

Insights on Southern Poverty

The Newsletter of the UK Center for Poverty Research

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UK
Center for
Poverty
Research

Department of Economics
Gatton College of
Business and Economics



UNIVERSITY OF KENTUCKY

The Rise of Low-Skill Immigration in the South

George J. Borjas

Overview

With the resurgence of large-scale immigration to the United States in recent decades, it is not surprising that the impact of immigration on the country's social and economic conditions is a topic of significant policy debate. A great deal of research has attempted to document how the U.S. labor market adjusted to the pressures of renewed immigration, with particular attention on the skill composition of the foreign-born workforce (Borjas 1994). This emphasis is justified by the fact that the skill composition of the immigrant population is the key determinant of the social and economic consequences of immigration. In addition to measuring the relative skill endowment of immigrants, existing literature stresses the economic consequences that arise from immigrants' typically clustering in a small number of geographic areas (Friedberg and Hunt, 1995; Card, 2001). Figure 1 shows the extent of this clustering. In 1990, 73 percent of working immigrants lived in the six main immigrant-receiving states—California, New York, Texas, Florida, Illinois, and New Jersey—with 32.9 percent living in California alone. However, Figure 1 also shows that this geographic clustering “softened” in the 1990s. By 2000, the fraction of immigrant workers living in California had declined; the fraction of immigrant workers living in the “other immigrant states” had remained stable; and the fraction of immigrant workers living in the “rest of the country” had increased, particularly in southern states where immigrants had not settled historically.

This article is a summary of a longer paper, which was supported with a grant from the UK Center for Poverty Research and is available on the UKCPR Discussion Paper Series at <http://www.ukcpr.org/Publications/DiscussionPapers.html>.¹ In addition to documenting recent trends in settlement patterns the paper examines the impact of this relocation on the skill endowment of the workforce in Southern states and the attendant consequences for wages of immigrants relative to native-born workers. The empirical analysis, which is based on data from the Integrated Public Use Microdata Series (IPUMS) of the decennial censuses from 1960 to 2000, indicates that the recent change in immigrant settlement patterns led to the rise of a sizable foreign-born low-skill workforce in the South, particularly outside of Florida and Texas. This workforce developed as a result of both increased settlement of many newly arrived low-skill immigrants in those states and increased internal immigration of low-skill immigrants from other states to the South. The net result between 1960 and 2000 has been a 20 percentage point reduction in the relative wages of immigrants in the South overall, and a nearly 40 percentage point decline in the southern states excluding Florida and Texas.

Basic Trends

The resurgence of large-scale immigration since the 1960s has dramatically altered the size and skill composition of the U.S. workforce. Panel A of Table 1 reports the trend in the immigrant share, that is, the fraction of the workforce that is foreign-born,

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Letter from the Director

James P. Ziliak

With the reauthorization of the Temporary Assistance to Needy Families program still before the Congress, this and the subsequent issue of *Insights on Southern Poverty* focus on changes in the economic status of vulnerable populations in the South over the past several decades. The research, which was conducted by the UKCPR and by recipients of the UKCPR Regional Small Grants for 2003-04, examines differences in trends between the South versus the Non-South in immigration, black-white wage convergence, health care access, and assistance in filling the poverty gap. The three investigators presented preliminary research results at the UKCPR Regional Small Grants Conference in April 2004. Final reports of their research will be available in the Discussion Paper Series at <http://www.ukcpr.org/Publications/DiscussionPapers.html>.

George Borjas of Harvard University begins this issue by examining changes in the location choice and skill distribution of immigrants to the United States between 1960 and 2000. His empirical analysis indicates substantial changes in immigrant settlement patterns that led to a rise of a sizable foreign-born low-skill workforce in the South, especially in southern states that had not traditionally been immigrant-receiving states, i.e. outside of Florida and Texas. This workforce developed both as a result of increased settlement of newly

arrived low-skill immigrants in those states and increased internal migration of low-skill foreign-born workers from the non-South to the South. A consequence of the changing immigration patterns has been a significant decline in the economic status of immigrants relative to natives in the South.

In the next article I examine how the level and composition of before- and after-tax and after-transfer poverty gaps changed over the three most recent business cycle peaks and troughs. The results reveal dramatic changes over the past two decades both in the level and sources of income maintenance programs filling the poverty gap. While the massive decline in AFDC/TANF income has been partially offset by increased disability insurance payments and tax credits from the EITC, the changes reported in the social safety net imply that most poor families, especially those headed by a non-white person or a single mother, are more financially vulnerable today than two decades ago. Historically there were large differences across regions in the fraction of the poverty gap filled by the safety net, with families in the South lagging behind. Today, however, little cross-region heterogeneity exists in the fraction of the poverty gap filled by the safety net, not because families in the South have caught up with other regions but rather as a result of families in the non-South filling less of the gap.

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The Rise of Low-Skill Immigration in the South (continued)

in each decennial Census since 1960.² In the non-South, the immigrant share rose from 6.7 to 14.8 percent from 1960 to 2000, with more than half of the increase occurring in the 1990s. The immigrant share in the southern region rose from 1.6 percent to 10.6 percent during the same period, and again about half of the increase occurred in the 1990s. However, the immigrant share rose even faster in the southern region that excludes Florida and Texas—from 0.9 in 1960 to 3.0 percent in 1990, and then *doubling* to 6.1 percent in 2000. Within this region, the traditionally “non-immigrant” South, the immigrant share rose the fastest in Georgia (from 3.2 to 8.9 percent) and North Carolina (from 1.9 to 6.7 percent) in the 1990s.

