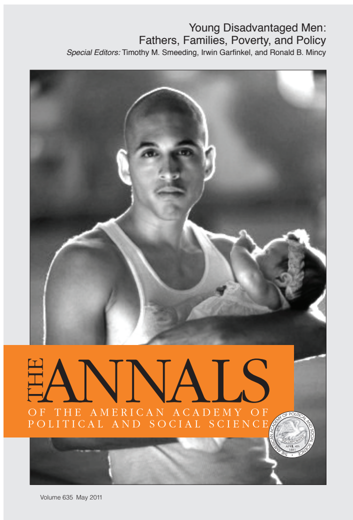
The Annals of the American Academy of Political and Social Science
Young Disadvantaged Men: Fathers, Families, Poverty, and Policy

Vol. 635, May 2011

Timothy M. Smeeding, Irwin Garfinkel, and Ronald B. Mincy, Special Editors



Introduction:
Young Disadvantaged Men: Fathers, Families, Poverty, and Policy
Timothy M. Smeeding, Irwin Garfinkel, and Ronald B. Mincy

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Disadvantaged fathers and their families

Timothy M. Smeeding, Irwin Garfinkel, and Ronald B. Mincy

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Young undereducated men and their families are currently experiencing a confluence of unfavorable occurrences, providing a bleak outlook for their future.[1] The recession of 2008 to 2010 has made it very difficult for young men with little education to find jobs. Since nearly two-thirds of these men are parents, many are thus struggling to support their families. A high level of incarceration further restricts employment opportunities and greatly reduces fathers' time with their children. Most young men who become fathers are not married, and many go on to have at least one more child with another partner. Child support obligations may balloon when fathers are unemployed or in jail, and there are few public policies specifically designed to increase income for this population. As a result of all these forces, poverty rates are rising for young men, and their families are very unstable and struggling financially. An economic recovery sufficient to create enough jobs for these men to regain stable employment is currently forecast to be at least five years and more likely seven years away. By that time, these young parents and their children will have become a truly lost generation.

In September 2009, a conference at the University of Wisconsin–Madison brought together scholars and policymakers to examine strategies for reducing barriers to marriage and father involvement, designing child support and other public policies to encourage the involvement of fathers, and understanding the implications of fathers having multiple child support responsibilities. A special issue of *The Annals of the American Academy of Political and Social Science* comprises papers from that conference. The volume, *Young Disadvantaged Men: Fathers, Families, Poverty, and Policy*, details the problems faced by a growing proportion of young men, and outlines some policy solutions that might help them recover from the deep economic and social hole in which they and their families now find themselves. This article provides a brief summary of that work.

Social and economic forces facing young fathers

Most men with a high school degree or less are fathers by age 30.[2] Teenage fathers are less likely to graduate from high school or to obtain their General Education Diploma (GED).[3] Only about half of all fathers under 25 were married at the time their first child was born, while less than a quarter of young black fathers were married.[4] Fathers are much less likely than other young men to continue their education after high school.[5] Over 60 percent of fathers with a high school degree or less had earnings under $20,000 in 2002.[6] These statistics suggest that many young men with little education have family responsibilities but do not have the economic capacity to meet those commitments.

In summary, at least four major forces affect young fathers and their families: the labor market; incarceration; multiple-partner fertility; and public policy, particularly in regard to income support and child support. We examine each of these forces below.

Labor market

Over the past few decades, earnings for young men, even those with full-time work, have been falling, and few low-educated young men are able to obtain full-time work. In 2008, the poverty line for a family of three was $17,400. Far less than half of low-educated men earn that much by age 30, so most young disadvantaged men do not make the minimum amount needed to support a partner and one child on their own. During the recent recession, the economic situation for these young men worsened, and most analysts predict a significant increase in the poverty rate for 2010 and beyond.[7]

Figure 1 shows employment changes over an eight-quarter period from late 2007 through 2009.[8] The overall employment rate over this period fell by nearly 5 percentage points, with the largest drops experienced by the youngest workers. Looking at education levels, the employment rate declined most for workers who were high school dropouts or who had only a high school diploma.

The recession has been hardest on young undereducated men, especially minorities. Over 30 percent of young black men between the ages of 16 and 24 were unemployed during 2009 and 2010, not counting those who were not seeking work.[9] Unemployment rates for young men with little education now exceed rates for comparable men during the Great Depression. Nearly half of the unemployed have been out of work for six or more months, an all-time high for long-term unemployment.

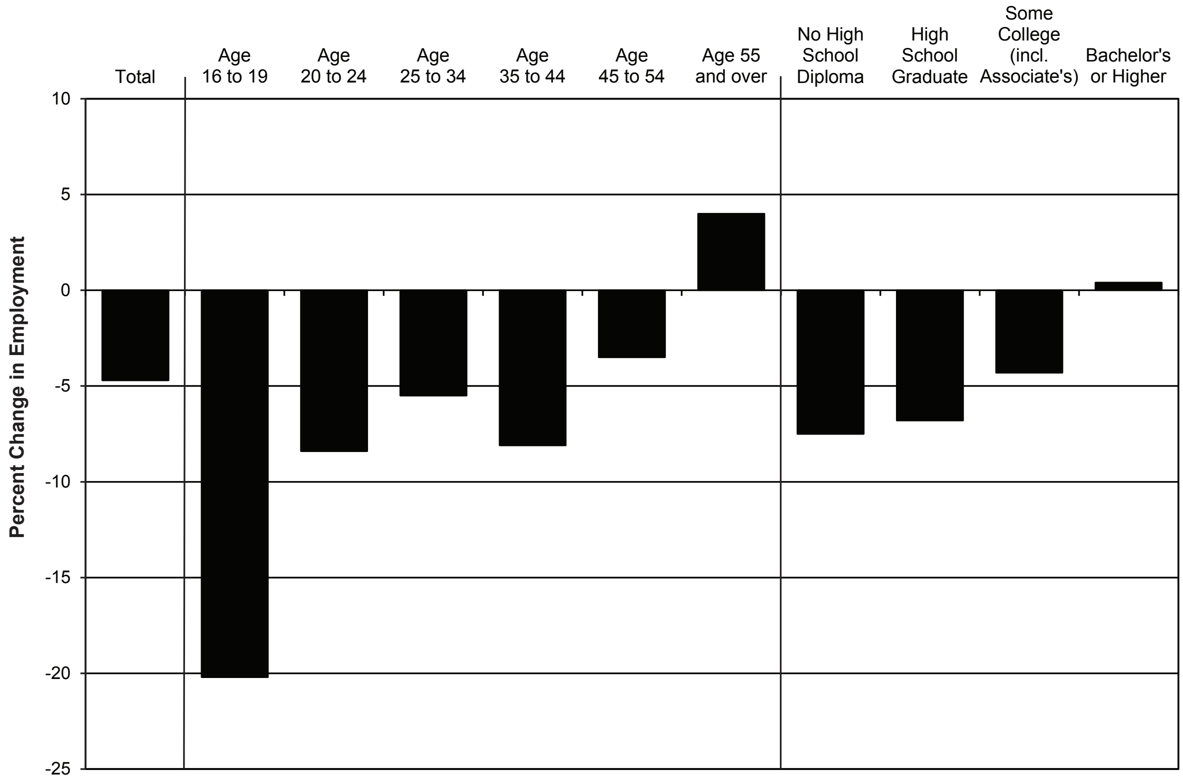

Figure 1. Employment changes by age group and education level, 2007 to 2009.

Source: K. M. Engemann and H. J. Wall, "The Effects of Recessions across Demographic Groups," *Federal Reserve Bank of St. Louis Review* 92, No. 1 (2010): 1–26.

Note: The data cover the fourth quarter of 2007 through the third quarter of 2009.

Incarceration

In the United States, over half of black high school dropouts and one-quarter of all high school dropouts will have been incarcerated, paroled, or on probation at least once by the time they reach the age of 30.[10] Many prisoners have minor children, and many lived with their children before being incarcerated.[11] Incarceration disproportionately affects black children; for children born in the United States in 1990, a quarter of black children had an incarcerated father by the time they turned 14, compared to only one in twenty-five for white children. Black children with parents who are high school dropouts are particularly affected; about half have an incarcerated father.[12] Evaluating the joint effects of age, race, and incarceration is challenging given limited data, but the facts that we do have suggest that incarceration is a factor for a high proportion of disadvantaged young fathers. We estimate that at least one in five young fathers will have been incarcerated by age 30, with an even higher rate for black men. These formerly incarcerated fathers face serious challenges in entering or returning to the labor market, as well as in parenting and financially supporting their children.

Multiple-partner fertility

Over half of men fathering a first child before age 25 are unmarried at the time of the birth; the rates are even higher for minorities.[13] Over half of unmarried parents have further children with a different partner.[14] In a study of urban births in the late 1990s, in nearly two-thirds of unmarried couples, one or both parents already had a child with another partner at the time that the child in the study sample was born.[15] This compares with only about 20 percent of comparable married couples. In a 2002 national survey, nearly a third of fathers under age 25, and almost half of black fathers in that group, had children with more than one partner.[16] Children of young, poor, and urban parents are all more likely to have complex family structures. Children with half-siblings on one parent's side are more likely to also have half-siblings on the other parent's side, leading to very complicated families, and likely very complicated child support arrangements.

