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THE POVERTY OF LIBERAL ECONOMICS*

ABSTRACT

Liberal economic precepts have long been a foundation for the social science of poverty and continue to profoundly influence public policy. Liberal economics contends that poverty is dependent on the harmonious progress of economic growth, free market capitalism, worker productivity, and the supply and demand of labor. This paper traces its origins from classical economics and its influence throughout contemporary social science, public policy and conventional wisdom. Next, I evaluate the liberal economic model of poverty with an unbalanced panel analysis of 18 Western nations from 1967 to 1997 and with newly available comparable data on relative poverty, economic growth, government receipts, productivity and unemployment. The results demonstrate that liberal economics provides a weak and ineffective model of poverty, and many of its precepts are wholly unsupported. Moreover, a central finding emerges that the size of the state has a large and significant negative effect on poverty after taxes and transfers. It is argued that poverty researchers should seriously question the liberal economic model and instead concentrate on the central role of the state in reducing poverty.

THE POVERTY OF LIBERAL ECONOMICS*

Tours of poor communities are a recurring spectacle of the American political landscape. John Kennedy, Lyndon Johnson, Robert Kennedy and Joseph Clark, and Paul Wellstone utilized tours to draw attention to American poverty. Mimicking his predecessors' pageantry, in the summer of 1999, President Clinton conducted a four-day, six-state tour of poor communities (Broder 1999a). Throughout, Clinton promised economic opportunity for corporations who invest in poor neighborhoods. Ceremoniously, he unveiled a new Walgreen's in East St. Louis, promoted the Bank of America's \$500 million "catalyst fund" which will make equity investments in poor areas, and attended the annual meeting of a corporate-sponsored vocational education center in L.A. (Purdum 1999). Many commentators were critical of the insincerity of "Clinton's Cosmetic Poverty Tour" (Edelman 1999).¹ The fact that Clinton did not conduct the tour until his seventh year in office, coupled with the general lack of substance and financial commitment to his policy proposals, left many poverty advocates and scholars disappointed.

Reflecting the historical legacy of U.S. social policy, however, a more crucial feature of Clinton's tour was the devotion to liberal economics (Esping-Andersen 1990; Goodin et al. 1999; Gordon 1972; O'Connor 2001). At every stop, Clinton emphasized the need for private sector and free market oriented initiatives to battle poverty. In Pine Ridge, South Dakota, Clinton sought \$980 million in tax credits to stimulate \$6 billion in private investment for businesses to create jobs in poor areas (Kilborn 1999). In Hazard, Kentucky, Clinton stressed, "This is a time

¹ Senator Paul Wellstone lamented, "I can't help but be skeptical." James Patterson, a historian of anti-poverty movements, said, "I don't think this is terribly exciting news." The sociologist Christopher Jencks remarked, "One of the ways I preserve my mental health is to read as little as possible about Bill Clinton" (DeParle 1999). Having been a staff lawyer on Robert Kennedy's tour and having resigned as Clinton's Assistant Secretary in the Department of Health and Human Services to protest the 1996 welfare reforms, Peter Edelman (1999) uniquely condemned Clinton for welfare reform's consequences, and argued that Clinton "should stop referring to them as 'pockets' of poverty. Persistent poverty is endemic in cities and rural areas and is increasingly present, if less visibly so, in suburbs."

to bring more jobs and investment and hope to the areas of our country that have not fully participated in this economic recovery” (Broder 1999b). In East St. Louis, Clinton’s chief economic adviser, Gene Sperling explained, “The goal is not to ask people to make charitable contributions, but to make companies take a second look in our own backyard where there could be profitable business opportunities while also helping rebuild communities that have been left behind” (Broder 1999b). In Clarksdale, Mississippi, while visiting the Waterfield Cabinet Company factory that had recently been rescued from bankruptcy, Clinton proclaimed, “This is a good business opportunity here” (Broder 1999b). In Watts, Clinton emphasized the necessity of raising the human capital and education levels of poor people. Clinton’s suggestions have been labeled “an alternative approach” (Kilborn 1999), but really are a mix of older market initiatives including empowerment zones, community development financial institutions and enterprise communities. All of these initiatives highlight and depend upon corporate profits as a major incentive for investment in poor areas. Throughout his tour, Clinton offered little more than liberal economic solutions to poverty.²

As with Clinton’s agenda, liberal economics remains the dominant explanation for poverty. Throughout the social sciences, public policy and conventional wisdom, liberal economic explanations are used to account for trends in U.S. poverty and comparative and historical variation in poverty. Though most classical liberals rarely analyzed poverty explicitly, their theoretical explanations continue to influence contemporary explanations of poverty, and popular polemics on poverty often rest solely on the principles of liberal economics (Gilder

² Before the end of his term, Clinton agreed to merge poverty initiatives with House Speaker Hastert. The end package was committed to liberal economics with the expansion of the number of empowerment zones, tax credits, capital gains relief, and the establishment of 40 renewal communities which would have no capital gains tax. The program essentially involves a number of incentives to lure private investors to poor areas. It is important to note, however, Clinton had earlier successfully pushed for a large expansion in the Earned Income Tax Credit.

1981; Murray 1984). As a result, liberal economics underlies many of the implicit assumptions of poverty scholarship (O'Connor 2001).

While liberal economics exerts great influence, systematic evaluations of the approach have rarely been undertaken. In particular, few scholars have articulated the core precepts of liberal economics, demonstrated the approach's coherence, and empirically evaluated its usefulness (e.g. Goodin et al. 1999). In this paper, I systematically evaluate the liberal economic explanation for relative poverty. First, I review the core elements of the liberal economic explanation of poverty by identifying strands in classic and contemporary liberal theorists. Also, I review recent empirical studies by economists and sociologists, and policy developments that display this approach's contemporary manifestations. Second, I evaluate liberal economics with an empirical analysis of Western nations from 1967 to 1997. Specifically, I operationalize each of the tenets of liberal economics, evaluate the effect of these measures on four measures of relative poverty, and assess the effectiveness of the liberal economic model. Third, based on these results and others' findings, I critique the liberal economic approach, and stress the need for a new theoretical framework to explain poverty.

THE LIBERAL ECONOMIC PARADIGM FOR POVERTY

Despite a tradition of economic commentary on poverty, a mature liberal economic theory of poverty has rarely been articulated (Goodin et al. 1999; Gordon 1972; O'Connor 2001). In turn, detailing the liberal economic explanation of poverty requires identifying the commonalities underlying social science theory and research. Based on such an effort, the liberal economic explanation of poverty can be distilled to a set of four theoretical precepts: harmonious progress, free market capitalism, worker productivity, and supply and demand.³ By

³ My discussion of liberal economics shares much with Gordon's (1972) classic critique of orthodox economics, where he articulated the paradigm of orthodox economics as differentiated from dual labor market and radical

labeling liberal economics as I do, I mean to explicitly emphasize that liberal economics does not represent all of economics, economists, or economic approaches to poverty. Rather, I am referring to a set of implicit, core assumptions that underlie much public policy, conventional wisdom and social science research. Arguing that liberal economics can be reduced to four precepts is only possible because of its intended simplicity and generality regardless of historical, cultural, and institutional contexts (Gordon 1972: 34, 39; Marshall 1964). This sweeping universality is a source of strength and contributes to its influence in the social sciences. For these reasons, the liberal economic model of poverty warrants theoretical and empirical scrutiny.

Harmonious Progress

Among the deeply held beliefs of liberal economists is a faith in the harmony of interests of a progressing economy. In short, what is good for the nation is naturally good for the nation's poor (Aaron 1967; Gordon 1972: 32; Hayek 1960). Though liberal scholars might concede that prosperity benefits employers more than employees, prosperity is expected to benefit all generally. To reduce poverty, the clear solution is to help the economy grow and to let harmonious progress take hold (e.g. Osterman 1991). This deeply held view harkens back to the main preoccupation of Ricardian economics with the preconditions for and the maintenance of economic growth. In turn, economic growth remains the focal point of liberal economics in explaining national levels of poverty (O'Connor 2001).