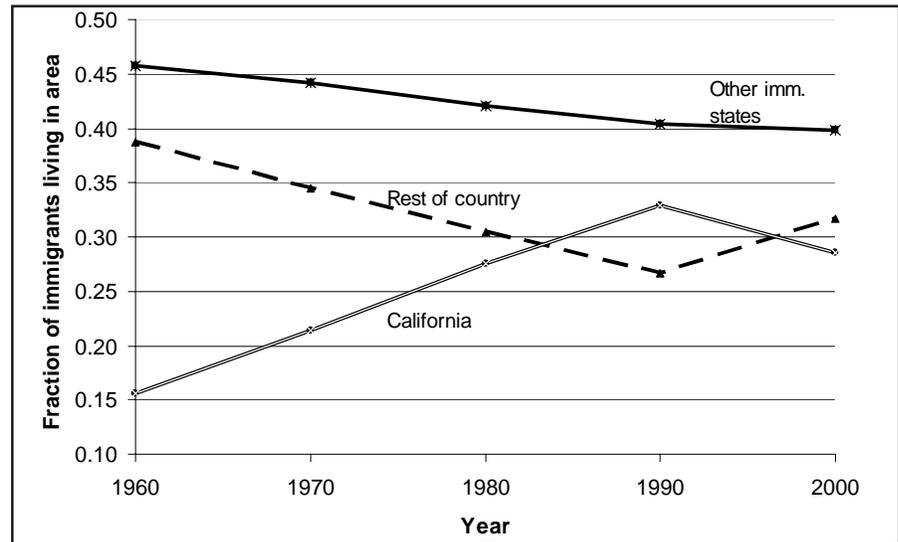
The “nonimmigrant” South (excluding Florida and Texas) experienced the fastest growth in its immigrant population in the 1990s.³ The fraction of immigrants living in those states rose from 7.6 to 10.4 percent from 1990 to 2000 (see Table 1B). During the 1990s, the fraction of newly arriving immigrants living in the South rose from 21.9 to 34.3 percent. More than half of this rise is attributable to immigrants settling in southern states outside Florida and Texas (see Table 1B). Again, within this sub-set of southern states, North Carolina and Georgia exhibited the strongest growth in the fraction of newly arrived immigrants.

The Skills and Earnings of Immigrants

Trends in the skill composition of the immigrant population and how their skills compare to those of native workers, both nationally and within regions, are key determinants of the economic impact of immigration. Table 2 documents the trend in the distribution of educational attainment for native and immigrant working men. Due to the rising educational attainment of the native population, there has been a significant decline in the fraction of native workers who are high school dropouts in all regions between 1960 and 2000. In both the non-South and the South, the fraction of immigrants who lack a high school

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Figure 1: Settlement of Immigrant Workers in Different Parts of the Country



Notes: The workforce is defined as the group of persons aged 18 to 64 who are not enrolled in school and who worked in the civilian sector at least one week in the year prior to each decennial Census. The other immigrant states include Florida, Illinois, New Jersey, New York, and Texas.

Table 1A: Trends in the Immigrant Share, by Region

Region	1960	1970	1980	1990	2000
Non-South	6.7%	6.0%	7.9%	10.4%	14.8%
South	1.6%	2.2%	4.1%	6.2%	10.6%
South, excluding FL and TX	0.9%	1.2%	2.1%	3.0%	6.1%

Table 1B: Percent of Immigrants Living in Particular Regions

	1960	1970	1980	1990	2000
All Immigrants					
Non-south	90.6%	86.0%	79.8%	76.5%	71.9%
South	9.4%	14.0%	20.2%	23.5%	28.1%
South, excluding FL and TX	3.7%	5.4%	7.0%	7.6%	10.4%
Newly Arrived Immigrants					
Non-south	86.9%	83.1%	78.8%	78.1%	65.7%
South	13.1%	16.9%	21.2%	21.9%	34.3%
South, excluding FL and TX	5.2%	6.4%	7.4%	8.3%	15.2%

Notes: The statistics are calculated in the sample of persons aged 18 to 64 who are not enrolled in school and who worked in the civilian sector at least one week in the year prior to each decennial Census. The immigrant share gives the fraction of the workforce that is foreign-born. The “non-south” region is composed of all states outside the South Census region. The newly arrived immigrants arrived in the United States in the five-year period prior to the Census.

The Rise of Low-Skill Immigration in the South (continued)

Table 2: Education Distributions of Native and Immigrant Working Men

	1960	1970	1980	1990	2000
Non-South:					
Natives					
High school dropouts	49.9%	36.3%	20.6%	10.1%	6.2%
College graduates	12.0%	16.0%	23.9%	27.6%	30.7%
Immigrants					
High school dropouts	66.6%	50.1%	38.7%	31.9%	30.2%
College graduates	9.7%	17.4%	24.5%	26.1%	27.4%
South:					
Natives					
High school dropouts	61.0%	48.3%	30.5%	16.9%	10.9%
College graduates	10.2%	14.0%	20.9%	24.1%	26.9%
Immigrants					
High school dropouts	62.5%	45.3%	36.8%	33.3%	33.5%
College graduates	13.5%	22.6%	27.8%	26.8%	26.2%
South, excluding FL and TX:					
Natives					
High school dropouts	63.1%	50.1%	32.8%	18.5%	11.8%
College graduates	9.7%	13.3%	19.8%	23.1%	26.0%
Immigrants					
High school dropouts	49.3%	28.2%	18.7%	16.0%	26.8%
College graduates	21.3%	36.7%	44.3%	44.0%	35.3%

education remained relatively stable during the 1990s, hovering between 30 and 33 percent. However, in the 1990s, in the subset of southern states that excludes Florida and Texas, there was a dramatic *rise* in the number of immigrants who lack a high school diploma, from 16.0 to 26.8 percent.