Public policy

Public income support policy in the United States in the past several decades has focused primarily on mothers and their children, largely excluding young unmarried men and young fathers. These same young men often come into contact with the child support system. Fathers with child support orders may build up large arrears when unemployed or incarcerated, while up to 65 percent of earnings or tax refunds may be garnished for unpaid child support.[17] Fathers who do not live with their children are ineligible for the EITC even when they contribute to the support of their children.

Currently, the only income support program widely available to young single men is the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps). The American Recovery and Reinvestment Act (ARRA) of 2009 and other legislation have extended Unemployment Insurance (UI) for the long-term unemployed. However, young men are less likely to receive these benefits; men under 30 account for nearly 40 percent of unemployed men, but only 20 percent of UI benefit recipients.

Current work on these issues: Articles in the *Annals* volume

The first four articles in *Young Disadvantaged Men* provide more detail on the social and economic forces described above. These articles are followed by three commentaries. The final set of five articles present some possible policy options to reconnect disconnected fathers to their children and thereby improve child and family economic and emotional well-being. We describe this work next.

Descriptions of fatherhood

Four articles develop the issues outlined above by describing in greater detail the economic and family situations of young disadvantaged fathers, and how the realities of their lives affect themselves, their partners, and their children.

Labor market

Labor market outcomes for young men have gotten much worse in recent decades, particularly for those with the lowest levels of education. Andrew Sum, Ishwar Khatiwada, Joseph McLaughlin, and Sheila Palma find that young men are faring worse on a variety of employment and earnings measures, and that these poor labor market results are related to poor social outcomes as well.[18] Undereducated men are more likely to be incarcerated, less likely to be married, and more likely to be absent fathers, compared to similar men in earlier decades. Marriage declines and growing earnings gaps have contributed to a widening of income and wealth disparities among young families. A variety of measures are likely necessary to improve employment, earnings, and marriage prospects for young men. Without real and sustained improvements in earnings, the future for young men and their children looks grim.

Fatherhood

Lawrence Berger and Callie Langton review current theory and existing evidence about young disadvantaged men's involvement with their children.[19] They examine prevailing theories and existing evidence on factors that may affect father involvement, including biology, marriage, coresidence, and social selection. They briefly review the role of the father in raising children, and look at the socioeconomic characteristics of men who become young fathers. Finally, they discuss the limitations of existing research and the implications for future research and policy. They conclude that younger fathers tend to be both more disadvantaged and less involved with their children than older fathers, and that unmarried biological fathers are similarly less involved compared to their married counterparts. With respect to biology, they find that while existing research does tend to indicate that resident biological fathers are more involved with their children than are resident social fathers, this difference may be less distinct among disadvantaged families, indicating a need for further research. They also point to the need for more research on involvement with children when fathers are incarcerated. Finally, they suggest that some families with nonresident fathers may be helped by programs and policies designed to assist those men to develop as supportive parents.

Relationships

Until recently, very little data were available on the romantic partnerships of young disadvantaged men. Laura Tach and Kathryn Edin review current survey evidence focusing on the relationship dynamics between these men and their romantic partners, why some romantic partnerships dissolve while others continue, and how families function after partnerships between unmarried parents end.[20] They conclude that young disadvantaged men are often involved in romantic relationships that result in pregnancy. When this occurs, most young men stay involved with the mother and, if the relationship survives that stressful period, express optimism about the future and a commitment to staying in their child's life. The future, however, holds numerous obstacles to fulfilling this optimism, and most of these partnerships end within the first few years after the child is born. Still, the relationship between the two parents does not end when the partnership breaks up, even as new romantic partnerships form and family structures become more complicated, and the quality of these relationships affects the ability of fathers to coparent and remain involved with their children. Finally, the authors contend that public policy should be supporting of rather than challenging to these fragile families. For example, household-income limits for programs such as the EITC or SNAP may discourage families from combining resources or marrying.

Child well-being

In the final article of this set, Marcia Carlson and Katherine Magnuson evaluate current knowledge on how low-income fathers matter for children.[21] They review theoretical perspectives on expectations for parents, specifically fathers, in terms of influencing child development and well-being. While research has shown that more involvement by fathers is associated with better outcomes for children, the evidence specifically for low-income fathers is limited, and it is not clear that the results for this population are as positive as those for more advantaged populations. The authors identify several areas in need of more research, including how both biological and social fathers matter for children, how fathering effects differ by characteristics such as race and ethnicity and the age and gender of the child, and the implications of multiple-partner fertility for being a father. Although Carlson and Magnuson do not draw strong conclusions about public policy implications given the limited evidence for low-income fathers, they do suggest that increasing the payment of child support appears to be a worthwhile goal, and that policy initiatives should be developed to encourage positive interactions between fathers and children, rather than simply increasing the amount of time spent parenting.

Commentaries

Following the four descriptive summaries of the evidence on young fathers are three commentaries, one each on culture, race, and family functioning and longer-term relationships.

Alford A. Young Jr. looks at how cultural differences across racial and ethnic lines help to describe and define the patterns of partnering and fathering that we see among low-income men.[22] He explores fatherhood identity as well as the community context in which low-income fathering takes place. Young concludes that the evidence encourages some rethinking of the cultural aspects of low-income fathering, while also conclusively illustrating that low-income fathers do value the role of father and try to fulfill it in healthy and successful ways.

Devah Pager notes that the social and economic progress of black men since the early 1980s has been relatively stagnant, despite promising reforms following the civil rights movement of the 1960s.[23] The circumstances of low-income black men also affect their partners and children. Pager emphasizes the importance of race and incarceration in understanding the prospects of disadvantaged men. She raises the possibility of estimating the relative effects sizes of various approaches to solving the employment problems of young less-educated men as a way of moving towards more effective policies. She also notes that the cost-benefit analysis of any public policy interventions must also take into account any effects of such policies on families and children.

Frank Furstenberg notes that research on fatherhood is a relatively recent development.[24] Drawing on his own work and that of others, he summarizes the lessons from recent decades, particularly those on the role of men in forming families and raising children. He then looks at the consequences of paternal involvement in all its different forms. He concludes that while increasing the human capital of prospective parents and reducing unintended pregnancies early in life may be challenging, it is far more feasible to implement policies in these areas than to alter parenting practices within fragile families.

Policy articles

The last five articles in *Young Disadvantaged Men* focus on policy issues identified in the descriptive articles: child support; education and employment; incarceration; strengthening fatherhood and family relationships; and income-support policy. Brief summaries of each of these chapters follow.

Child support

In recent decades, the private child support system has been made stronger, while access to public support programs such as welfare has been reduced. Maria Cancian, Daniel Meyer, and Eunhee Han review evidence on nonresident fathers' ability to pay child support, look at how current child support policies affect disadvantaged fathers, and suggest policy reforms to help all fathers be able to pay child support.[25] The authors argue that current policies both oblige and help disadvantaged mothers to work, and that similar requirements and assistance should apply to disadvantaged fathers. Cancian, Meyer, and Han highlight two issues fundamental to improving the child support system for low-income families, and thus making such equity between mothers and fathers possible. One issue is the need for child support policies to clearly focus on the needs of vulnerable children rather than on cutting public spending. This could include changes such as allowing families on public assistance to retain all child support paid on their behalf, and not asking nonresident fathers to reimburse Medicaid-covered birthing costs. A second issue is the need to complement child support enforcement policies with policies that help fathers meet those obligations. This could include job placement services and work supports such as subsidized health insurance and an EITC.

Education and employment

Low high school graduation rates for disadvantaged youths, combined with rapidly declining employment rates, have resulted in many young men being disconnected from both school and work. Carolyn Heinrich and Harry Holzer review the evidence on programs and policies designed to improve the education and employment prospects for young men.[26] They consider a number of specific proposals and discuss how to move forward with the most promising policy options. They conclude that investing in youth development and mentoring can be cost effective, although the results are modest and tend to diminish over time. Paid work experience can be successful for at-risk high school students, and programs that identify at-risk youths early and provide them with intensive services also seem promising. Programs that assist young people in obtaining an associate's degree or a certificate in a high-demand field can potentially improve labor market outcomes. It is more challenging to identify successful programs for high school dropouts and other disconnected youth, but even here some interventions have been modestly successful. Heinrich and Holzer argue that a range of policy approaches are needed and that these must be complemented with ongoing research to continue to identify which programs work best for which groups.

Incarceration

Incarceration is increasingly used to punish criminal activity in the United States, and the nation's incarceration rate is now the highest in the world. Steven Raphael reviews incarceration trends over the last 40 years and distinguishes incarceration changes attributable to policy adjustments from those attributable to changes in criminal behavior.[27] He also reviews how incarceration affects future employment prospects, and what can be done to ease reentry of former inmates to society and the workforce. Raphael presents research evidence showing that criminal activity and incarceration may be reduced through educational and early childhood programs. He also identifies a number of potentially helpful interventions for former inmates, including temporary cash assistance, transitional employment, and wraparound services that begin while the individual is still incarcerated, and continue into parole or beyond. The author concludes that more rigorous research is needed to evaluate the responses of different types of former prisoners to various interventions. Given the extremely high costs of both crime and incarceration, even programs that produce modest effects are likely to be cost-effective.