Moreover, liberal economics presumes that with sufficient progress and a rising tide of economic prosperity, the amount of poverty in society will decrease. Because of the optimistic

perspectives in terms of their disciplinary matrices. Much like Gordon, this paper maintains that the liberal economic approach is a research paradigm, and by articulating the precepts, draws on classical and contemporary examples. However, this paper differs by offering a systematic empirical analysis and critique. Moreover, this paper is one of the few to update the debate in 30 years since Gordon's classic *Theories of Poverty and Underemployment* (see also Silver 1994; O'Connor 2001; Goodin et al. 1999). Following the evolution of economics since Gordon's classic, this label is meant to be roughly synonymous with free-market fundamentalism or neoliberalism. Obviously, the title of this paper is also a tribute to Marx's "The Poverty of Philosophy."

confidence of liberal economists in the power of economic growth, industrialization and modernization (Heilbroner 1980), the prediction naturally followed that poverty would one day be eliminated (e.g. Mill 1963: 216). Friederich Hayek (1994: 20) explained, “The result of this growth surpassed all expectations. . . And while the rising standard soon led to the discovery of very dark spots in society, spots which men were no longer willing to tolerate, there was probably no class that did not substantially benefit from the general advance.” Relatedly, liberal economists have commonly asserted that economic growth reduces relative deprivation. As Milton Friedman (1982: 169-170) asserted, “With respect to changes over time, the economic progress achieved in the capitalist societies has been accompanied by a drastic diminution in inequality.” Thus, economic growth is commonly identified as an essential and even dominant mechanism for any nation to combat poverty.

Many current scholars emphasize the primacy of economic growth for alleviating poverty (e.g., Balke and Slottje 1993; Bluestone and Harrison 2000; Freeman 2001; Gordon 1972: 98; Jorgenson 1998). Reviewing the literature, Sawhill (1988: 1088) remarks, “There is good reason to expect economic performance to have powerful effects.” Ellwood and Summers (1986: 79) argue that, “Economic performance is the dominant determinant of the poverty rate.” Blank (2000: 6, 10) asserts, “A strong macroeconomy matters more than anything else,” and “the first and most important lesson for anti-poverty warriors from the 1990s is that sustained economic growth is a wonderful thing.”⁴ Others acknowledge that though economic growth had a smaller

⁴ As one of the most visible public supporters of the welfare state for fighting poverty (and at times one of the more persuasive critics of liberal economics), Blank’s ambiguity on this matter should be noted. In her 1997 volume, she argued that since the late 1970s, economic performance has stopped reducing poverty as effectively as it had in the past (see below). Also, she (1997: 82) stressed, “There must be some additional sources of income available for many workers, since work alone will not provide a route out of poverty.” However, simultaneously, she has maintained a near exclusive focus on market-based solutions for poverty policy. Blank (1997: 56) emphasizes, “The key to the puzzle is wages” and offers an assortment of employment-based initiatives to raise poor people’s earnings. While Blank (1994: 204) notes, “At best, employment programs can serve as one piece of a larger overall strategy to fight poverty,” her specific recommendations emphasize a strong underlying macroeconomy, improving

effect on poverty in the 1970s and 1980s than in earlier decades, the relationship was strong again in the 1990s (Cain 1998). Haveman and Schwabish (1999: 18) conclude, “Strong economic growth and high employment may again be the nation’s most effective antipoverty policy instrument.” Overall, much scholarship emphasizes economic growth’s power to reduce poverty.⁵ This precept underlies the specific arguments of liberal economics about worker productivity and the supply and demand of labor. Further, the emphasis on harmonious progress in liberal economics fundamentally implies a specific system of economic organization.

Free Market Capitalism

Liberal economics holds that the most effective system for ensuring prosperity is a free market. Because prosperity and economic growth are the best mechanisms to combat poverty, free market capitalism is the best system for reducing poverty in the long term (O’Connor 2001: 143). Classical liberals have emphasized the efficacy of competitive market mechanisms and had a general distrust of government intervention.⁶ The free market was strongly preferred, and liberals commonly expressed skepticism about the government intervening to ameliorate social problems. As Friedman (1982: 199-200) emblematically contends,

The United States has continued to progress; its citizens have become better fed, better clothed, better housed, and better transported; class and social distinctions have narrowed; minority groups have become less disadvantaged; popular culture has advanced by leaps and bounds. All this has been the product of the initiative and drive of individuals co-operating through the free market. Government measures have hampered, not helped, this development. We have been able to afford and surmount these measures only because of the extraordinary fecundity of the market. The invisible hand has been more potent for progress than the visible hand for retrogression.

the human capital of children, job training, stronger work incentives for welfare beneficiaries, tax relief for the poor, employment services, and targeting youth in high unemployment areas (1994: 199). Possibly, the piece above (2000) reflects her current stand and/or deeply held views.

⁵ A recent widely-publicized Census Bureau report contended that the strong economy was mainly responsible for the late-1990s drop in U.S. poverty rates and welfare reciprocity (Uchitelle 1999; see also Ziliak et al. 2000).

⁶ John Stuart Mill (1963: 142) stressed, “I conceive that, even in the present state of society and industry, every restriction of it [competition] is an evil, and every extension of it, even if for the time injuriously affecting some class of labourers, is always an ultimate good.”

When confronted with the specific problem of poverty, liberal economists continue to prefer the free market. Some scholars advocate even further by arguing that a more liberalized capitalist economy reduces inequality and poverty. For example, Friedman (1982: 169) asserts,

Another striking fact, contrary to popular conception, is that capitalism leads to less inequality than alternative systems of organization and that the development of capitalism has greatly lessened the extent of inequality. Comparisons over space and time alike confirm this view. There is surely drastically less inequality in Western capitalist societies like the Scandinavian countries, France, Britain, and the United States, than in a status society like India or a backward country like Egypt. . . But if inequality is measured by differences in levels of living between the privileged and other classes, such inequality may well be decidedly less in capitalist than in communist countries. Among the Western countries alone, inequality appears to be less, in any meaningful sense, the more highly capitalist the country is: less in Britain than in France, less in the United States than in Britain.

Following the logic of liberal economics, free markets should be preserved and government intervention should be minimized if poverty-reduction is a goal. Aside from a general criticism of government intervention, the welfare state has received the most scrutiny.⁷

Liberal economists contend that while the welfare state might initially reduce poverty, in the long term it actually may worsen and deepen poverty. Though this line of thought influences contemporary debates, the basic argument is as old as the welfare state itself (Katz 1989; O'Connor 2001; Piven and Cloward 1997). Liberals have long argued that the welfare state is counterproductive and inefficiently hinders the free market from achieving its full potential. Ricardo (1931: 96) argued at the beginning of the 19th century that,

⁷ Of course, liberal economists, and especially neo-liberals, are often highly cognizant of the power of state policy-making to affect affluence and poverty. However, these theorists are often normatively and intellectually disposed to reject government activism and high levels of social spending to alleviate poverty and inequality. Typically, liberal economists, and especially neo-liberals, contend that the drawbacks of government activism for economic performance may outweigh the potential benefits for poverty. I add "neo-liberal" here because the current, roughly post-1970 generation of what I have termed "liberals" is sometimes termed "neo-liberals" to contrast it with the less enthusiastically laissez-faire, free market, optimization-centered economics of some preceding periods, the 1950-1970 period of heavily Keynesian 'neo-classical synthesis' in particular (Barry et al. 1996; Overbeek 1993).

The nature of evil points out the remedy. By gradually contracting the sphere of the poor laws; impressing on the poor the value of independence, by teaching them that they must look not to systematic or casual charity, but to their own exertions for support, that prudence and forethought are neither unnecessary nor unprofitable virtues, we shall by degrees approach a sounder and more healthful state. No scheme for the amendment of the poor laws merits the least attention, which has not their abolition for its ultimate object.