These data indicate that the non-immigrant South became an important destination for many foreign-born high school dropouts in the 1990s. The inter-regional differences in the changing relative education of immigrants are equally striking when one looks at the upper end of the education distribution. Outside the South, natives are now slightly more likely to have a college education than immigrants, with the gap widening since 1980. In contrast, the educational advantage once enjoyed by immigrants in the southern region excluding Florida and Texas narrowed substantially in the past two decades.

A consequence of the changes in the relative education distribution of foreign-born workers across regions is

During the 1990s, the fraction of newly arriving immigrants living in the South outside Florida and Texas doubled, while their wages relative to natives' fell by 13 percentage points.

evident in Table 3, which summarizes the trend in the log wage differential between male immigrant and native workers from 1960 to 2000. In the non-South, the two groups had rough wage parity in 1960. Over time, however, immigrants began to exhibit a growing wage disadvantage: the log wage gap stood at -0.030 in 1970; -0.102 in 1980; -0.156 in 1990; and -0.204 in 2000. Applying a simple difference-in-differences estimator to these gaps, i.e. the immigrant/native difference in 2000 (-0.204) minus the immigrant/native difference in 1970 (-0.030), implies that the relative earnings of immigrants outside the South declined by about 20 percentage points between 1960 and 2000.

The same declining relative immigrant wage is seen in the South,

where immigrants and native workers had wage parity in 1960, and immigrants had a wage disadvantage of about 19.2 percent in 2000. Again, this implies a fall of about 20 percentage points in the relative wage of immigrants in the South over the past four decades. This trend, however, is markedly different if one looks at the subset of southern states that excludes Florida and Texas. In 1960, the typical immigrant in the non-immigrant south earned about 30.4 percent *more* than the typical native-born worker. By 2000, however, the typical immigrant man earned about 7.0 percent less. The relative wage of immigrants in this subset of the South region, therefore, fell by about 37 percentage points between 1960 and 2000, roughly twice as much as the decline observed in other parts of the country. Note that about half of this decline occurred in the 1990s.

Results indicate that the decline in the relative wage of new immigrants was much steeper in the non-immigrant South than in other parts of the country.

In 1960, newly arrived immigrants earned about 20 percent more than native workers. By 1990, they earned 13 percent less, and by 2000, they earned 26 percent less. In other words, the relative wages of newly arrived immigrants in the non-immigrant South fell by around 46 percentage points between 1960 and 2000. In more detailed analyses reported in the full paper I re-examine the wage trends after adjusting the wage differentials for factors such as educational attainment, age, and state of residence. I find that the precipitous decline in the observed relative wage of newly arrived immigrants in the non-immigrant South is due mainly to changes in observable characteristics, particularly their worsening educational attainment.

The changing occupation distribution of newly arrived immigrants in the various regions directly reflects underlying changes in skill distributions.

Table 3: Log Wage Differentials between Immigrant and Native Working Men, by Cohort

	1960	1970	1980	1990	2000
Non-South					
All immigrants	0.005 (0.005)	-0.03 (0.005)	-0.102 (0.002)	-0.156 (0.002)	-0.204 (0.001)
Immigrants, 1-5 years in U.S.	-0.134 (0.015)	-0.246 (0.012)	-0.353 (0.005)	-0.419 (0.004)	-0.324 (0.003)
South					
All immigrants	0.006 (0.017)	0.005 (0.014)	-0.057 (0.004)	-0.153 (0.003)	-0.192 (0.002)
Immigrants, 1-5 years in U.S.	-0.179 (0.047)	-0.145 (0.029)	-0.215 (0.009)	-0.331 (0.007)	-0.323 (0.005)
South, excluding FL and TX					
All immigrants	0.304 (0.027)	0.297 (0.023)	0.140 (0.007)	0.097 (0.005)	-0.079 (0.004)
Immigrants, 1-5 years in U.S.	0.203 (0.078)	0.118 (0.048)	-0.061 (0.016)	-0.129 (0.012)	-0.259 (0.007)

Notes: Standard errors are reported in parentheses.

Between 1960 and 2000, there was a very steep decline in the fraction of immigrants in southern states excluding Florida and Texas classified as professionals or technical workers. This decline in the number of new immigrants employed in high-skill occupations stands in sharp contrast to the trend observed in the non-south region, where the fraction of immigrants classified as professional fell only slightly. At the same time, the fraction of newly arrived immigrants in this subset of southern states classified as operatives or laborers rose rapidly, whereas, the fraction of new immigrants in the non-South employed in these low-skill occupations actually declined.

Internal Migration

The increased immigration into the South can be explained both in terms of a change in the number of newly arrived immigrants who have chosen to reside in the South as well as from significant immigration from earlier immigrants who originally chose to settle outside the South. U.S. Census data are available beginning at 1970 on the state of residence five years prior to the

Census. These data, along with data on the geographic location at the time of the Census, can be combined to calculate the migration rates of immigrant workers between the South and the non-South. There was a significant rise in the net migration rate of foreign-born workers into the non-immigrant South during the past three decades. The net migration rate rose from -8.4 percent in 1970 to +7.2

percent in 2000. This rise is particularly striking for low-skill immigrants. Among high school dropouts, the net migration rate into the non-immigrant South rose from -11.1 percent in 1970 to +11.4 percent in 2000. It is therefore evident, from the analysis of the relative wages and net migration rates, that the emergence of a large low-skill foreign-born workforce in the non-immigrant South resulted from both a change in the settlement pattern of new immigrants and a rapid rise in the net migration of low-skill immigrants into that region.