Fatherhood and family relationships

Virginia Knox, Philip Cowan, Carolyn Pape Cowan, and Elana Bildner review evidence on the effectiveness of two specific strategies to strengthen fathers' involvement and family relationships.[28] These are responsible fatherhood programs targeted to disadvantaged noncustodial fathers and relationship skills programs for couples. The authors find that both approaches have had some success; fatherhood programs have resulted in higher child support payments, while relationship skills programs have strengthened relationships, improved coparenting, and increased child well-being. The authors also note that there is significantly more evidence on how to help couples improve their relationship quality, and what the effects of such an improvement might be, than there is on how to increase the quality and quantity of noncustodial fathers' involvement with their children. Thus, they offer a number of suggestions for creating more effective programs for young noncustodial fathers. The authors conclude that parents' relationship with each other should be a key concern in developing new programs to encourage low-income fathers' involvement with their children.

Income security

In recent decades, both real wages and labor force participation have decreased for young undereducated men. Ronald Mincy, Serena Klempin, and Heather Schmidt look at how important areas of income support policy affect these men.[29] These include UI, payroll taxes, the EITC, and child support enforcement. The authors make short- and long-term policy recommendations including using ARRA funds to meet the training needs of low-income workers, coordinating EITC and child support enforcement policies to increase work income, and making UI more responsive to the needs of this population. Transitional job programs that provide subsidized jobs could provide a key lever for allowing disadvantaged men to access work-based subsidies. The authors also conclude that effective income-support policy responses must include both government and private funds.

Conclusions

Given the evidence presented at the September 2009 conference and reflected in the contributions to this special issue of *The Annals*, it is apparent that public policy must address the needs of disadvantaged young men and their families. Policies should be implemented to increase employment, education, and training, and incarceration policies for young offenders should be made more progressive. In addition, better efforts to support the incomes and employment of young men would allow more of them to support their families and meet their child support obligations. And finally, we need programs that are effective in preventing youth from unintended out-of-wedlock births.

Although a strong economy would itself go a long way to improving the financial situation of these men, such a development currently appears to be many years in the future. Instead, it is necessary to determine the best available policy options given dwindling fiscal resources. In all policy areas, trade-offs must be acknowledged. Improving income supports for men may create work disincentives, while increasing public support for low-income mothers and children may make men less likely to pay child support. Forgiveness of child support arrears may increase payment of current support, but may also lead men to believe that future orders can be disregarded. Programs that reduce incarceration levels may endanger public safety.

Nevertheless, under the current economic circumstances, efforts to help young men in trouble must be increased. Disadvantaged fathers are a low policy priority, so securing additional supports will be a serious challenge. Policy should encourage and reward positive behavior, and help to strengthen familial relationships. The information presented at the September 2009 conference and summarized in *Young Disadvantaged Men* illustrates both that the needs of young men are high and that adequate support for the next generation of children is still a long way off.■

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[1]This article draws upon "Young Disadvantaged Men: Fathers, Families, Poverty, and Policy," in T. Smeeding, I. Garfinkel, and R. Mincy, eds., *The Annals of the American Academy of Political and Social Science: Young Disadvantaged Men: Fathers, Families, Poverty, and Policy* 635 (May 2011).

[2]See National Longitudinal Survey of Youth (NLSY), U.S. Bureau of Labor Statistics 1997; National Survey of Family Growth (NSFG), U.S. Centers for Disease Control 2002.

[3]J. M. Fletcher and B. L. Wolfe, "The Effects of Teenage Fatherhood on Young Adult Outcomes," 2010, available from http://ssrn.com/abstract=1622084.

[4]C. Langton, 2002 NSFG and 1997 NLSY data runs conducted specifically for *The Annals; Young Disadvantaged Men*.

[5]Langton, 2002 NSFG data runs.

[6]Langton, 2002 NSFG data runs.

[7]E. Monea and I. Sawhill, "An Update to 'Simulating the Effect of the Great Recession on Poverty,'" Brookings Institution: Washington, DC, 2010. Available from http://www.brookings.edu/papers/2010/0916_poverty_monea_sawhill.aspx.

[8]K. M. Engemann and H. J. Wall, "The Effects of Recessions Across Demographic Groups," *Federal Reserve Bank of St. Louis Review* 92, No. 1 (2010): 1–26.

[9]A. Sum, I. Khatiwada, J. McLaughlin, and S. Palma, "No Country for Young Men: Deteriorating Labor Market Prospects for Low-Skilled Men in

the United States," in *The Annals; Young Disadvantaged Men*; and D. Peck, "How a New Jobless Era Will Transform America," *The Atlantic Monthly*, March 2010.

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[11]L. E. Glaze and L. M. Maruschak, "Parents in Prison and Their Minor Children," U.S. Department of Justice, Office of Justice Programs: Washington, DC, 2009. Accessed at http://bjsdata.ojp.usdoj.gov/content/pub/pdf/pptmc.pdf on January 8, 2010.

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[14]M. Cancian, D. R. Meyer, and S. Cook, "The Evolution of Family Complexity from the Perspective of Nonmarital Children," *Demography* (forthcoming); and M. Carlson and F. F. Furstenberg, Jr., "The Prevalence and Correlates of Multipartnered Fertility among Urban U.S. Parents." *Journal of Marriage and Family* 68, No. 3 (2006): 718–32.

[15]Carlson and Furstenberg, "The Prevalence and Correlates of Multipartnered Fertility."

[16]Langton, 2002 NSFG and 1997 NLSY data runs.

[17]R. Haskins and I. Sawhill, *Creating an Opportunity Society* (Washington, DC: Brookings Institution Press, 2009).

[18]Sum et al., "No Country for Young Men."

[19]L. M. Berger and C. E. Langton, "Young Disadvantaged Men as Fathers," in *The Annals; Young Disadvantaged Men*.

[20]L. Tach and K. Edin, "The Relationship Contexts of Young Disadvantaged Men," in *The Annals; Young Disadvantaged Men*.

[21]M. J. Carlson and K. A. Magnuson, "Low-Income Fathers' Influence on Children," in *The Annals; Young Disadvantaged Men*.

[22]A. A. Young Jr., "Comment: Reactions from the Perspective of Culture and Low-Income Fatherhood," in *The Annals; Young Disadvantaged Men*.

[23]D. Pager, "Comment: Young Disadvantaged Men: Reactions from the Perspective of Race," in *The Annals; Young Disadvantaged Men*.

[24]F. F. Furstenberg Jr., "Comment: How Do Low-Income Men and Fathers Matter for Children and Family Life?" in *The Annals; Young Disadvantaged Men*.

[25]M. Cancian, D. R. Meyer, and E. Han, "Child Support: Responsible Fatherhood and the Quid Pro Quo," in *The Annals; Young Disadvantaged Men*.

[26]C. J. Heinrich and H. J. Holzer, "Improving Education and Employment for Disadvantaged Young Men: Proven and Promising Strategies," in *The Annals; Young Disadvantaged Men*.

[27]S. Raphael, "Incarceration and Prisoner Reentry in the United States," in *The Annals; Young Disadvantaged Men*.

[28]V. Knox, P. A. Cowan, C. P. Cowan, and E. Bildner, "Policies That Strengthen Fatherhood and Family Relationships: What Do We Know and What Do We Need to Know?" in *The Annals; Young Disadvantaged Men*.

[29]R. B. Mincy, S. Klempin, and H. Schmidt, "Income Support Policies for Low-Income Men and Noncustodial Fathers: Tax and Transfer Programs," in *The Annals; Young Disadvantaged Men*.

The psychology of poverty

Theories about poverty often fall into two general categories: that the behaviors of poor people reflect the best choices they can make in unfavorable circumstances, and, alternatively, that these behaviors are a result of a unique "culture of poverty" based on deviant values. The first view presumes that people are highly rational, hold coherent and well-informed beliefs, and pursue their goals effectively with no need for help. The second view attributes to the poor a variety of shortcomings that make them misguided, uninformed, impulsive, and in need of paternalistic guidance in order to make reasonable choices. While there is no doubt that people—the poor included—are at times methodical and calculating, and at other times fallible or misguided, a third, alternate theory takes a different tack and is informed by recent behavioral research. According to this view, scarcity experienced as a result of economic instability and poverty reduces already limited cognitive resources, resulting in detrimental behaviors and ineffective decision-making.

In the research summarized here, Sendhil Mullainathan examines the implications of this perspective on the challenges of creating economic mobility. Current policies designed to improve outcomes for poor people may be effective when successfully implemented, but program administrators may find it difficult to get people in the door, and then to carry through with the program. Similarly, early childhood programs that rely on parental participation and complementary parental behaviors may not succeed if poor parents do not follow through. A variety of costly behaviors by the poor such as debt traps, failure to take available and necessary medications, or obesity, may further inhibit economic mobility. Mullainathan suggests that these behaviors are a result of increased psychological stress caused by poverty, and that it may be possible to design antipoverty programs that make it easier for poor people to succeed if this reduced functioning is taken into account. In this article, the psychology of scarcity is examined, followed by a brief discussion of policy implications and potential policy responses.