In recent years, there has been no shortage of liberal economic thinkers arguing for a reduced welfare state (e.g. Banfield 1970; Darity and Myers 1987; Gilder 1981; Glazer 1988; Mead 1986, 1992; Okun 1975; Lindbeck 1995). In fact, Galbraith (2000) suggests that the classic preference for free markets and the reduction of the welfare state probably represents at least a majority in the economics profession. Critiques of the welfare state often emphasize that generous welfare programs discourage work, provide incentives for deviant behavior and single parenthood, and lead to dependency (e.g. Murray 1984). For example, Moffitt (2000) argues that welfare benefits cause increased single-motherhood. Other researchers suggest that welfare generosity may contribute to a deepening of poverty and longer poverty spells (e.g., Bane and Ellwood 1994; Danziger, Haveman and Plotnik 1981; Moffitt 1992). Recent studies of the 1996 welfare reforms in the U.S. seem to support this view (DeParle 1997a, 1997b).⁸ Alternatively, generous Western European welfare states have often been framed as contributing to labor market rigidity, inefficiency, and in turn actually worsening and increasing the amount of poverty (Alesina and Perotti 1997; Freeman et al. 1997; Lindbeck 1995, 1998; see also Barr 1992).

Even more intriguingly, this standard liberal view has influenced many economists who function as public intellectual critics of rising social inequality. After its economic crisis in the early 1990s, even the welfare state advocate Freeman (et al. 1997) characterized the generous

⁸ Ultimately, free markets, and in turn the liberal economic paradigm, seem vindicated by welfare reform. A study by the Rockefeller Institute found that two-thirds of the people who left New York's welfare rolls found work (Hernandez 1999). President Clinton called welfare reform a "whole happy scenario" (Pear 1999). Celebrating

Swedish welfare state as, “nearly impossible for the country to afford” (p. 11), “unsustainable” (p. 25), and “dysfunctional” (p. 27). Paul Krugman illustrates the thinking of many liberal economists in his widely read book, *The Age of Diminished Expectations*, which focused on the declining fortunes of middle- and working-class Americans (see also 1994b). Analyzing the historical rates of poverty in the U.S., Krugman (1994a: 27) articulates the conventional liberal economic view that the welfare state has not been very successful at reducing poverty, “Neither generosity nor niggardliness seems to make much difference to the spread of the underclass.”⁹

Overall, liberal economics holds that free markets are more effective for cultivating economic growth, and as a result combating poverty. While these first two precepts may or may not be widely agreed upon by economists (Galbraith 2000; O’Connor 2001), their appeal is less robust in other social sciences. By contrast, the next two precepts are conventional wisdom in poverty research across the social sciences and in public policy.

Worker Productivity

Liberal economics has long stressed that if a worker is more productive, his or her earnings will rise, and the likelihood of poverty will diminish (Ricardo 1931). On a national level, the average worker productivity will effectively predict the amount of poverty in the labor force (and hence population) (Gordon 1972: 29). Further, enhanced productivity reduces poverty indirectly by boosting the economic growth of a nation (Heilbroner and Thurow 1994: 207).

New York’s successful reform, Mayor Guiliani said, “Today marks a milestone of replacing the culture of dependency in New York City with the culture of work and employment” (Bernstein 1999a).

⁹ Krugman (1994a: 28) elaborates, “America launched its War on Poverty in the 1960s – a time of rising incomes and widespread optimism about government activism. This ‘war’ was supposed to be social engineering, not merely charity. It was intended not simply to raise the living standards of the poor, but to help them work their way out of poverty. Yet poverty did not decline. Despite sharp increases in aid to the poor between the late 1960s and the mid-1970s, poverty remained as intractable as ever, and the underclass that is the most visible sign of poverty grew alarmingly. Today, relatively few people believe, as so many did in the 1960s, that government can do much to help the poor become more productive; all that it seems able to do is raise their standard of living by giving them more money (and influential books, like Charles Murray’s *Losing Ground*, deny even that).” In another forum, Krugman (2000) attributed “Eurosclerosis” to Europe’s rigid welfare state institutions which prevent the free market creation

Thus, liberal economic efforts to reduce poverty have often fixated on raising the productivity of workers. The predominant mechanism utilized to raise productivity (both within and outside of liberal economics) has traditionally been human capital – the skills, training and education invested in a person (Becker 1976). Hence, the liberal economic model typically suggests raising human capital, through training and education, in order to raise productivity and as a result decrease poverty (Karoly 2001; Murnane 1994; O’Connor 2001: 141).

In one of his few comments related to poverty, Adam Smith (Book I, Chapter X, Part I) explained the inequalities of employment solely as a function of productivity, human capital variables and hardships of particular employment – naturally more grueling, physically intensive or intellectually demanding work would pay higher wages. Lamenting the growth of the class of unskilled laborers and the poor, Alfred Marshall (1964: 634) argued that a nation should, “Diminish the supply of labour, incapable of any but unskilled work; in order that the average income of the country may rise faster still. . . . Education must be made more thorough.” Linking the education of poor children to their chances at social mobility, Marshall (1964: 635) argued on behalf of increasing the potential productivity of the children of poor families, “The children of unskilled workers need to be made capable of earning the wages of skilled work: and the children of skilled workers need by similar means to made capable of doing still more responsible work.” Marshall argued specifically that children of unskilled laborers should be encouraged to develop economically productive skills, such as becoming artisans and craftsmen.

More than the other precepts, the emphasis on productivity, and relatedly on education and human capital, is shared beyond the boundaries of economics and influences scholarly traditions in other disciplines. Sociological theories of stratification have long held that

of “jobs, jobs, and jobs” as occurs in the liberal U.S., and especially “the low-wage jobs that in the United States provide the young and minority groups with a first step into the world of work.”

productivity, education and human capital are key mechanisms for social mobility, and hence to prevent workers from being poor. By valuing training and human capital, Davis and Moore's ([1953] 1994) classic functionalist explanation of inequality is broadly consistent with the liberal economics of poverty. Status attainment research, influenced by Blau and Duncan's (1967) classic study, emphasizes the role of education and productivity in avoiding poverty. While rejecting hypotheses about a "vicious cycle of poverty" across generations, Blau and Duncan (1967: 402-403) stress, "A man's social origins exert a considerable influence on his chances of occupational success, but his own training and early experience exert a more pronounced influence on his success chances. . . Education exerts the strongest direct effect on occupational achievements." Subsequent mobility researchers emphasized that education secures socio-economic achievement and prevents the intergenerational transmission of disadvantage (e.g. Featherman and Hauser 1976; Jencks et al. 1972; Mare 1997). For example, Hout (1988) stresses that a college education is essential to avoid the transmission of lower socioeconomic status. Moreover, Corcoran (1995) reports that children's and parental schooling are essential determinants of children's avoidance of the intergenerational transmission of poverty. By emphasizing the importance of education, human capital, and productivity for an individual's economic well-being, the distinctly sociological tradition of status attainment research clearly exhibits the influence of liberal economics.

The liberal economic emphasis on productivity has a long history in U.S. social policy as well (Karoly 2001).¹⁰ The strategy of equipping the poor with human capital was central to Lyndon Johnson's War on Poverty (O'Connor 2001). As Jencks et al. (1972: 7) explain,

¹⁰ Many of the recent state-level welfare reforms emphasized job training, education and work requirements. Where welfare reform has been unsuccessful, human capital has often been used to explain the inability of the poor to find work (Weinstein 1999). John C. Weicher, the Director of Urban Policy Studies at the Hudson Policy Institute,

The basic strategy of the War on Poverty during the 1960s was to try to give everyone entering the job market or any other competitive arena comparable skills. This meant placing great emphasis on education. Many people imagined that if schools could equalize people's cognitive skills this would equalize their bargaining power as adults. In such a system, nobody would end up very poor.