Summary

The rise of a sizable low-skill, foreign-born workforce that occurred in the South during the 1990s was concentrated in states that had not been traditional destinations for immigrants. Historically, this subset of southern states had instead been the destination of only a relatively small number of high-skill immigrants. In addition to the increased settlement of newly arrived low-skill immigrants in these states, there was an internal relocation of low-skill foreign-born workers from other states into the South. The recent rise of the low-skill workforce in the traditionally non-immigrant South has resulted in a significant decline in the

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ANNOUNCEMENT OF WINNERS

Emerging Scholars Program

Fall 2004 Term

Scott Allard is Assistant Professor of Political Science and Public Policy at Brown University. He received his Ph.D. in Political Science at the University of Michigan in 1999. Dr. Allard's research focuses on the spatial variation in welfare-to-work program outcomes and the evolution of subnational welfare programs during the emergence of the modern American welfare state.

James Sullivan is Assistant Professor of Economics at the University of Notre Dame, and Research Affiliate of the National Poverty Center at the University of Michigan. Dr. Sullivan received his Ph.D. in Economics at Northwestern University in 2002. His research interests are in labor economics and public finance. His research examines the consumption, saving, and borrowing behavior of poor households.

UKCPR will accept nominations and applications for the Spring 2005 term until Friday, December 3, 2004.

The Rise of Low-Skill Immigration in the South (continued)

economic status of immigrants relative to natives, and will inevitably play a major role in the continuing evolution of economic and social conditions in the South.

Notes:

1. The opinions and conclusions expressed herein are solely those of the author and should not be construed as representing the opinions or policy of the UKCPR or any agency of the Federal government.

2. The data are drawn from the 1960-2000 Integrated Public Use Microdata Samples of the U.S. Census (IPUMS). The statistics refer to a sample of persons aged 18-64 who worked at least one week in the year prior to the Census, are not enrolled in school, and do not live in group quarters.

3. As defined by the Census, the South region includes Alabama, Arkansas, Delaware, the District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia.

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Borjas, George J. "The Economics of Immigration," *Journal of Economic Literature* (December 1994): 1667-1717.

Card, David, "Immigrant Inflows, Native Outflows, and the Local Labor Market Impacts of Higher Immigration," *Journal of Labor Economics* 19 (January 2001), 22-64.

Friedberg, Rachel M. and Jennifer Hunt. "The Impact of Immigration on Host Country Wages, Employment and Growth," *Journal of Economic Perspectives* 9 (Spring 1995): 23-44.

George Borjas is the Robert W. Scrivner Professor of Economics and Social Policy at the John F. Kennedy School of Government, Harvard University; and a Research Associate at the National Bureau of Economic Research.

UK Center for Poverty Research**Seminar Series****Fall 2004:**

September 17. "Economic Effects of the 1960s Riots." **Robert Margo**, Professor of Economics, Vanderbilt University

September 22. "Welfare Reform and Vehicle Ownership for the Poor: Do Asset Tests and Vehicle Exemptions Matter?." **James Sullivan**, Assistant Professor of Economics, University of Notre Dame

October 7-8. Program Evaluation, Human Capital, and Labor Market Public Policy: A Research Conference in Honor of Mark C. Berger

November 5. "Multiple Dimensions of Private Information: Evidence from the Long-Term Care Insurance Market." **Kathleen McGarry**, Professor, Department of Economics, UCLA

Spring 2005:

February 18. **Susan Mayer**, Dean of Harris School of Public Policy, University of Chicago.

March 4. **David Autor**, Pentti J.K. Kouri Career Development Associate Professor of Economics, MIT.

March 9. **Kathleen Mullan Harris**, Professor, Department of Sociology, University of North Carolina-Chapel Hill.

April 15. UKCPR Regional Small Grants Conference.

Speakers:

Elizabeth U. Cascio, Institute of Governmental Affairs and the Department of Economics, University of California, Davis, "From Follower to Leader: State-Funded Preschools and the Well-Being of Children and Families in the American South."

Shiferaw Gurm, Department of Economics, Andrew Young School of Policy Studies, Georgia State University, "Barriers to Employment and Welfare-To-Work: Evidence from Georgia."

Leonard M. Lopoo, The Maxwell School of Citizenship and Public Affairs, Syracuse University, "Explaining Fertility Rates in the American South from 1981 to 1999: A State Level Analysis."

Maryah Stella Fram, College of Social Work, University of South Carolina, "Poverty, Race, and the Contexts of Achievement: Examining Educational Experiences of Children in the American South."

2004–2005 FUNDING OPPORTUNITIES FROM UKCPR

Regional Small Grants Program

We seek proposals for research on the causes, consequences, and correlates of poverty in the American South. Applicants to the Regional Small Grants Program must hold a Ph.D. or equivalent academic degree by September 1, 2004 and must have a full-time academic appointment. The UKCPR anticipates funding 3-4 proposals, up to a maximum of \$20,000 per award. The deadline for proposals is February 18, 2005. Full application details are available at <http://www.ukcpr.org/FundingOpps/Regional.html>.

HBCU, 1890, and Tribal Colleges and Universities Small Grants Program

This small grants program is open to faculty located at HBCU, 1890, and Tribal Colleges and Universities who are conducting social science research on poverty, inequality, and their correlates. Applicants must hold a Ph.D. or equivalent academic degree by September 1, 2004 and must have a full-time academic appointment. The UKCPR anticipates awarding up to 6 proposals at \$11,000 each in direct expenditures. The deadline for proposals is December 3, 2004. Full application details are available at <http://www.ukcpr.org/FundingOpps/HBCU.html>.

Young Investigators Development Grant Program

The UKCPR seeks proposals from untenured, junior faculty within seven years of receipt of the Ph.D. for social science research on issues salient to low-income populations residing in the American South. Applicants must hold a Ph.D. or equivalent degree by September 1, 2004. The UKCPR anticipates funding 3 proposals, up to a maximum of \$5,000 per award. The deadline for proposals is January 14, 2005. Full application details are available at <http://www.ukcpr.org/YIDGP.html>.