Psychology of scarcity

Mullainathan argues that cognitive resources, such as attention and self-control, are limited. Using both laboratory and field research, he demonstrates that scarcity further reduces those already limited resources, hampering the ability of poor people to follow through on tasks or to make effective decisions.

This article summarizes the 2010–2011 IRP New Perspectives in Social Policy Seminar given by Sendhil Mullainathan on September 21, 2010. This seminar series is designed to reach beyond familiar and well-explored fields of poverty research, to challenge accepted paradigms, and to open paths to new research models and methodologies.

Sendhil Mullainathan is Professor of Economics at Harvard University.

Attention

Attention is a scarce resource; people can only focus on a limited number of things at one time. One must choose what to focus on, although this choice is not always conscious. Numerous laboratory experiments have demonstrated that people have limited attention and that they have the capacity to allocate this attention. In a case when subjects must choose between two things to pay attention to, unattended things are generally not remembered at all. In the real world, this means that parents may not be able to attend fully to their jobs if they are also worrying about problems at home, while inattention at home could result in early symptoms of a child's illness going unnoticed, or medication for a chronic condition not being taken.

Mullainathan and his colleagues did a field study in three countries that demonstrated that simply directing someone's attention to something they have stated they wanted to do, but might otherwise forget, can have significant results. In this case, people voluntarily agreed to participate in a savings program. Those who received a single text message reminder if they failed to meet their savings goal in a given month had a 6 percent higher savings rate than those who did not receive a reminder. Similar kinds of studies on medication-taking by HIV patients have found very high compliance rates achieved with simple reminders such as a pill bottle that lights up and beeps if it is not opened each day. In both cases, people have the intention to do something, but on their own may fail to allocate some of their limited attention to achieving that goal. Simply focusing people's attention on the stated goal may be sufficient to get them to achieve it.

Self-control

Another limited cognitive resource with similar consequences is self-control. The Stanford marshmallow experiment, conducted in 1972 by Walter Mischel, is a classic illustration of self-control.[1] Children were led into a room, given a choice of treats, then left alone in the room with the instruction that they could eat the treat, but if they could wait for 15 minutes without eating it, they would be rewarded with a second treat. Video of the children shows that this was a difficult task. Another study conducted by Baba Shiv and Alexander Fedorikhin demonstrated how depletion limits self-control.[2] Subjects asked to remember either a 2-digit or 7-digit number for 10 minutes waited in a room with a choice of cake or fruit salad. Those working to remember the longer number were considerably more likely to choose cake than those asked to remember the shorter number.

Mullainathan and his colleagues conducted a field study to investigate the real-world implications of these psychological findings. In this case, the researchers confirmed their theory that workers may face self-control problems that limit their productivity, and that making a binding commitment to work harder can actually produce that result. In a data-entry firm, where workers are compensated on a piece-rate basis, employees were given the opportunity to improve their production (and thus increase their pay) by setting a threshold for themselves. If they met the threshold, they would be paid the regular rate, but if they fell short, they would only earn half the rate. Economically, choosing to agree to a threshold is clearly a bad deal, since they do not earn anything extra if they meet it, and earn half what they would have otherwise if they do not meet it. Still, given this opportunity, workers chose to set the threshold about a third of the time. Workers randomly assigned to receive the threshold offer on a given day (whether or not they chose it) had production and earnings that were higher than those not given the offer. This illustrates that lack of self-control did limit productivity, and that it is possible for an individual to increase his or her self-control.

How does scarcity tax these resources?

Having established that cognitive resources such as attention and self-control are both important and limited, the next issue is to demonstrate how having very little of them taxes these resources. This section begins with a conceptual argument, which is followed by experimental evidence.

The packing problem: A suitcase metaphor

The conceptual argument derives from the "knapsack problem" in complexity and computational theory. Imagine packing for a trip, using either a small or large suitcase. If you have a large suitcase, it is an easy task to pack everything important with room to spare. You may even choose not to completely fill the suitcase. With a small suitcase, however, the task becomes much more complex. If not all important items will fit, you must consider trade-offs, such as what to take out if one more item is added. The suitcase can represent any resource, such as money. In that case, someone with ample resources can easily purchase all needed items with money left over. They may consider the wisdom and value of a particular small purchase, but are not likely to explicitly consider what other item must be given up in its place. In contrast, someone with limited funds must spend a lot of time and mental energy thinking about what to purchase, as each item chosen means some other item or items is foregone. In other words, having fewer resources makes decision-making much more complex. Complex problems draw on limited cognitive resources, which in turn means that there are fewer resources available for self-control.

Evidence on the effects of scarcity

Mullainathan and his colleagues have experimental evidence that people with less money are much more likely to know how much things cost than those with more money, even for items things that poorer people were less likely to spend money on. In a study conducted in Boston, people at a train station were asked what the initial fare was when you first get into a taxi. People with a low socioeconomic status (SES) were considerably more likely to correctly identify this amount than people with a high SES, even though they were much less likely to actually take a taxi. People with less money were paying better attention to the price, because prices matter more to them. Similar studies have been done with people leaving a supermarket, who are asked the price of specific items and the total amount they spent. Again, people with a low SES are much more likely to be able to answer these questions correctly than people with a high SES.

Mullainathan and his colleagues were also able to show that poorer people have a clear and absolute understanding of the value of a dollar, while more wealthy people may infer the value of a dollar based on the context. People were asked to imagine that a friend went to buy an appliance priced at $100, $500, or $1,000. The friend was informed that a store 45 minutes away offered the same item on sale for $50 less. Subjects were asked if they would advise their friend to travel to the other store to save $50. The response to this question varied greatly depending on the income level of the respondents. In a high-income area, subjects were much less likely to advise traveling to save $50 as the initial price of the item rose. In contrast, in a low-income area, subjects were much more likely to advise travel, and the initial price of the item made little difference to their recommendation.

An experiment conducted in a New Jersey mall showed that asking poor people to think about money depleted their cognitive resources. Participants were asked to consider either an easy or hard financial problem or an easy or hard non-financial mathematics problem. While they were considering the problem, they were asked to complete a test of cognitive control that required concentration. For those with below-median income, there was a significant drop in the cognitive control test score, while those with above-median income showed little change.

A final piece of evidence that scarcity is depleting comes from a real-world example, harvest of sugar cane in India. Sugar cane is a crop that is harvested once a year, but the harvests are staggered over some months, so the same calendar month could be a pre-harvest month for some farmers and a post-harvest month for others. Since sugar cane farmers receive all of their annual income at once, they will be poor immediately before the harvest, and rich after. This creates panel data that allowed the researchers to compare pre- and post-harvest spending while controlling for month effects such as festival spending and seasonality. Farmers were not very good at smoothing spending across the year; while expenditures on food were similar in pre-and post-harvest months, post-harvest spending on other items was dramatically higher. Study outcomes included the Stroop test, a psychological test of attention, as well as allostatic load, a physiological measure of stress.[3] Mullainathan and his colleagues found that farmers scored significantly better on the Stroop test in the month after harvest than they did in the month before harvest. They also found that farmers had significantly lower stress levels after the harvest. These results support the researchers' argument that scarcity taxes cognitive resources.

What are the consequences of reduced cognitive resources?

The evidence presented above shows that scarcity can be distracting, since managing tight resources requires more attention and self-control. One final piece of evidence from a laboratory experiment suggests some of the implications of reduced cognitive resources on the lives of the poor, including facilitating self-destructive credit practices. This experiment uses a "Family Feud" game to create a condition of scarcity. Subjects played a game in which they had to guess popular answers to a question. They earned points for correct answers, and received a monetary reward based on their total number of points over 20 rounds. All participants had the opportunity to complete practice rounds before playing for money. Half of the subjects were in a "rich" group, and had ample time (50 seconds) to complete each round of the task, while the other half were in a "poor" group, and had quite limited time available for each round (20 seconds). Within each group, one-third were permitted to "borrow" seconds from a future round, one-third could borrow at a 100 percent interest rate (one additional second in the current round "cost" two seconds from a future round), and the remaining third could not borrow. The intention of the borrowing condition was to allow participants to allocate their time according to how familiar they were with each question, so that, ideally, they could have more time to answer questions with which they were less familiar. Those in the poor group were more likely to borrow than those in the rich group. Those in the poor group were also less sensitive to the interest rate; they were nearly as likely to borrow at the 1:2 rate as at the 1:1 rate, while those in the rich group were much less likely to borrow seconds when they cost more.

As one would expect, those in the poor group earned fewer points than those in the rich group. The more interesting result, however, comes from comparing the different borrowing conditions within each group. Those in the rich group gained no particular benefit from being able to borrow, but since they did not borrow often, it did not particularly hurt them either; there is no significant difference between points earned in the no-borrow and 1:2 interest rate conditions. For those in the poor group, however, borrowing consistently lowers their point total, and higher interest rate borrowing lowers their points more. The data show that this is because of over-borrowing; those in the poor group tended to borrow seconds a lot in the early rounds, thus leaving themselves little time for later rounds.