Katz (1989: 50) explains that Johnson's War on Poverty was modeled in part on "Mobilization for Youth," a New York City program aimed at combating delinquency by lifting poor minority youngsters over the structural barriers to social mobility. Katz further explains that two of four key tenets of Johnson's War were job training and education for the poor.¹¹

Thus, emerging from liberal economics, a long history of policy and scholarship emphasizes the role of education, human capital, and productivity to alleviate poverty (e.g. Bluestone and Harrison 2000; Levy 1998; Reich 1992).¹² To decrease the likelihood that an individual worker will be poor, it is well accepted that investing in human capital and raising the marginal productivity of the worker are essential (Sawhill 1988). Many scholars argue that the changed economic environment for less-skilled workers is the most important influence on U.S. poverty trends in the last 30 years (Blank 1997; Cain 1998). On the whole, efforts to raise the skill and productivity of the poor have been one of the most widely supported arguments to emerge from the social sciences.

Supply and Demand

Like any other economic outcome, liberal economists have long asserted that national levels of poverty adhere to the laws of supply and demand in the labor force (Gordon 1972: 30). Manifestly, poverty is considered a function of the national rates of unemployment. Ricardo

recently remarked, "If you can read and write only at a third-grade level, the economy has to get extremely strong for there to be a market for you at the minimum wage or any wage" (Weinstein 1999).

¹¹ The other tenets were civil rights and juvenile delinquency. In his classic policy statement, Moynihan (1965) argued that the poor performance of "Negro" youths on educational tests signaled a greater likelihood of poverty.

¹² Gordon (1998: 550) explains that, "More typically, many if not most economists argue publicly that if the government does anything in this area [poverty reduction], it should concentrate on upgrading the education and skills training of those with relatively low earnings."

(1931: 81-82) explained that unemployment increases the likelihood of poverty immediately for the unemployed and indirectly through the lowering of wages for those still in the workforce,

When the market price of labour is below its natural price, the condition of the labourers is most wretched: then poverty deprives them of those comforts which custom renders absolute necessities. It is only after their privations have reduced their number, or the demand for labour has increased, that the market price of labour will rise to its natural price, and that the labourer will have the moderate comforts which the natural rate of wages will afford. . . Labour is dear when it is scarce and cheap when it is plentiful.

Gordon (1972: 32) explains that the liberal view that unemployment causes poverty links back to the earlier precept of worker productivity. Liberal economists argue that unproductive workers do not meet market demands for skilled labor, and end up unemployed. Thus, the poor lack the human capital to be productive as both the demand for more productive workers and the supply of less productive workers increase. Sawhill (1988: 1089) reviews the scholarship linking poverty and unemployment and concludes, “A decline in demand causes not only more unemployment but also a reduction in hours worked, a drop in labor force participation, and slower earnings growth, all of which affect family incomes adversely.” Liberal economists have long argued that to alleviate poverty, nations must attack unemployment (O’Connor 2001: 143).

Many contemporary economists stress that the first, greatest priority for reducing poverty is to lower the unemployment rate (Feldstein 1998; Sawhill 1988; Tobin 1994) and to foster the employment opportunities of the poor (Freeman 1991, 2001). While scholars debate variations in long-term, structural, and embedded unemployment, unemployment is routinely identified as a significant influence on poverty in Western Europe (Gallie and Paugam 2000; Ljungqvist and Sargent 1998; McCallum 1986; Nickell 1997). Hauser and his colleagues (2000) argue that unemployment is more important than social policy in explaining trends in poverty in Western Europe. Williams (1991) finds that unemployment is a more important predictor of U.S. poverty

than changes in the sectoral composition of the workforce. Relatedly, a number of economists link urban poverty to the unemployment generated by spatial mismatches between residences and local economic development (Holzer 1991; Ihlanfeldt and Sjoquist 1998).

While offering more complexity and contextualization than liberal economics, Wilson's (1987, 1996) influential sociological model highlights the primacy of unemployment for the poverty of inner-city neighborhoods. In turn, sociologically oriented scholars often focus on unemployment and earnings as key determinants of poverty (see Jencks and Peterson 1991; McFate, Lawson and Wilson 1995; Marks 1991). Numerous empirical studies focus on unemployment or underemployment as measures of the economic changes that cause poverty (Lichter 1988; Massey et al. 1994; Eggers and Massey 1991; Cohn and Fossett 1996; Mouw 2000). Across the social sciences, unemployment is considered a crucial precursor to poverty.

EVALUATING THE LIBERAL ECONOMIC MODEL OF POVERTY

To summarize, the liberal economic model involves four precepts – each of which can be stated as hypotheses. First, economic growth has a negative effect on poverty. Second, government intervention into the free market increases poverty. Third, increased productivity reduces poverty. Fourth, unemployment positively affects poverty. This model represents the dominant, coherent explanation for poverty in advanced capitalist democracies.

In the remainder of the paper, I evaluate liberal economics with an empirical analysis of rich Western democracies from 1967 to 1997. My goal is to offer a general assessment of some global operationalizations of the propositions of the liberal economic model for poverty.¹³

¹³ Thus, this paper focuses on the general measures of the liberal economic model and not with every possible specific empirical and statistical permutation of the model. In turn, I intend to neglect (a) the specific aspects of state size and fiscal activity that operate as mechanisms in the determination of poverty, and (b) demographic complications in the composition and determination of poverty. Those topics are beyond the scope of the current study and warrant separate considerations in other studies.

Surprisingly, despite the powerful and widespread influence of the liberal economic paradigm, relatively few rigorous evaluations of it have been undertaken. Further, in empirical studies oriented by the liberal economic model, two dilemmas have been recurring. The present study addresses both of these dilemmas, surpasses past studies and provides a more comprehensive evaluation of the liberal economic paradigm.

The first dilemma is that past studies of liberal economics have maintained an unbalanced focus on the contemporary U.S. economy.¹⁴ Unfortunately, this practice succumbs to the problem of sampling on the dependent variable, as the U.S. is extraordinary in its economic performance, wealth, and great levels of inequality and poverty. Given that the U.S. has arguably the least generous welfare state of the advanced capitalist democracies, there are good reasons to expect limited generalizability from the U.S. case. Certainly, none of these scholars could allege that the experience of the contemporary U.S. economy generalizes to all advanced capitalist democracies, and none would probably dispute the anomalous position of the U.S.

The second dilemma involves one of the more contentious and controversial issues in poverty research: relative versus absolute measures of poverty. Historically, at least some classic liberal economists theorized poverty as a relative phenomenon.¹⁵ However, contemporary proponents of liberal economics prefer absolute measures of poverty. When conducting studies

¹⁴ Smeeding et al. (2001: 162) explain, “The United States has a long tradition of measuring income poverty and weighing the effectiveness of government policies aimed at poverty reduction. Although this analysis has been valuable to policymakers, it rests on an inherently parochial foundation, for it is based on the experiences of only one nation.”