Emerging Scholars Program

This program offers young scholars in social and behavioral sciences the opportunity to visit the UKCPR. Eligibility is open to scholars holding a Ph.D., with preference given to those who graduated in the last six years. The UKCPR will consider nominations and applications for the Spring 2005 term until December 3, 2004. Full application details are available at <http://www.ukcpr.org/FundingOpps/Emerging.html>.

Graduate Student Dissertation Fellowships

The UKCPR has funds available for up to 2 Ph.D. dissertation fellowships during the 2005–2006 academic year to support research on the causes, correlates, and consequences of poverty and inequality in the United States. Eligibility is restricted to Ph.D. students currently enrolled in the social sciences at the University of Kentucky who are in good academic standing. The fellowships provide salary and tuition support for the 9-month period from August 16, 2005 to May 15, 2006, which includes a stipend of \$13,000, health benefits, and if applicable, tuition will be covered by the Graduate School. The deadline for applications is February 11, 2005. Full application details are available at <http://www.ukcpr.org/FundingOpps/Graduate.html>.

Filling the Poverty Gap: Is the South Catching Up, or Are Other Regions Falling Behind?

James P. Ziliak

Overview

While poverty eradication is not an explicit goal of most income transfer programs, it is arguably an implicit goal, and assessing the extent to which the panoply of means-tested transfers, social insurance, and tax credits fills the so-called poverty gap—that is, the amount of money beyond private incomes required to lift all poor families to the poverty threshold—is a periodic barometer of the social safety net. Because many of the programs in the safety net have eligibility standards and benefit payments set by state, or even in some instances local, governments, we might expect to observe differences across regions of the country in the level and composition of the social programs filling the gap. Likewise, many business-cycle shocks are regionally focused such that at a given point in time different programs with differing levels of benefit generosity may be working to aid the poor and thereby generating regional distinctions. The further devolution of cash welfare to the states as part of the 1996 welfare reform, coupled with other major changes in the social and economic landscapes over the past two decades, may have made these regional differences more acute.

In a paper entitled “Filling the Poverty Gap, Then and Now,” I use data on families from the Current Population Survey to examine how the level and composition of before- and after-tax and after-transfer poverty gaps changed over the three most recent business cycle peaks (1979, 1989, and 1999) and troughs (1982, 1991, and 2001).¹

The results reveal dramatic changes over the past two decades. From the peak-to-peak business-cycle years of 1979 to 1999, I find that the fraction of the gap left unfilled among non-elderly

families in poverty has expanded by 25 percent overall, while the unfilled gap has increased by 50 percent among single female-headed families, families headed by non-whites, and families residing in the Northeast. In a given year the poor in the South fill considerably less of the poverty gap with cash welfare, but make up for some of the shortfall with higher payments of food stamps, Supplemental Security Income (SSI), and Social Security Disability Insurance (SSDI). Over time the poor in all regions of the country have substituted SSI, SSDI, and the Earned Income Tax Credit (EITC) for cash welfare. However, this apparent replacement of disability payments and

tax and transfer poor families to the poverty line. Likewise, the net poverty gap provides a comparison of total family disposable income (i.e., after subtracting taxes and adding in transfers and social insurance) to the size-adjusted poverty line for those with pre-tax and pre-transfer income below the threshold, and thus reveals how much more is still needed to eradicate poverty after accounting for the contributions of the safety net.

In keeping with the past literature on poverty gaps, I define gross, private income as the sum of labor income, capital income, net self-employment income, alimony, child-

“From the peak-to-peak business-cycle years of 1979 to 1999...the fraction of the gap left unfilled among non-elderly families in poverty has expanded by 25 percent overall...”

tax credits for cash welfare is less than one for one, leaving poor families financially more vulnerable today than in previous decades. Unlike two decades ago, there is little difference in the fraction of the poverty gap filled across regions of the country, not because families in the South caught up with families in other regions but rather families residing outside the South fell behind.

Measuring the Poverty Gap

In the paper I consider two variants of the poverty gap, one before and one after the inclusion of taxes, transfers, and social insurance. The so-called gross poverty gap provides a comparison of private family incomes to the size-adjusted poverty line for those with pre-tax and pre-transfer income below the threshold; that is, it reveals how much money is needed to lift all pre-

support receipts, and private retirement income. This is used to identify the pre-tax and pre-transfer poor and determine the size of the gross poverty gap. Disposable family income is then the sum of gross private income, social insurance (Social Security, SSDI, Unemployment Insurance (UI), Workers Compensation (WC), Veterans Payments), means-tested transfers (Aid to Families with Dependent Children/Temporary Assistance to Needy Families (AFDC/TANF), SSI, food stamps, housing assistance), and the EITC, less federal, payroll, and state income tax payments.

Filling the Poverty Gap, 1979-2001

Table 1 contains weighted estimates of the total and average poverty gaps for non-elderly pre-tax and pre-transfer poor families over the past two decades, first for the nation as a

Table 1: Total and Average Poverty Gaps for Non-Elderly Pre-Tax and Pre-Transfer Poor Families by Year and Income Source