This experiment illustrates two important points. First, attention was required; participants needed to choose how much time to focus on the current problem, as compared to future problems. Those in the "poor" group tended to focus on the current problem to the exclusion of future problems, and to their ultimate detriment. In this situation, credit turns out to be a bad thing; it may help with the current problem, but hurt with future problems, and thus overall. Second, this experiment was done with Princeton undergraduate students, so one can assume that outside factors such as financial literacy, upbringing, and early childhood development have no effect in this particular case. Nor could they have any effect in the sugar cane experiment, since the same people were being compared at two different times. This supports Mullainathan's contention that detrimental decision-making by the poor is attributable to the condition of having very little, not to shortcomings that are unchangeable characteristics of poor people.

Policy implications

In his seminar, Mullainathan concluded that these results have important public policy implications, particularly related to take-up and retention in programs designed to help the poor. As currently designed, many of these programs actually *create* cognitive burdens, thus adding unnecessary challenges for those they are intended to assist.

One example of this can be seen in programs designed to increase college attendance for low-income teens, which tends to be much lower than for their higher-income peers. Prevailing wisdom would say that reducing the cost would increase attendance, but simply making Pell Grants available did not significantly increase low-income attendance. Another explanation is that the student aid application was too complicated, and required more attention than people had. Having an administrator complete the form, rather than just providing information about it, resulted in significantly higher college enrollment.[4] Simplification works because instability makes dealing with complexity particularly challenging; forms are tough for all of us, but toughest when attention is most depleted. Forward-looking actions require attention and self-control. Instability taxes both of these, and thus makes economic mobility harder.

Policy responses

Mullainathan identified two broad categories of policy responses—creating stability, and creating mobility programs that are resistant to the effects of instability. An example of the first type of policy response would be supplementing Unemployment Insurance with wage or hours worked insurance to help maintain a consistent salary for people facing a cutback yet retaining their job. Another approach would be a crisis-triggered social safety net card that people could have in-hand in the event of a sudden drop in income. Newly available financial products such as a debit card that includes a saving mechanism could also help in this area.

As currently constructed, many mobility programs rely on stability as a condition of success. How could these programs be structured differently in order to remove this condition? An illustration of this is training classes. Most of these are designed so that each class builds on the last, making them particularly prone to instability. If you miss one class, it is much harder to get yourself to the next class, and this only gets more difficult the more you miss. An "instability-proof" alternative would be to have rotating training class opportunities, where one could, for example, attend three of the next 10 classes over the next four months in order to receive a training certificate. This approach would present some challenges, since new curricula would be required, but the effort could pay off in creating a program that was much easier for participants to follow through on.

Poverty and economic instability reduce cognitive resources such as attention and self-control. These conditions make it much harder for the poor to behave in a way that will improve their economic fortunes, and much easier for them to make decisions that impede their mobility. Public policies should be designed to offset this scarcity phenomenon.■

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[1]W. Mischel, Y. Shoda, and M. I. Rodriguez, "Delay of Gratification in Children," *Science* 244 No. 4907 (May 26, 1989): 933–938.

[2]B. Shiv and A. Fedorikhin, "Heart and Mind in Conflict: The Interplay of Affect and Cognition in Consumer Decision Making," *Journal of Consumer Research* 26 (1999): 278–292.

[3]In the Stroop test, participants are asked to name the ink color for different words, where the word may be a color name that differs from the ink color (for example, the word "green" might be printed in blue ink, so the correct answer would be "blue.") An alternate version of the Stroop test for people who are illiterate asks participants to count objects, where some of the objects are numbers. Both versions of the Stroop test were used in this study. Allostatic load is a measure of the body's response to stress and can be measured using cardiovascular indicators such as heart rate.

[4]Bettinger, Long, Oreopoulos and Sanbonmatsu (2009) "The Role of Simplification and Information in College Decisions: Results from the H&R Block FAFSA Experiment."

From income to consumption: Understanding the transmission of inequality

Richard Blundell

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> "There is a surprising difference between the trends in the dispersion of holdings of claims to goods and services (income and wealth) and trends in the dispersion of actual consumption, which is, of course, the ultimate determinant of material or economic well-being."
>
> Alan Greenspan, 1996[1]

Economic inequality has many measures, including wages, earnings, disposable income, and consumption. Instead of entering the debate about the best way to measure inequality, I try to determine how all of the different measures might be used together to better understand the evolution of inequality within and across countries. In this article, I focus primarily on the United States and the United Kingdom.

The link between the various types of inequality dimensions is mediated by multiple "insurance" mechanisms. In this case, "insurance" refers to how families deal with unexpected earnings or income fluctuations. These mechanisms could include adjusting assets, changing family labor supply, altering taxes and transfers, changing nondurable consumption, delaying replacement of durable goods, and securing informal contracts and gifts.

In this article, I delve behind the inequality figures and address three questions: (1) How well do families insure themselves against adverse economic shocks? (2) What mechanisms are used? and (3) How do these mechanisms vary across the life cycle, the business cycle, and the wealth distribution?[2] I use an economics framework for considering these questions. I find that in both the United States and the United Kingdom over the past 40 years, income and consumption inequality have diverged, and argue that a key factor in this divergence is the nature and durability of shocks to labor market earnings. I also find that during recession periods the variance of permanent income shocks increases dramatically, and both consumption inequality and income inequality grow.

Insurance mechanisms

There are a number of insurance mechanisms between wages received in the labor market and consumption, and these may temper the effects of an adverse economic shock on consumption. Figure 1 shows the steps between wages and consumption, with the intervening insurance mechanisms.

- *Hours:* The hourly wage received is linked to earnings by the number of hours worked; one mechanism people could use to increase their income is to increase the number of hours worked.
- *Family labor supply:* If there is more than one potential earner in a family, joint decisions can be made about who and how many of the earners work.
- *Taxes and transfers:* The key mechanism between earnings and spendable income is taxes and transfers.
- *Links between disposable family income and consumption:* There are a number of different mechanisms that link income to consumption, including the ability to borrow and save (self-insurance) and decisions about when to replace durable goods.

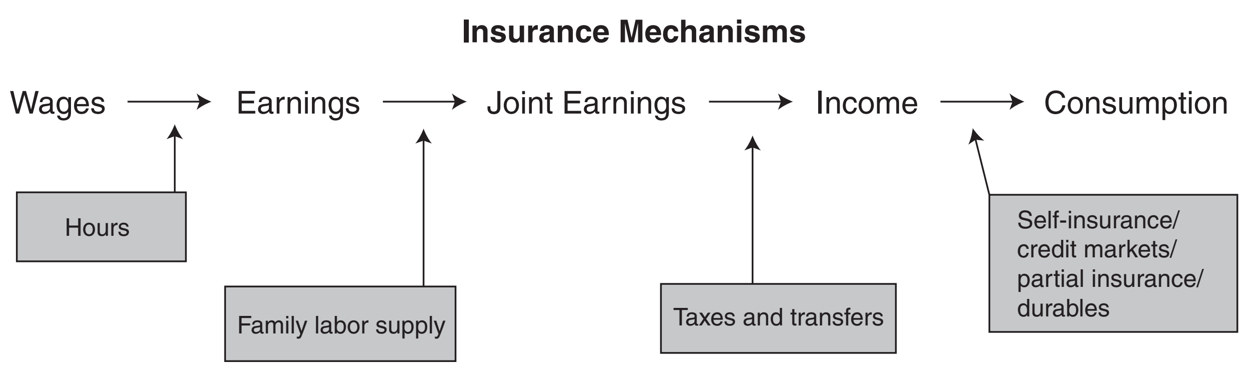

Figure 1. Insurance mechanisms

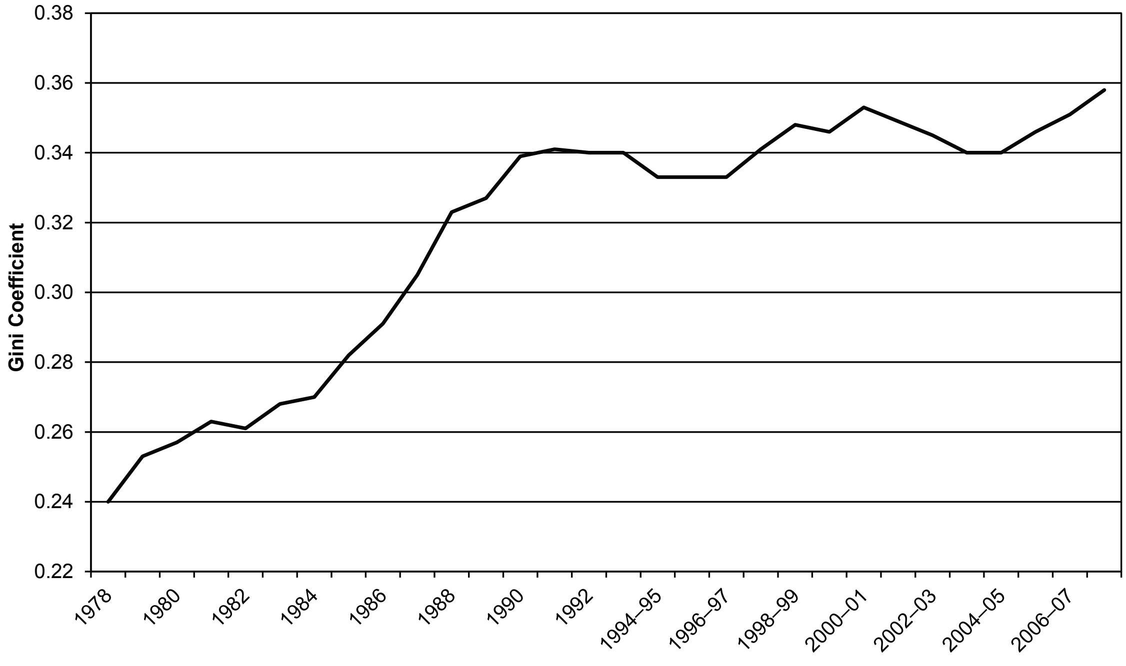

Figure 2. Inequality in Great Britain, the Gini coefficient, 1979 to 2007–08.