¹⁵ For example, Adam Smith (1937) defined poverty as, “a lack of those necessities that the custom of the country renders it indecent for creditable people, even of the lowest order, to be without” (quoted in Ruggles 1990: xv). Hayek (1960: 44-45) wrote, “In a progressive society as we know it, the comparatively wealthy are thus merely somewhat ahead of the rest in the material advantages which they enjoy. They are already living in a phase of evolution that the others have not yet reached. Poverty has, in consequence, become a relative, rather than an absolute concept. This does not make it less bitter. Although in an advanced society the unsatisfied wants are usually no longer physical needs but the result of civilization, it is still true that at each stage some of the things most people desire can be provided only for a few and can be made more accessible to all only by further progress. Most of what we strive for are things we want because others already have them.”

of the U.S., analysts typically rely on the official U.S. measure of poverty (e.g. Blank 1997, 2000; Cain 1998; Haveman and Schwabish 1999; Krugman 1994a). Importantly, this particular absolute measure of poverty has a number of limitations that problematize this research (see e.g. Brady 2003; Citro and Michael 1995; Betson and Warlick 1998; Foster 1998; Ruggles 1990; Wilson 1991).¹⁶ Nevertheless, a comprehensive and optimal analysis of liberal economics must include future research with more sophisticated measures, while maintaining the focus on absolute poverty (e.g. Kenworthy 1999; 2003). Further research on absolute measures is essential to evaluating the liberal economics of poverty. Still though, much can be learned from the study of relative measures as well. Unfortunately, extant studies on the liberal economics of poverty have rarely incorporated relative measures of poverty.¹⁷

In addition to the virtues of absolute measures, there are at least three advantages to measuring poverty relatively (Brady 2003). First, methodological concerns have led most international poverty researchers to prefer relative measures when studying advanced capitalist democracies (e.g. Burtless and Smeeding 2001; Hagenaars 1991; Smeeding et al. 2001; Osberg and Xu 2001). In turn, international empirical studies of the causes of poverty have typically used measures just like those used in this paper. Many scholars have grown skeptical that an absolute threshold of well-being or fixed bundle of goods can capture the complexity of poverty. Smeeding and his colleagues (1993: 246) avoid an absolute measure because it “conveys an

¹⁶ Sometimes scholars falsely infer that while using the official U.S. measure of poverty, one is still able to accurately investigate the causal sources and historical trends of poverty as if a more sophisticated measure was used. For example, in his study of the connection between economic performance and official U.S. poverty, Freeman (2001: 480) acknowledges in a footnote, “The official poverty rate is an imperfect indicator.” However, he also claims, “The alternative measures of poverty show a similar pattern of change over time and similar differences among groups. Thus, little is lost by using the official rate in analysis.” As Brady (2003) reveals, the last two sentences are false (see also Betson and Warlick 1998; Citro and Michael 1995).

¹⁷ To my knowledge, DeFina’s (2002) recent study is the only exception. DeFina’s study, however, is confined to a pooled time series analysis of the U.S. states from 1991 to 1998. Importantly, DeFina demonstrates that with more sophisticated measures of poverty, “The powerful economy of the past 10 years has had much less of an impact than is suggested by the official headcount rate” (p. 31).

unwarranted objectivity.”¹⁸ Nevertheless, advocates of absolute measures concentrate on basic needs, because if those are unmet – in terms of subsistence and safety – poverty is truly present. In fact, most scholars agree that a desperate absolute level of deprivation does exist, under which families are definitely poor. However, finding a justifiable threshold above that level is very difficult.¹⁹ Because such a minimal standard has limited utility in advanced capitalist democracies, basic needs or well-being thresholds may be less valuable for evaluating liberal economics.

Second, relative measures of poverty actually conceptualize poverty absolutely in terms of capability deprivation and social exclusion (Silver 1994; Townsend 1980). Nobel Laureate Amartya Sen (1992, 1999) approaches poverty economically, but argues that the past focus on absolute income has been misdirected. Instead, Sen (1992, 1999) argues that poverty should be conceptualized absolutely in terms of capability deprivation, and others connect this point to social exclusion (Atkinson 1987, 1998; Brady 2003). This conceptualization is consistent with Wilson’s (1991) concept of social dislocation, Harrington’s (1981: 11) concern that “the poor are losing their links with the greater world,” and Atkinson’s (1998: 27) definition of “people being prevented from participation in the normal activities of the society in which they live or being incapable of functioning.”

¹⁸ Hagenaars (1991: 141) stresses that even nutritionists cannot agree about levels of calories needed for various ages, sexes, occupations and living conditions, and contends, “the resulting estimates are not as absolute and objective as they are claimed to be.” Townsend (1980: 300) argues that, “Any rigorous conceptualization of the social determination of need dissolves the idea of ‘absolute’ need.” Smeeding et al. (2001: 164) also write, “For purposes of international comparisons, poverty is almost always a relative concept.”

¹⁹ Poverty can be measured as infant mortality or basic well-being in this regard. But, this problematically sets the line so low that only a tiny portion of the population would be defined as poor. As Harrington (1981: 18, 187) emphasized, “What shall we tell the American poor once we have seen them? Shall we say to them that they are better off than the Indian poor, the Italian poor, the Russian poor? . . . In the nineteenth century, conservatives in England used to argue against reform on the grounds that the British worker of the time had a longer life expectancy than a medieval nobleman. . . Indeed, if one wanted to play with figures, it would be possible to prove that there are no poor people in the United States, or at least only a few whose plight is as desperate as that of the masses in Hong Kong. There is starvation in American society, but it is not a pervasive social problem as it is in some of the newly

Third, if poverty is conceptualized as capability deprivation and social exclusion, relative measures of income poverty are valid and reliable (Atkinson 1987, 1998; Brady 2003; Foster 1998; Sen 1999). Sen (1992) emphasizes that though poverty should be conceptualized absolutely, it should be operationalized relatively.²⁰ In turn, Smeeding and his colleagues (1993: 247) prefer a relative measure because, “a poverty standard cannot be established independently of the economic and social context within which needs arise and are defined.” Smeeding and his colleagues (2001: 166) also explain, “All poverty measures are in some sense relative and must be chosen as appropriate for the context in which they are used.” Even U.S. policy makers have long conceded that as a society’s standard of living rises, more expensive consumption is forced on the poor to remain integrated into society (President’s Commission on Income Maintenance Programs 1969). Sen also (1992: 110) asserts that, “poverty is not a matter of low well-being, but of the inability to pursue well-being precisely because of the lack of economic means.” Therefore, poverty can be conceptualized absolutely as capability deprivation and social exclusion, while it still should be measured relatively in terms of income.

Finally, it is important to recognize that only focusing on absolute measures may prioritize convention above better measurement. While the common practice may be to rely on absolute indicators like the official U.S. measure, it may be better to provide a theoretical and methodological case for measuring poverty, and only then evaluate the causal sources of poverty. If liberal economics provides a successful model of poverty, it should explain poverty when poverty is operationalized objectively – not in a way that is biased in favor of a predetermined

independent nations. There are still Americans who literally die in the streets, but their numbers are comparatively small.”

²⁰ Sen (1992: 115) explains further, “In a country that is generally rich, more income may be needed to buy enough commodities to achieve the same social functioning, such as ‘appearing in public without shame.’ The same applies to the capability of ‘taking part in the life of the community.’ These general social functionings impose commodity requirements that vary with what others in the community standardly have.” This is consistent with a Rawlsian

liberal economic model. In contrast, the liberal economic tradition may frequently have placed a devotion to economic growth, free markets, productivity, and reducing unemployment before an objective concern with measuring poverty reliably and validly.²¹ Still, many liberal economists may reply that the concern with relative poverty as a form of inequality is an import from outside of the economic theory of concerns for envy and leveling rather than equity and Pareto improvements, which are free of invidious comparisons (Clarke 1989; Elster 1998). Ultimately, I contend that a relative measure of poverty can contribute much to an analysis of the liberal economics of poverty in advanced capitalist democracies.

METHODS

To conduct an empirical analysis of the liberal economic model, I utilize an unbalanced panel research design and a synthesis of two data sets. Because of limited observations for my dependent variables (see below), cases are distributed across countries and years. Given the data's nature, and due to the results of the Breusch-Pagan Lagrange Multiplier test, traditional OLS regression is inappropriate. Using STATA, I analyzed the data with Random Effects (RE), Fixed Effects (FE), and OLS with robust clustered errors (RC) – all of which are effective for

(1971) concern for “the least fortunate group in society,” as Rawls suggested this group could be defined as those with less than half of the median income and wealth.