Year	Gross Poverty Gap		Net Poverty Gap	
	Total	Average	Total	Average
			Non-Elderly Families	
1979	\$60.91	\$10,185	\$20.29	\$3,393
1989	\$78.61	\$10,160	\$33.62	\$4,345
1999	\$70.61	\$9,145	\$29.40	\$3,808
			Northeast	
1979	\$14.90	\$11,110	\$3.73	\$2,784
1989	\$14.10	\$11,024	\$5.23	\$4,089
1999	\$14.10	\$9,865	\$5.50	\$3,850
			Northcentral	
1979	\$14.09	\$10,355	\$4.46	\$3,277
1989	\$18.84	\$10,490	\$7.51	\$4,181
1999	\$13.71	\$9,165	\$5.98	\$3,998
			South	
1979	\$22.33	\$9,762	\$8.61	\$3,766
1989	\$30.17	\$9,677	\$14.62	\$4,692
1999	\$26.54	\$8,895	\$11.22	\$3,760
			West	
1979	\$9.59	\$9,674	\$3.49	\$3,517
1989	\$15.50	\$10,034	\$6.25	\$4,047
1999	\$16.26	\$8,972	\$6.70	\$3,698

NOTE: Total values are in billions of real 2001 dollars, and average values are in real 2001 dollars.

whole and then decomposed by Census region. Table 1 reveals that there is a very sizable gross poverty gap. In 1979, on average a per-family transfer of \$10,185 would be required to lift all poor families to the poverty threshold, whereas by 1999 a smaller transfer of \$9,145 would be needed. After adding in the contributions of income transfers, social insurance, and tax credits the average net poverty gap falls considerably relative to the gross gap. However, across the past three business cycles the average poor family would still need nearly \$4,000 to lift the family out of poverty. As discussed in detail below the trend over time has been to leave the more of the gap unfilled.

The next four panels of Table 1 contain estimates of gross and net poverty gaps by the four large geographic regions. Here, directing attention to the average gap is more instructive because of regional differences in population. Through the early 1990s the average net gap for families in the South was between

\$500 and \$1,000 higher than in other regions, implying that the safety net filled less of the gap for the poor in the South. However, by the end of the 1990s there was little cross-region difference in average gross or net poverty gaps; indeed, the typical poor family in the South fared better than the average poor family in the Northeast, reversing long historical trends.

Shifting Composition of the Safety Net

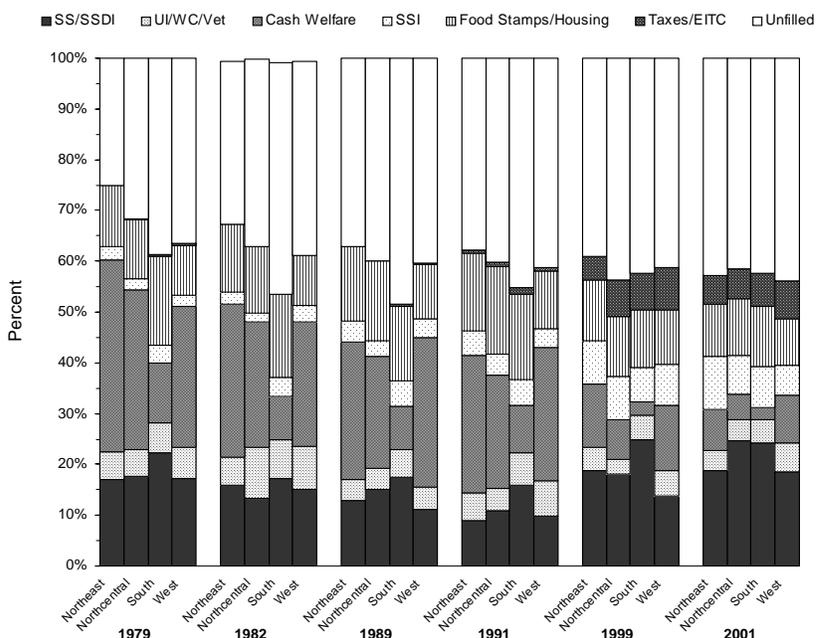
In Figure 1 I examine the regional differences in more detail by decomposing the net poverty gap into its component shares. Specifically, the figure shows the percentage of the poverty gap that is filled by the various programs in the safety net in each of the major four regions. Starting from the bottom is transfers from Social Security and SSDI, next is the sum of UI, WC, and Veterans Payments, followed by AFDC/TANF, then SSI, then the sum of Food Stamps and

Housing Assistance, and finally the EITC less income and payroll taxes. The last category represents the fraction of the gap left unfilled by the safety net.

Figure 1 illustrates the substantial geographic variation in the level and composition of programs filling the gap throughout the 1970s and 1980s. Non-elderly families in the Northeast typically had 12 to 15 percentage points more of the gap filled compared to families residing in the South (e.g., 75 percent in 1979 in the Northeast compared to 60 percent in 1979 in the South). By 2001, though, regional differences in the total amount of the gap filled by the U.S. tax and transfer system vanished. This was not so much a leveling up of social support going to residents of the South, though this occurred to some extent. Rather, it was a leveling down, particularly in the Northeast. As manifested in terms of filling poverty gaps, the evidence in Figure 1 indicates regional homogenization of income maintenance that is consistent with “race to the bottom” competition (that is, a “race to the bottom” among states with their welfare programs).

(continued on p. 10)

Figure 1: Percent Contributions of Various Transfers to Filling the Gap for Pre-Tax and Pre-Transfer Poor Non-Elderly Families by Region, 1979-2001



Filling the Poverty Gap
(continued)

During the 1970s and 1980s, a growing differential existed in the role of cash welfare filling the poverty gap in the South and the other three regions. Families in the South made up for low cash welfare payments with comparatively high SSI, Social Security/SSDI, and food stamp payments. More notably, while substitution of SSI and SSDI for TANF for the whole country did not surface until the 1990s, this implicit tradeoff has been occurring in the South for at least the past two decades. By the end of the 1990s the contribution of cash welfare to filling the gap fell by over one half across all regions, and while other transfers and social insurance programs have expanded to offset some of this decline, this has not been a dollar for dollar replacement such that the unfilled gap rose by as much as 50 percent in the Northeast.