Source: M. Brewer, A. Muriel, D. Philips, and L. Sibieta, "Poverty and Inequality in the UK: 2009," IFS Commentary C109, Institute for Fiscal Studies, 2009. Author's calculations using Family Expenditure Survey and Family Resources Survey.

Typically, researchers look at each of these mechanisms in isolation; the purpose of this current work is to link them together. The way that families use them to respond to adverse economic shocks will vary according to where they are in their life cycle, and at different points in time, depending on whether the economy is growing or in recession. It will also depend on their wealth levels and their access to credit.

Characteristics of inequality growth since the late 1970s

In this section, I look at inequality growth in both Great Britain and the United States since the late 1970s. Figure 2 shows inequality in Great Britain since 1979. Great Britain experienced very strong inequality growth in the 1980s, illustrated by a rapid increase in the Gini coefficient.[3] During this boom, inequality levels in Great Britain moved from what was typical for Northern European countries up to nearer what is typical in the United States. The United States also experienced an increase in inequality over this period, and remains the wealthy country with the highest Gini coefficient.

Are recessions different?

Figure 3 shows percentiles of the household earnings distribution in the United States from 1970 to 2005, with recession periods indicated. The growth of earnings inequality over time is evident, but it also appears that the earnings dips one would expect to see during a recession are more severe for those in the lower part of the earnings distribution. Note that these are cross-sections, and do not follow the same individuals over time.

Consumption inequality

Consumption inequality is generally lower than income inequality, as one might expect. This reflects the fact that families and households are making efforts such as those outlined in Figure 1 to shield themselves from income fluctuations. Of particular interest here is what happens to consumption and income inequality over time; in general, income inequality grows more rapidly than consumption inequality, though this is not always the case. Table 1 shows both income and consumption inequality in the United States and the United Kingdom over the period when inequality was increasing particularly rapidly. The biggest break between income and consumption inequality occurred in the early 1980s. Consumption inequality tended to stabilize by the late 1980s, while income inequality continued to rise.

Table 1
Income and Consumption Inequality 1978–1992

United Kingdom	1978	1986	1992
Income Gini	.23	.29	.33
Consumption Gini	.20	.24	.26
United States	1981	1985	1990
Income Gini	.34	.39	.41
Consumption Gini	.25	.28	.29

Source: For United Kingdom; A. Goodman and Z. Oldfield, *Permanent Differences? Income and Expenditure Inequality in the 1990s and 2000s*, Institute for Fiscal Studies, London, U.K., June 2004. For United States; D. S. Johnson, T. M. Smeeding, and B. Boyle Torrey, "Economic Inequality through the Prisms of Income and Consumption," *Monthly Labor Review* 128, No. 4 (2005): 11–24.

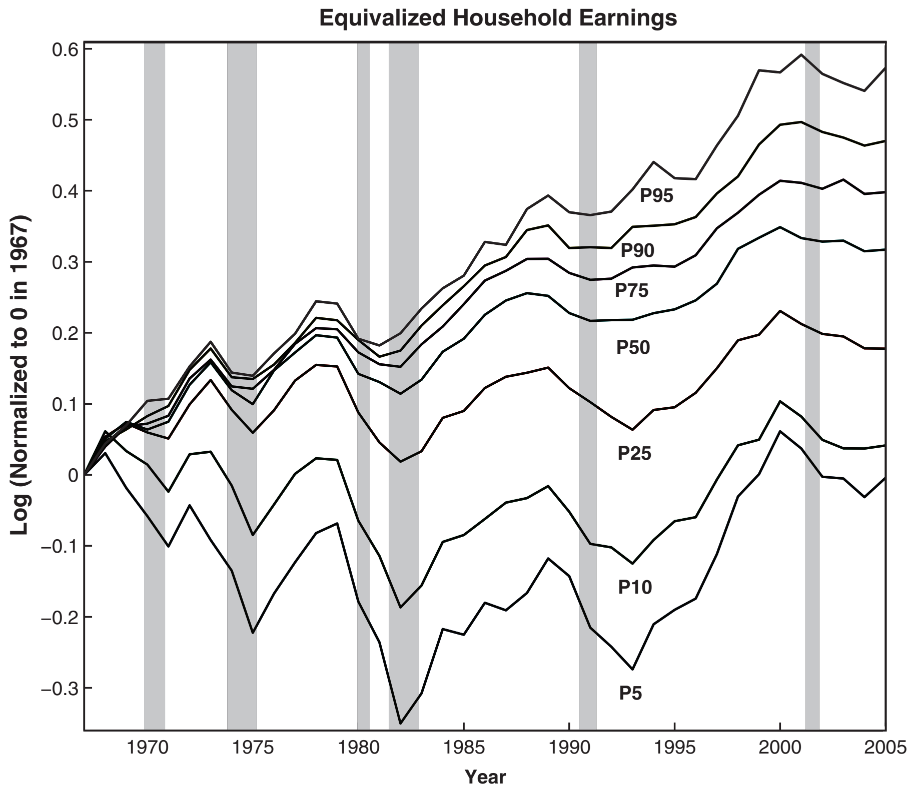

Figure 3. Percentiles of the household earnings distribution in the United States, 1967–2005.

Source: J. Heathcote, F. Perri, and G. L. Violante, "Unequal We Stand: An Empirical Analysis of Economic Inequality in the United States, 1967–2006," *Review of Economic Dynamics* 13, No. 1 (2010): 15–51.

Note: Data are from the Current Population Survey. Shading indicates National Bureau of Economic Research designated recessions.

Consumption inequality does not always rise more slowly than income inequality. For example, in Japan in the 1980s, consumption inequality rose more quickly than income inequality.[4] Since inequality increases with age, the pattern in Japan can be explained by their rapidly aging population, a result of low fertility and long life expectancies. (This is an example of why it is useful to follow birth cohorts over time rather than just using macroeconomic inequality measures.)

A study by Moffitt and Gottschalk looked at how much of the growth in inequality in the United States over the 1970s and 1980s was due to year-to-year changes in income, and how much to permanent income changes.[5] They found that about half of the growth was due to the more transitory changes. Though one might think that permanent income changes matter more, this will depend on a household's ability to insure more transitory changes. A poorly targeted tax and benefit system and limited access to credit make transitory income shocks difficult for a family to insure.

Inequality by generation

Figure 4 shows income inequality in the United Kingdom for three birth cohorts, those born in the 1930s, those born in the 1940s, and those born in the 1950s. Later-born cohorts generally have greater inequality at a given age. I attribute this almost entirely to the impact of the inequality boom of the early 1980s.[6] The corresponding graphs for consumption inequality are shown in Figure 5. Consumption inequality by generation shows a correspondingly higher level of inequality among the younger cohort at any given age. Similar results for the United States also show that later-born cohorts have higher inequality.[7]

Income dynamics

In order to understand the transmission of inequality from income to consumption, it is necessary to understand income dynamics, and particularly the degree of persistence in income shocks. Income dynamics will vary across time and across the life-cycle for different types of individuals and families. It is important to recognize that different "shocks" to income will have different degrees of persistence. In general, less-persistent shocks are somewhat easier for individuals, and for society, to protect against.