²¹ O'Connor (2001) convincingly demonstrates that the original choice of the official U.S. measure, and the subsequent scholarly focus on absolute poverty was a political choice to complement the preexisting emphasis on economic growth and to find an easily achievable target for winning the “War on Poverty” (see also Katz 1989). O'Connor (2001: 154) writes, “Lampman turned to what he recognized as a second political and conceptual task: arriving at a ‘politically workable definition or concept of poverty,’ as he told Heller, that would focus the program on absolute deprivation, and quite consciously avoid defining poverty as a problem of inequality. ‘Most people see no political dynamite in the fact that our income distribution at the low end is about the same as it has always been,’ Lampman noted, setting aside the concern over persistent income disparities that he himself had been writing about since the 1950s. ‘Probably a politically acceptable program must avoid completely any use of the term ‘inequality’ or of the term ‘redistribution of income or wealth.’” O'Connor (2001: 154) also explains that their focus on absolute deprivation “would lend itself to the growth-centered strategy they were proposing.” Thus, O'Connor's (see also p. 183) account emphasizes that policy makers and analysts had a prior commitment to economic growth and then only subsequently sought a measure of absolute poverty that would justify economic growth.

parceling out the cross-national heterogeneity that renders traditional OLS problematic.²² The FE model can be interpreted as explaining within-nation variation and controls for all time invariant between-nation variation. The RE model permits the independent variables to explain both within- and between-nation variation. By contrast, the RC models provide a more lenient alternative to RE models. While Hausman’s Chi-Square test permits RE and does not require FE in every model, I present all three in the main set of analyses. After demonstrating that all of the substantive results are robust across techniques, I narrow the presentation to RE models in the supplementary analyses. Importantly, none of the conclusions is sensitive to these technical choices and the additional results are available upon request.

Dependent Variables

The source of data on poverty is the Luxembourg Income Study (LIS). The LIS provides cross-nationally and historically comparable individual-level, nationally representative data sets. Cumulatively, LIS provides almost standardized data – what the LIS staff call “Lissified” data with similar variables across data sets, similar samples and equal weights, which allow for population estimates (Cantillon 1997: 144; Smeeding et al. 1990). To get estimates of poverty, I first conducted analyses with 78 different data sets to compute a poverty statistic in a given country in a given year. This analysis generated data on 18 Western nations with between one and seven time points each, resulting in an unbalanced sample of 76-77 cases.²³ Because an

²² For a description of some of the choices involved in these models with the related substantive area of inequality, see Alderson and Nielsen (1999). RE models include country-specific error terms in addition to the general error term, while FE models incorporate country-specific constant terms with a general constant term. RC models employ OLS, but cluster the error terms within country.

²³ At a maximum, Canada, Germany, the U.K. and the U.S. contribute seven cases, and at a minimum, Austria, Spain and Switzerland contribute two. For the Austria cases, data on income before taxes and transfers (MG) was unavailable. For the U.S. in 1969, data on income after taxes and transfers (SM) was unavailable. Given the unavailability of these cases, my sample is 76 cases for MG poverty and 77 for SM poverty. Other nations included in the analysis (and the number of cases) are Australia (4), Belgium (4), Denmark (4), Finland (3), France (5), Ireland (4), Italy (3), Luxembourg (3), Netherlands (4), Norway (4), and Sweden (6). This list represents all cases of

unbalanced sample could bias the estimates, I have replicated all analyses with a panel of 18 nations at two time points (in the mid 1980s and mid 1990s) and a cross-section of 18 nations at one point. In analyses available upon request, none of the substantive conclusions is different from the results presented below.

The LIS data contain information on household income, which I have used in another paper to estimate several measures of poverty (Brady 2003).²⁴ Building on recent theoretical and methodological advances (see above), I advocate five criteria for the measurement of poverty: a) measure comparative historical variation effectively; b) be relative rather than absolute; c) conceptualize poverty as social exclusion; d) integrate the depth of poverty and the inequality among the poor; and, e) assess the impact of taxes, transfers and non-cash benefits. Based on that paper, this analysis includes two measures of poverty: the Headcount (H) and Interval (HI). H is the relative headcount, or simple percentage of the sample that is below 50 percent of the median income. The Interval measure is the product of H and I. I is the average depth of poverty, or the difference between the median income in the sample and the mean income of the poor sub-sample. Hence, H measures the proportion of the population in poverty, and HI synthesizes the proportion and depth of poverty into one index. After demonstrating that the substantive results are consistent across H and HI, I confine the latter analyses to HI.

To evaluate poverty thoroughly, I analyze both market generated (MG) and state mediated (SM) poverty. MG includes all sources of income prior to government taxes and

Western nations available in the LIS (up to 1997) and far surpasses the scope of past studies of the comparative historical variation in poverty.

²⁴ Following convention, I standardize income by household size using the LIS/ OECD equivalence scale (Buhmann et al. 1988). This scale weights the head of the household as one, additional adults as .5, and children as .3, owing to the differential demands on a household's resources that heads, other adults and children require.

transfers and SM includes all sources of income after taxes and transfers (DPI in LIS).²⁵

Analyzing MG and SM poverty illustrates the specific causal processes linking economic factors and poverty directly and durably. MG poverty evaluates the direct impact of economic determinants on poverty in the labor market, before the mediating redistribution of taxes and transfers. SM poverty assesses the durability of the effect, after the state has mediated the consequences of the market with taxes and transfers.²⁶ Though MG poverty illuminates the causal processes of how economic factors affect poverty, the reader should remember that SM poverty is ultimately the more important measure of low income household well-being and an independent variable's relationship with poverty.

Independent Variables

For each of the liberal economic precepts, I have developed indicators of the relevant determinant with recently available innovative data that offer more comparable information on the Western political economies.²⁷ First, I assess the harmonious progress of economic expansion with economic growth. Economic growth is measured as the contemporaneous (t) real annual rate of change in gross domestic product (GDP) in purchasing power parity (PPP) dollars (OECD 1998). The GDP PPP data offer more comparable assessments of economic output (see Firebaugh 1999). Second, I calculated the extent of the government's intervention into the free market as the lagged (t-1) government receipts as a percent of GDP. This measure includes the total current receipts for general government (including central, state, and local government) as a

²⁵ Within the LIS data, MG income incorporates the variables: gross wages and salaries (V1), farm self-employment income (V4), non-farm self-employment income (V5), private pensions (V32), other regular private income (V34) and other cash income (V35).

²⁶ By durability, I do not mean to convey that the effects of economic factors persist or endure over a longer period of time. I merely mean to convey that the economic effects either directly affect poverty in the labor market and/or durably persist even after the influence of government taxes and transfers.

²⁷ Data for these variables were originally gathered from Huber, Ragin and Stephens' (1997) Comparative Welfare States Database. For this study, I revised the data, updated the historical coverage and added Spain.

percentage of GDP (OECD 2000a).²⁸ Third, I measure productivity as the GDP in PPP per civilian employee utilizing the same GDP data and comparable data on labor force participation (OECD 1999). This variable is lagged one year (t-1) and is measured in 1995 real dollars. Fourth, I measure the supply and demand of workers as contemporaneous (t) unemployment with standardized unemployment rates that permit cross-national and historical comparison of the percent of the labor force that is currently without employment (OECD 2000b).

Unfortunately, no clear theoretical justification has emerged on the temporal operationalization of these independent variables. In turn, for each of the four measures of the precepts of liberal economics, I experimented with several different temporal operationalizations.²⁹ As Appendix II shows, I have chosen to present the temporal operationalization that produces the better model for SM poverty.³⁰ Also shown in Appendix II, the substantive findings are robust across temporal operationalizations. Following my review of liberal economics, I expect economic growth and productivity to have negative effects and government receipts and unemployment to have positive effects on both MG and SM poverty. I do not, however, utilize one-tailed tests and instead simply rely on two-tailed tests. In each

²⁸ In analyses available upon request, I decompose this variable into welfare state and non-welfare state parts, in order to examine the specific effects of welfare programs. Doing so does not change any of this paper's conclusions. Because it is a separate question, I do not discuss those findings in this paper. In analyses available upon request, I substituted government expenditures instead of government receipts and the results are identical.

²⁹ Specifically, I analyzed models with contemporaneous values (t), one-year lags (t-1), two-year lags (t-2), and moving averages (t, t-1, t-2) for each of the independent variables.