Variation in Poverty Gaps by Race

There is widespread empirical documentation of racial differences in labor-force attachment and in family structure, which in turn leads to a racial gap in family labor-market earnings. As a consequence of these differences, participation in means-tested transfer programs (e.g. cash welfare, SSI, and food stamps) tends to be higher among non-whites than whites, while participation in social insurance programs tied to labor-market experience (e.g. Social Security/SSDI and UI) is higher among whites. In Figure 2 I document how these differences translate into the composition of the poverty gap by broad racial groups and regions. Across all regions and years white families fill less of their poverty gaps with cash assistance, but within each region white families replaced this shortfall with substantially higher Social Security/SSDI payments. Non-whites tended to fill comparatively more of the gap with food stamps, while whites in each region utilized the EITC more heavily. Contrary to the late 1970s when non-white families were able to fill more of the poverty gap compared to white families regardless of region, in 2001,

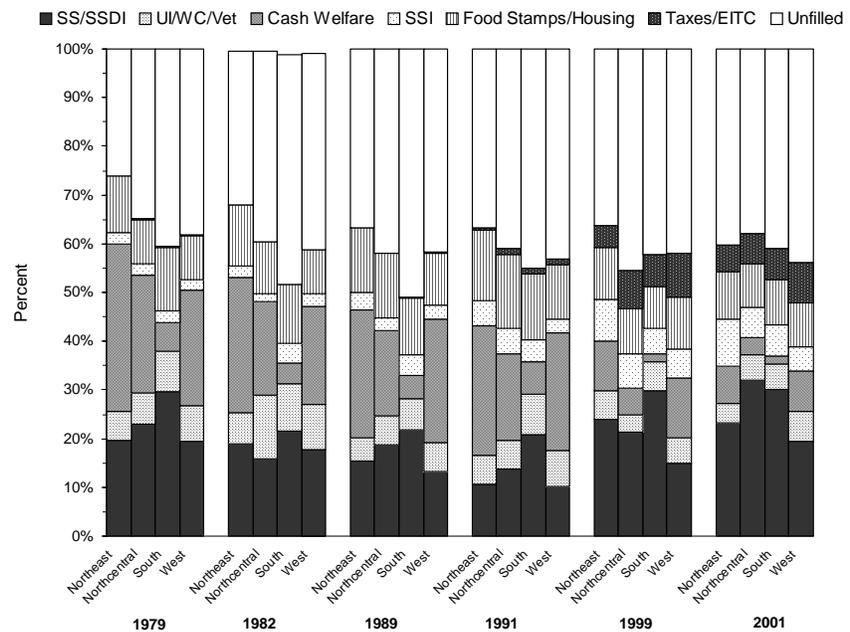
white families were more successful in filling the gap. Indeed the unfilled poverty gap rose nearly 50 percent among non-white families from the business-cycle peak years of 1979 and 1999. Similar to families overall, the implicit “race to the bottom” seems to be invariant to race: both white and non-white families experienced greater cross-region homogeneity in the fraction of the poverty gap left unfilled with social insurance, transfers, and tax credits by the end of the 1990s.

Variation in Poverty Gaps by Family Structure

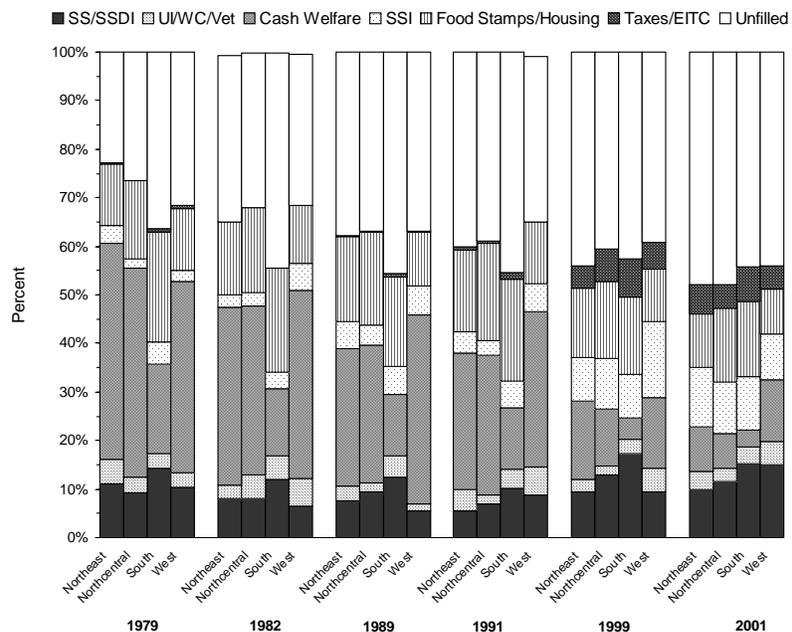
With the increased focus on encouraging and supporting two-parent families among the welfare-reliant population now being the centerpiece of the TANF reauthorization bill proposed by President Bush, it is important to examine how the safety net fills the gap across various family units. In Figure 3 I depict how the poverty gap is filled for married-couple families and for single female-

FIGURE 2. Percent Contribution of Various Transfers to Filling the Gap for Pre-Tax and Pre-Transfer Poor Non-Elderly Families by Region, 1979 to 2001

A. White Families



B. Non-White Families



headed families with related children under the age of 18 present.

A much smaller fraction of the poverty gap is filled with cash assistance among married-couples relative to female-headed families.² Married-couple families fill a substantial fraction of the poverty gap with Social Security/SSDI (at least twice the rate of single mother families). Although single-mother families increased usage of SSI and Social Security/SSDI over the past two decades, the massive decline in the role of cash welfare in filling the gap among single-parent families prevailed such that across all regions except the Northeast the current social safety net fills proportionately more of the poverty gap for married-couple families than single-parent families.