By looking at panel data models, it is possible to see over time the relative importance of persistent income shocks compared to those that are more temporary. One way to do that is to determine the ratio of the amount of variation in permanent events relative to the amount of variation in transitory events. In the United States during the recession period

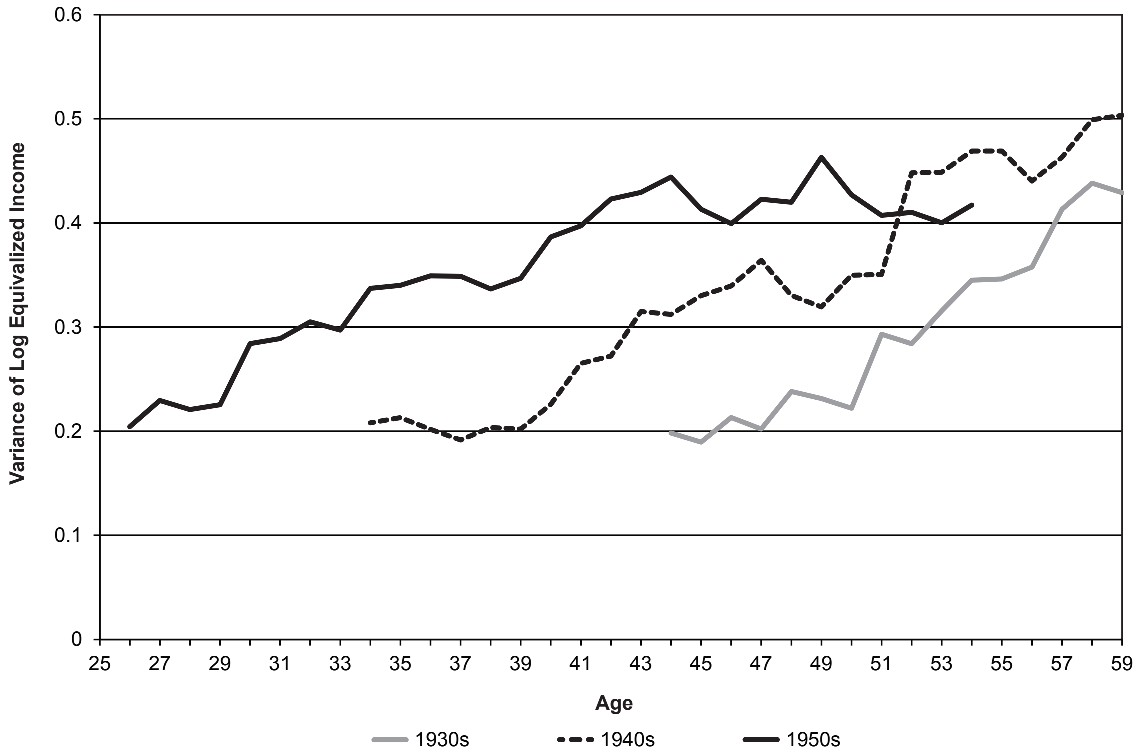

Figure 4. Cohort income inequality in the United Kingdom.

Source: R. Blundell, L. Pistaferri, and I. Preston, "Consumption Inequality and Partial Insurance," *American Economic Review* 98, No. 5 (2008): 1887–1921.

of the early 1980s, there was a sharp increase in the amount of variation (good and bad) in permanent income events, followed by a gradual decrease.[8] Over the same period the variance of transitory shocks had a continual increase. A similar pattern is evident in the United Kingdom. We will see in the next section how these variance patterns for income shocks can explain trends in consumption inequality.

Consumption dynamics

How are income dynamics linked to consumption dynamics? To look at this, we again use birth cohorts and look at how individuals in each birth cohort react in consumption to various changes to income. This analysis is complicated by the lack of historical panel data on consumption. For this work, we impute consumption using available data.[9] Looking at the same two U.S. birth cohorts discussed earlier, those born in the 1930s and those born in the 1940s, we find that the younger cohort has much less ability to deal with permanent income shocks than the older cohorts. That is, a reduction in income is reflected to a greater degree in reduction in consumption. A younger person facing a permanent income shock with few assets to draw on has little choice but to change consumption, while an older person is more likely to have other options. We also looked specifically at those with low education, and found that they were especially ill-prepared to deal with permanent income shocks. For all groups, transitory income shocks had less effect on consumption than permanent ones, but again, those in the low-education group and those with low wealth had less ability to deal even with these short-term income changes.[10]

Implications for inequality dynamics

A key driving force in the evolution of income and consumption inequality is the persistence or durability of income shocks. The 1980s recession in both the United States and the United Kingdom is characterized by a large spike in the variance of permanent shocks. This coincides with a change in how skills are being rewarded, with a shift towards higher-skill jobs over this time period. The spike in variance can explain most of the differential growth in consumption and income inequality over this recession period. However, we find quite different behavior among low-wealth households, who may not have access to the insurance mechanisms of higher-wealth households.

Alternative mechanisms

For low-wealth individuals, it is very hard to access the credit market at reasonable interest rates, so other mechanisms must be utilized. In order to look at how low-wealth individuals respond to growth in inequality, we assess three of the insurance mechanisms described above for tempering the effects of an adverse change in income on consumption

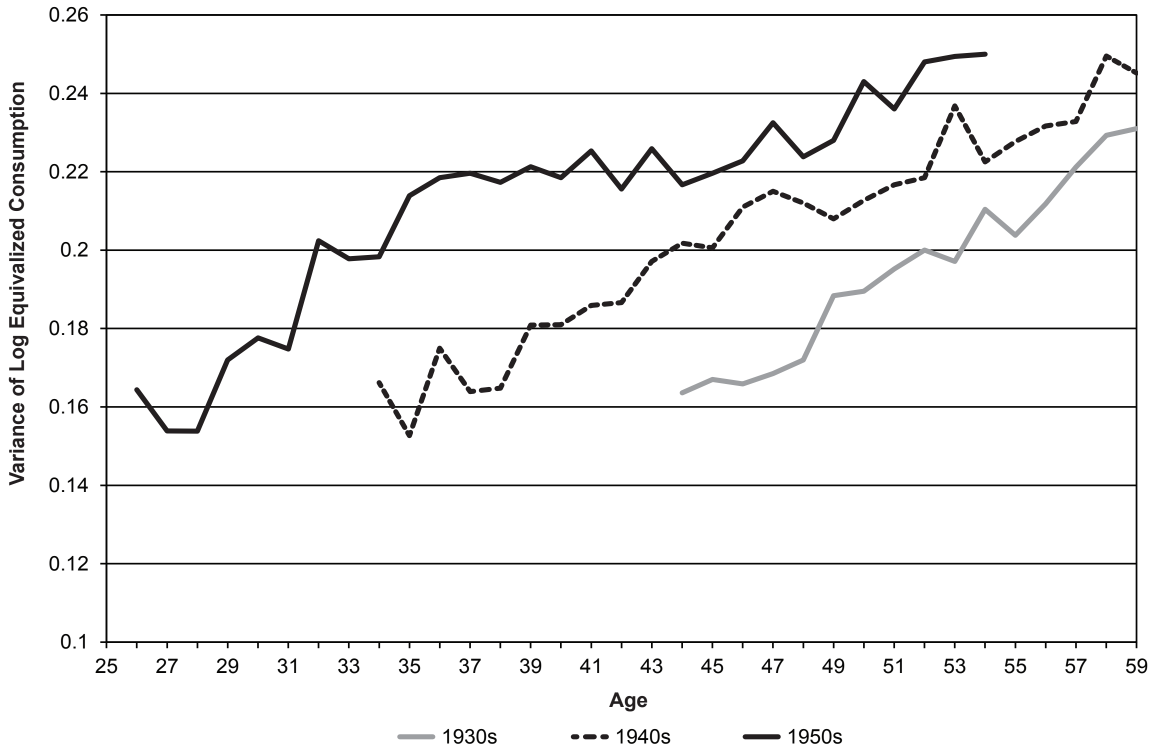

Figure 5. Cohort consumption inequality in the United Kingdom.

Source: R. Blundell, L. Pistaferri, and I. Preston, "Consumption Inequality and Partial Insurance," *American Economic Review* 98, No. 5 (2008): 1887–1921.

that are likely to be important for this group. These are labor supply of family members, taxes and welfare, and delaying durable replacement.

Low-wealth individuals here are defined as the bottom 30 percent of the distribution. Focusing on families headed by working-age individuals, we find little or no insurance against permanent shocks and much reduced insurance against transitory shocks, highlighting the vulnerability of low-wealth families.[11] The question is, how much do family labor supply, taxes and welfare, and durable replacement help ameliorate the worst effects of adverse income shocks among such low-wealth households?

Individual and family labor supply

An adverse individual income shock may be compensated by an increase in the labor supply of another family member. This tends to be a fairly powerful mechanism. The data show that this occurs even for transitory income shocks like a temporary layoff or health setback. According to the standard economic model, it would be both easier and cheaper to use the credit market to respond to a transitory income shock, but again, low-wealth households may not have easy access to the credit mechanism.

Taxes and welfare

The insurance value of taxes and benefits has been covered extensively elsewhere, so I will not go into great detail here, but it is clear that the tax and welfare system provides insurance against earnings shocks. Programs like food stamps (Supplemental Nutrition Assistance Program, SNAP) in the United States and income support in the United Kingdom work particularly well to ease the effects of income shocks on consumption.[12] There are also a number of interesting policy design issues to look at here. Some programs deal with the long term (like the Earned Income Tax Credit in the United States, or the Working Tax Credit in the United Kingdom), where even if your earnings are relatively low over a long period, you continue to get an earnings subsidy. These contrast with time-limited transfers (like the In-Work Credit in the United Kingdom, a one-year-long earnings subsidy). The former may be better at dealing with permanent income shocks, while the latter might be very effective during more transitory earnings changes. At different points in the business cycle, one or the other type of income fluctuation will be more prevalent, so policies designed to address inequality need to take this into account.

Durable replacement

The final mechanism for moderating income shocks that I will discuss is durable replacement. This again, along with family labor supply, is a mechanism that is particularly useful for low-wealth families who do not have easy access to traditional credit markets in order to smooth even transitory income shocks. By choosing to delay replacement of durable goods such as automobiles, furniture, and even clothes, families may be able to ease the effects of transitory income shocks on basic consumption items.