³⁰ I define a better model of SM poverty based on the fit of the model and the size and significance of the coefficient. I focus on SM poverty, rather than MG, because it is ultimately the more important measure. When this decision rule provides ambiguous information, I examine the other measures of poverty and statistical techniques. For example, unemployment measured in the current year produces a negligibly better fit than unemployment lagged one year, but has a negligibly weaker t-score. Given this, I measure unemployment in the current year because its effect was larger and more significant than when lagged one year for MG poverty.

model, I display the unstandardized coefficients, standardized coefficients, and t-scores.³¹ The descriptive statistics for all variables in the analysis are available in Appendix I.³²

RESULTS

Market Generated Poverty

Table 1 examines the direct impact of liberal economic determinants for poverty, by assessing poverty before taxes and transfers. The reader should recall that MG poverty is not the actual poverty experienced by households, but analyzing its determinants provides a useful view into the causal processes that generate the more important SM poverty. As mentioned above, I present the results of RE, FE and RC models and both the Headcount (H) and Interval (HI) measures of poverty.

[Table 1 About Here]

In five of the six models, economic growth has a significant positive effect. Even in the RC model for MG H, the effect is nearly significantly positive. Overall, economic growth is positively associated with MG poverty. A standard deviation in economic growth is expected to increase MG poverty by between about .16 to .22 standard deviations, holding all other variables constant at their means. Given the very optimistic liberal economic view that economic growth reduces poverty, this robust result is quite surprising. However, these results suggest that the rising tide of economic prosperity disproportionately benefits the middle and upper parts of the income distribution and does not distribute evenly to the bottom of the income distribution (Danziger and Gottschalk 1995; Galbraith 1958; Harrington 1981). Despite being at odds with

³¹ Standardized coefficients were calculated by multiplying the coefficient by the standard deviation of the independent variable and dividing by the standard deviation of the dependent variable.

³² The reader may notice the absence of demographic controls in the analysis. In analyses available from the author, I estimated similar models while controlling for population size, the percent of the population elderly or children, and the percent of children in single mother households. The results of these analyses were substantively similar to the results presented in this paper. Solely to preserve already limited degrees of freedom, and hence to minimize the chance of Type I error, I exclude those variables from the current study.

liberal economic theory, this finding is consistent with past research on inequality and the working class's economic standing in postindustrial democracies. For example, several scholars have found that in the postindustrial U.S., economic expansion negatively affects labor's share of national income (e.g. Brady and Wallace 2000; Wallace et al. 1999).

Skeptical readers may suspect that this strikingly unexpected finding is simply a by-product of my relative measures of poverty.³³ However, even with a relative measure, past theorists expected that economic growth lifted the financial standing of the low end of the income distribution, as well as middle- and higher-income households (e.g. Friedman, Hayek, Mill). Further, even though some liberals are more concerned with absolute deprivation, this demonstrates the limitations of the liberal economic paradigm for advanced capitalist democracies. While economic growth may reduce absolute deprivation in industrializing economies, these results demonstrate that economic growth produces more relative deprivation in post-industrial democracies. With these relative measures of poverty, economic growth does not reduce poverty in Western nations, but rather is associated with an increase.

Some readers may be concerned that these poverty measures are basically inequality measures, and that these results may reflect a simultaneous relationship between inequality and growth (Forbes 2000). However, I feel this is a misinterpretation of these findings. While poverty is a component of patterns at the bottom of the income distribution, important differences exist between inequality and these poverty measures. Within the LIS data, the Gini coefficient of inequality is simply not correlated with the dependent variables in Table 1 ($r = -.06$

³³ Some readers may note that with economic growth, the median household income is likely to increase (though this is not always the case and has not really occurred in the contemporaneous U.S.) and in turn the poverty threshold is likely to increase. In turn, households with the same income will subsequently move from non-poor to poor. Regardless, this fact fails to deny the reality that low income households will be increasingly marginalized and socially excluded in a society that demands even greater levels of spending and income to participate as a normal member of society. Further, it is important to note that the Interval measure is far less sensitive to movements in the

with MG H and $r = -.07$ with MG HI).³⁴ Poverty and inequality are better understood as complementary but theoretically distinct concepts. As Foster (1998: 337) writes in the *American Economic Review*, “Using a relative line does not amount to measuring inequality nor does it imply that poverty is by definition ‘always with us.’”

With regards to the claim that free markets reduce poverty, three of the six models produce evidence that the size of government receipts increases MG poverty. The RE model for H and both RC models contain a positive significant effect. By contrast, in both FE models and the RE model for HI, the effect is not statistically different from zero. Since FE models control for all time invariant cross-national variation, these results demonstrate that government intervention explains some of the cross-national variation in MG poverty but does not explain the historical variation within nations. Still, on the surface, those three models do appear to confirm the liberal economic expectation that government intervention into the free market increases the amount of poverty. In the spirit of Okun’s (1975) classic tradeoff between equality and efficiency, the large welfare states of Western Europe may create some inefficiencies and labor market rigidities that worsen poverty in the market. However, two crucial points deserve consideration. First, the reader should recall that this effect is only for MG poverty. At best, this result only suggests that government receipts are associated with higher poverty in the labor market before the mediating influence of taxes and transfers.

Second, this result is probably spurious. The positive effect of the government receipts on MG poverty is largely a result of the burdens that elderly populations place on the state. In

median income and threshold since newly and barely poor households would have a very small poverty gap and hence would raise the index minutely.

³⁴ The Gini coefficient correlates with SM H at .73 and with HI at .67, while inequality measures correlate with each other above .96. Osberg and Xu (2000: 68) stress that, “Although there is a positive correlation between income inequality and poverty intensity, the relationship is far from perfect.” It is important to acknowledge that MG poverty may be much more correlated with earnings inequality. However, since earnings are the largest component of the household income measures that form the Gini in LIS, it is unlikely the correlation is very strong.

fact, the inclusion of the percent of the population over 65 years old in the model completely attenuates the positive effect of government receipts.³⁵ Because the elderly depend on public spending (e.g. public pensions and health care) for much of their income, their poverty before taxes and transfers is considerably higher than after taxes and transfers. Because increasing elderly populations require more spending, government receipts are associated with higher MG poverty. In reality, this is not due to the damaging effects of state intervention, but to the connection between the unmet elderly needs in the market and the state's response in the form of increased spending. Hence, when elderly populations increase, MG poverty is higher and increased subsequent state revenue is needed to counteract the market's consequences. In effect, citizens allow the market to generate greater poverty and inequality (especially for the elderly) because citizenship rights entitle citizens to public spending that ameliorates the deprivation. In sum, government receipts do not cause higher MG poverty, but due to large elderly populations – that are associated with higher MG poverty – increased government receipts may be required.

None of the six models reveals a significant effect of productivity. In fact, none of the t-scores exceeds -.2 and none of the standardized coefficients exceeds -.022. Nations with more productive workers – and ostensibly with more human capital, education, skills and training – do not have less MG poverty. A careful inspection of the data also fails to support this liberal economic precept. Though some nations experienced a historical relationship between productivity and MG poverty (e.g. U.K., Spain, and Sweden all had increased MG poverty as real PPP productivity fell), more cases directly contradicted it. For example, Belgium's productivity rose consistently and significantly from 42,069.49 in 1985, 47,085.78 in 1988,

³⁵ For MG H in the RE model, the unstandardized coefficient of government receipts shrinks to .01 with a t-score of .11. For MG H in the RC model, the effect diminishes to .038 with a t-score of .41. For MG HI in the RE model, the coefficient attenuates to .002 with a t-score of .02. For MG HI in the RC model, the effect shrinks to .058 with a t-score of .58. These analyses are available from the author upon request.