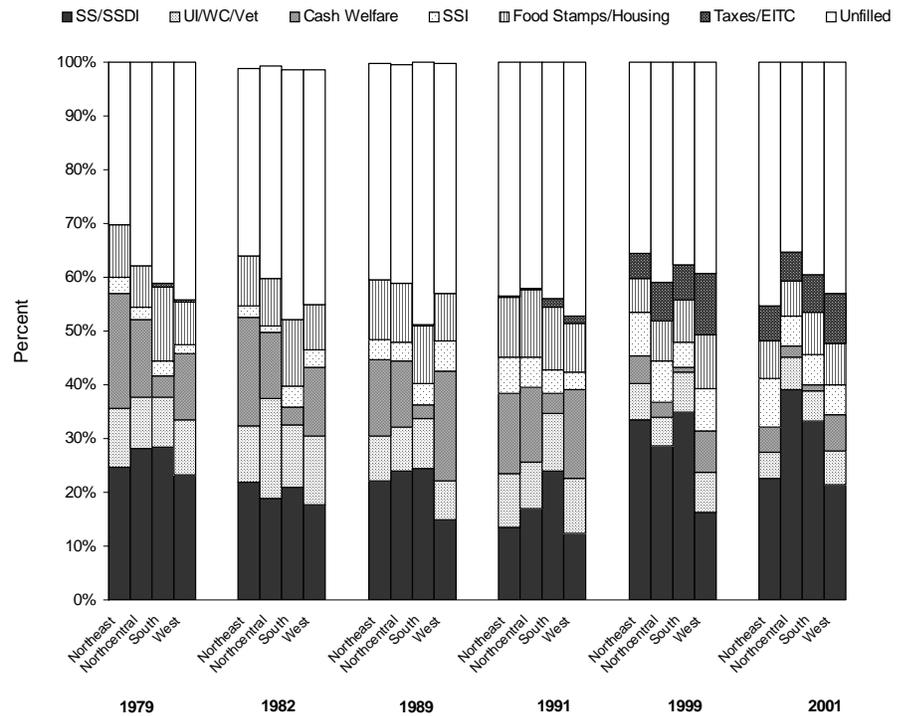
Conclusion

The changes in the social safety net reported here imply that many families are more financially vulnerable today than two decades ago. Families headed by a single parent have experienced proportionately greater unmet need compared to married-couple families in recent years. From 1979 to 1999, the unfilled gap has increased upwards of 50 percent for both single female-headed families and non-white families. Today, little cross-region heterogeneity exists in the fraction of the poverty gap filled by the safety net. This is not because families in the South have caught up with other regions but rather because families in the non-South fell behind.

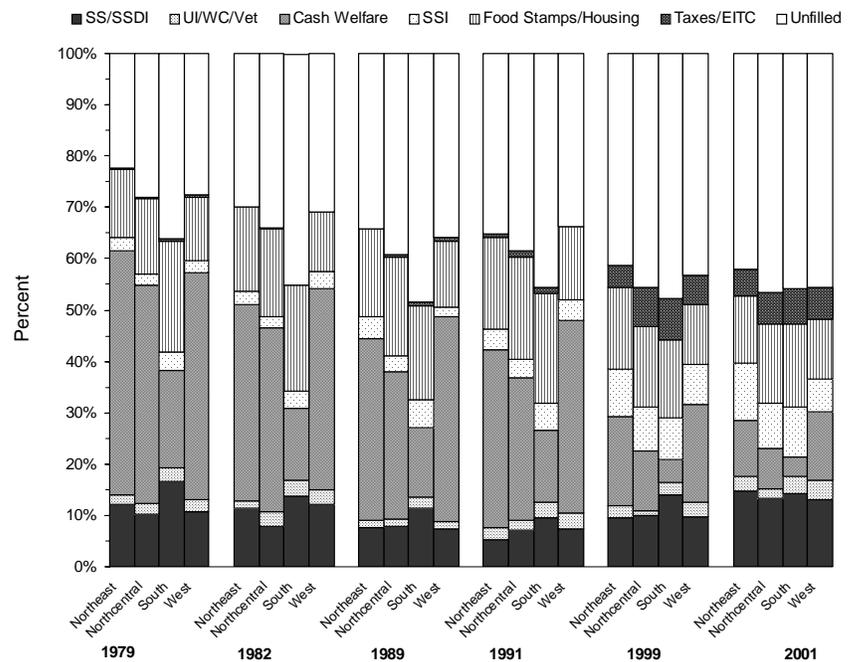
A number of questions emerge from the descriptive analysis presented here. What are the channels through which families substitute SSI and/or SSDI for cash assistance? How and why do these mechanisms vary across region of country, family structure, and race? Do state and local policymakers face incentives to encourage substitution toward federally funded programs such as disability insurance and away from block grant programs such as TANF? If so, are these incentives more salient for some demographic groups relative to others that might explain differential take-up rates among white versus non-white families, and married versus unmarried families? Answers to these and related questions are incumbent to a more complete understanding of the links between multiple program participation and family well being.

FIGURE 3. Percent Contribution of Various Transfers to Filling the Gap for Pre-Tax and Pre-Transfer Poor Non-Elderly Families by Region, 1979 TO 2001

A. Married-Couple Families



B. Single Female-Headed Households



Notes:

1. Available on the UKCPR online Discussion Paper Series on the UKCPR Web site at <http://www.ukcpr.org/Publications/DiscussionPapers.html>.

2. This is not surprising, given both the historical demographic composition of the

AFDC/TANF caseload and the outright ban of two-parent families from AFDC in half of the states prior to the Family Support Act of 1988.

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