This mechanism is not very useful for permanent income shocks since durable replacement can usually only be delayed for a short period. However, for transitory shocks it could be important for low-wealth households. Looking at how variation in permanent income shocks transmits into variation in consumption during the period of 1978 through 1992 in the United States, we found that, as expected, whether or not durable purchases were counted as an expenditure made very little difference. For transitory shocks among low-wealth households, however, including durables in expenditures resulted in a substantial jump in the transmission of income shocks to consumption.[13] This suggests that low-wealth households experiencing transitory adverse income shocks are choosing to delay the purchase of durable goods.

Summary

In this article I have argued that it is not enough to just describe inequality, but instead it is necessary to analyze determinants in order to understand how individuals and families ameliorate adverse effects of inequality. Understanding how well different mechanisms such as taxes and welfare, use of the credit market, family labor supply, and durable goods replacement work is essential in the design of policy for redressing the adverse consequences of inequality and poverty.

At the heart of this research has been the divergent evolution of income and consumption inequality in both the United States and the United Kingdom over the past 40 years. A relatively new finding from the work presented here is that a key driving force explaining why income and consumption inequality diverge is the nature and durability of shocks to labor market earnings. We find that recession periods show a pronounced spike in the variance of permanent income shocks and, at these times, there is growth in consumption inequality as well as income inequality.

For low-wealth households, where capital is almost irrelevant, the lack of access to the credit market shows up in changes to family labor supply and durable replacement. Changes in the labor supply of other family members and the delay in the replacement of durables are important mechanisms for cushioning adverse shocks to labor earnings. Tax and welfare policy can also act as an important source of insurance against income shocks. Understanding the degree to which families are able to maintain their standard of living when income decreases will allow policymakers to focus on assisting families when their own efforts fall short.■

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[1]A. Greenspan, "Job Insecurity and Technology," in *Technology and Growth: Conference Proceedings*, Research Conference Series, No. 40, eds. J. C. Fuhrer and J. Sneddon Little (Boston: Federal Reserve Bank of Boston, 1996).

[2]This work draws on R. Blundell, L. Pistaferri, and I. Preston, "Consumption Inequality and Partial Insurance," *American Economic Review* 98, No. 5 (2008): 1887–1921.

[3]The Gini coefficient is a standard statistic for measuring economic inequality. It ranges from 0 (when all people have identical incomes) to 1 (when all income is received by a single individual).

[4]F. Othake and M. Saito, "Population Aging and Consumption Inequality in Japan," *Review of Income and Wealth* 44, No. 3 (1998): 361–381.

[5]R. Moffitt and P. Gottschalk, "The Growth of Earnings Instability in the U.S. Labor Market," *Brookings Papers on Economic Activity* 25, No. 2 (1994): 217–272.

[6]Authors' calculations, see http://www.ucl.ac.uk/~uctp39a/presentations.html.

[7]R. Blundell, H. Low and I. Preston, "Decomposing Changes in Income Risk Using Consumption Data," IFS Working Paper W08/13, Institute for Fiscal Studies: London, U.K., November 2008.

[8]Blundell et al., "Consumption Inequality and Partial Insurance."

[9]We combine non-panel consumption and income data from the Consumer Expenditure Survey with income, earnings, and limited consumption data from the Panel Study of Income Dynamics. See Blundell, Pistaferri and Preston (2008) for a detailed description of this technique.

[10]Blundell et al., "Consumption Inequality and Partial Insurance."

[11]A fourth potentially important mechanism, family and interpersonal networks, is not addressed here as we have little reliable data on it.

[12]R. Blundell and L. Pistaferri, "Income Volatility and Household Consumption: The Impact of Food Assistance Programs," *Journal of Human Resources* 38, Supplement (2003): 1032–1050.

[13]Blundell et al., "Consumption Inequality and Partial Insurance."

IRP RIDGE Center for National Research Awards Five Subgrants

Five food assistance research proposals were recently awarded funding by the RIDGE Center for National Food and Nutrition Assistance Research, which is run by the Institute for Research on Poverty (IRP) at the University of Wisconsin–Madison in conjunction with the Economic Research Service (ERS) of the U.S. Department of Agriculture.

The grants begin July 1, 2011, and run through December 31, 2012, and constitute the second in what will be four rounds of 18-month awards for food assistance research since ERS named IRP as the Research Innovation and Development Grants in Economics (RIDGE) Center for National Research in January 2010. The 2011 investigators and proposal abstracts follow below.

2011–2012 IRP RIDGE Center Proposal Abstracts

"Does the Neighborhood Food Environment Influence the Relationship between Food Stamp Program Participation and Weight-Related Outcomes?"
Principal Investigator: Diane Gibson, School of Public Affairs, Baruch College, City University of New York

Using a sample of low-income adults, this project will examine whether the availability of food retail and food service establishments in a person's neighborhood of residence (a person's "neighborhood food environment") was associated with the types of establishments where the person purchased food, the person's daily energy intake, weight status, and weight-related comorbidities, and will consider whether these associations differed for Supplemental Nutrition Assistance Program or SNAP (formerly Food Stamp Program or FSP) participants compared to eligible nonparticipants. The results of this project will offer insight into whether the neighborhood food environment influences how food spending is allocated across types of food establishments and whether changing the allocation of food spending across types of food establishments in turn leads to differences in energy intake, weight status, and weight-related comorbidities for low-income individuals, SNAP participants, and eligible nonparticipants.

"Food Stamps, Food Insufficiency, and Diet-Related Diseases among the Elderly"
Principal Investigator: Nadia Greenhalgh-Stanley, Department of Economics, Kent State University

The U.S. Department of Agriculture estimates that less than 41 percent of the elderly—the fastest-growing population in the United States—who are eligible for food assistance participate in the Supplemental Nutrition Assistance Program (SNAP). Studies document that lack of information about eligibility for food assistance appears to be the principal reason for this. This study examines the effect of SNAP participation on reported food insufficiency and diet-related diseases among the elderly to better understand potential long-term health consequences of food insufficiency. The study will test whether those eligible elderly persons who participate in SNAP report reduced rates of food insufficiency and diet-related diseases.

"Studying Non-Use of Food Assistance among Low-Income San Franciscans"
Principal Investigators: David B. Grusky and Christopher Wimer, Center for the Study of Poverty and Inequality, Stanford University

This qualitative study examines low-income San Franciscans' decision-making around using or not using food from food banks and government food assistance programs. This project will help understand the in-depth processes that underlie low-income people's decisions around food assistance, and therefore help public and private stakeholders improve systems of food assistance delivery, particularly around increasing take-up of healthy foods like fresh produce. Using approximately 60 in-depth interviews with low-income San Franciscans, this study will address the following questions: (1) What are the most prevalent reasons for non-use among low-income individuals who do not access food bank services? (2) How do the prevalence of these reasons differ by groups of individuals (parents of schoolchildren, residents of low-income housing projects, and unemployed individuals)? (3) How and why do non-users interface with other government food assistance programs like food stamps, school meals, etc.? And (4) How and why do nonusers utilize cheap, unhealthy food like fast food and "junk" food vs. the healthier food, including fresh produce, that they might get from food bank sites?

"Food Assistance and Children's Eating Patterns, Food Insecurity, and Obesity: The Influence of Local Food Prices"
Principal Investigators: Taryn Morrissey and Alison Jacknowitz, Department of Public Administration and Policy, American University

In 2009, approximately 23 percent of households with children aged 6 and younger in the United States were food insecure. At the same time, over-nutrition is a growing problem among American children; 10.4 percent of 2- to 5-year-old children were considered obese (above the 95th percentile for age and gender) in 2007 to 2008, double the rate in the 1970s. This study examines how local food prices affect children's food insecurity, obesity, and eating habits, and whether food assistance receipt buffers these effects. Specifically, the two primary research objectives of this study are to: (1) Estimate how local food prices influence the food insecurity, obesity status, and eating patterns of children from birth to 5 years of age; and (2) Understand how participation in food assistance programs changes the relationship between food prices and the food insecurity, obesity status, and eating patterns of children from birth to 5 years of age. Study results will have important policy implications, particularly in light of increasing food prices.

"SNAP Participation, Food Choices, Nutritional and Health Outcomes among Low-Income Women"
Principal Investigator: Zhou Yang, Department of Health Policy and Management, Rollins School of Public Health, Emory University

Food insecurity and obesity are two major public health crises posing serious health threats to low-income families in the United States. As an entitlement program for people living in poverty and the working poor, the Supplemental Nutrition Assistance Program (SNAP) was originally designed to improve the nutritional and health outcomes of adults and children facing food insecurity. With the development of the food industry and changes in lifestyle in recent decades, as well as the deterioration of the food environment in many low-income neighborhoods, it is not clear if SNAP fulfills its original mission today without regulations or interventions on food choices, food environment, or behavioral counseling. This study will investigate the effect of SNAP participation on body weight and health outcomes (measured by lab results and physical examination) through its influence on food choices (measured by calorie balance and nutrients intake) among low-income women in the United States. The study will use merged secondary data from National Health and Nutrition Examination Survey (NHANES) and supplemental data from the USDA and Chamber of Commerce from 2007 to 2008.

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