54292.03 in 1992 to 60,476.41 in 1997. During the same period, Belgium's MG H and HI poverty also rose from 33.8 and 33.0 in 1985, 35.3 and 33.9 in 1988, 37.3 and 36.2 in 1992, to 40.1 and 38.0 in 1997. Thus, while Belgium experienced greater productivity, auspiciously because of increased human capital, MG poverty continued to stubbornly rise. Cross-national comparisons also are at odds with liberal economics. In 1995, Sweden had slightly more productivity (41517.56) than the U.K. (40674.37), but Sweden also had slightly more MG H and HI poverty (37.9 and 32.2) than the U.K. (36.3 and 32.0). Also in 1995, Denmark had slightly more but similar productivity (45769.29) to its neighbor Finland (44434.68), yet Denmark had considerably more MG poverty (38.9 and 35.1) than Finland (30.1 and 24.4). Despite the influence of this liberal economic precept across the social sciences, the evidence for relative poverty fails to support it. While raising the productivity of workers is typically the most popular policy to alleviate poverty, this study provides no empirical evidence on its behalf.

In all models, unemployment has a large, significant, positive effect on MG poverty. Depending on the model, with a standard deviation increase in unemployment, MG poverty is expected to increase by between about .32 and .56 standard deviations. Given the robustness of the effect with different operationalizations, the size of the coefficient, and the large t-score, unemployment stands out as an important determinant of MG poverty. Apparently, the recent high unemployment in Western Europe, and the periods of high unemployment in other Western nations were associated with increased MG poverty. This finding strongly supports the liberal economic precept regarding the supply and demand of workers and poverty.

In total, the results for MG poverty provide limited support for the liberal economic model of poverty. Two of the precepts receive no empirical support, one receives marginal support and one is strongly supported. Moreover, the reader should note that the "R² Within"

nations is always much larger than “R² Between” nations. From these results, it is clear that liberal economics offers a better fitting model of intra-national historical trends in MG poverty than inter-national variation in MG poverty. Because MG poverty follows unemployment, liberal economics is much more effective at explaining over time trends in poverty within a nation than it is at explaining the cross-national differences in poverty.³⁶ However, importantly, cross-national between-nation differences in poverty are much larger than the historical variation within nations (see Brady 2003). In turn, liberal economics provides at best, a modest, partial explanation of the variation in MG poverty in Western nations.

Ultimately, despite this limited support, the more important concern should be with what MG poverty measures.³⁷ Examining the determinants of MG poverty provides a more direct but also more lenient test of the liberal economic model. Most likely, economic performance stands a greater chance of affecting poverty in the labor market before the mediating influence of state taxes and transfers. It is essential to note however, that the more important and more accurate measure of poverty is state mediated (SM) poverty. SM poverty provides the ultimate measure of low-income household well-being after the mediating influence of taxes and transfers. Moreover, much greater cross-national and historical variation exists in SM poverty than in MG poverty (the coefficient of variation for SM poverty is more than two times greater than for MG

³⁶ Despite the impact of unemployment, one cannot argue that MG poverty simply follows the business cycle, since economic growth increases MG poverty at the same time. Further, the effects of economic growth and unemployment are not sensitive to whether the other is included in the model. Each finding is present with no other independent variables in the model, and economic growth and unemployment are surprisingly not very correlated ($r=.047$ in the sample of 75 observations in this study, and $r=-.127$ in a larger sample of 554 observations in the dataset). The effects of economic growth and unemployment are not only “net” of the other, but are robust.

³⁷ These limitations of MG poverty apply almost equally to the official U.S. measure of poverty. Because the official U.S. measure of poverty does not include taxation, non-cash or near-cash transfers, it does not accurately reflect the economic well-being or disposable income of households. Further, it is likely that this measurement choice has predisposed analyses in favor of finding a link between economic performance and official U.S. poverty (DeFina 2002; O’Connor 2001).

poverty). Since a successful model of poverty must explain this crucial variation of the more accurate measure of household well-being, an analysis of SM poverty is needed.

State Mediated Poverty

Table 2 examines the durable impact of liberal economic determinants, by assessing SM poverty. In all six models, the effects of productivity and unemployment are not statistically different from zero. Economic growth has a significant negative effect in one model and is near significant in another. In the RE model for SM H, a standard deviation increase in economic growth is expected to decrease poverty by about .11 standard deviations. While this finding is important, it is a relatively small effect. Though productivity has a t-score larger than one in three of the six models, it never quite reaches statistical significance and the standardized coefficient is not very large. Despite the strong influence on MG poverty, unemployment never even approaches statistical significance and simply does not directly affect SM poverty.

Again, the descriptive data reflects the paucity of statistical support for these liberal economic precepts. For example, though Finland, France, Ireland, and Spain all had greater than 10 percent unemployment at least once, all six maintained relatively low SM poverty. While the unemployed have little market generated income, all these nations have sufficiently generous welfare states such that the unemployed remain integrated into society and maintain a secure state mediated income. The recent history of Canada and the U.S. also provide useful examples (see e.g. Hanratty and Blank 1992). In 1987, Canada experienced 3.64% real PPP economic growth, followed by a contraction of -3.67% in 1991 and a massive expansion of 8.61% in 1994. During this time, real PPP productivity grew modestly from 42907.09 to 43539.30 to 44610.42. Despite these changes, SM poverty barely moved from an SM H of 11.8 in 1987 (SM HI 7.66) to 11.8 in 1991 (SM HI 7.816) to 11.1 in 1994 (SM HI 7.21). In the U.S., the economy contracted

–2.65% in 1974 and –1.33% in 1991, while it grew 3.5% in 1986 and 6.9% in 1994. Yet, SM H and HI poverty were entirely disconnected, varying from 16.8 and 11.67 in 1974 to 18.5 and 12.57 in 1986 to 18 and 12.16 in 1991, and to 18.2 and 12.37 in 1994. Thus, upon close inspection, many Western nations between 1967 and 1997 deviated substantially from the liberal economic model. In sum, with the more valid state mediated measure of poverty – after the mediating influence of taxes and transfers – liberal economic expectations about growth, productivity and unemployment are not confirmed.

[Table 2 About Here]

The one significant and important finding to result from the analyses of SM poverty concerns government receipts. While liberal economics predicts that government intervention into the free market is an ineffective and often counterproductive poverty reduction strategy, these results refute this claim. In all six models, government receipts has a large, very significant, negative effect on SM poverty. Even controlling for time-invariant cross-national differences with FE models, government receipts clearly reduce SM poverty. Depending upon the model, a standard deviation increase in government receipts is expected to decrease SM poverty by between about .35 and .66 standard deviations. By comparison, in the RE model for SM H, the effect of government receipts is nearly five times larger than the effect of economic growth. A larger government budget massively decreases national poverty. Larger government receipts do not appear to create inefficiency that hinders poverty reduction, but are associated with considerably less poverty and reflect the valuable role of the state in reducing poverty.

Overall, Table 2 demonstrates that liberal economic determinants do not have the expected durable effects on poverty that persist after considering taxes and transfers. Though the fit of the liberal economic model is consistently much better for SM poverty than MG poverty,

this is wholly due to a finding that contradicts liberal economics. In fact, the substantially improved explained variation between nations is solely due to this finding. In short, the extensiveness and size of the government's budget largely explains SM poverty. Because this finding is negative, these results demonstrate that the liberal economic model does not effectively explain variation in SM poverty among Western nations from 1967 to 1997.

Supplementary Analyses

Tables 1 and 2 assess whether liberal economic determinants influence MG and SM poverty when all independent variables are included in the same model. By contrast, Tables 3 and 4 contain analyses that evaluate an alternative set of causal processes. These models evaluate the possibility that government receipts are a more proximate, and relatively intervening, cause than the economic variables. Since these economic factors probably have some effect on government receipts, their effects on poverty might be masked by the inclusion of government receipts in the same model. For MG and SM poverty, in one model I analyze the effect of government receipts, and in a second model I assess the effects of the three strictly economic/market factors.

[Table 3 About Here]

In the two models in Table 3, I examine these alternative models for MG HI poverty. These models reveal that the empirical results and substantive conclusions of Table 1 are robust. Government receipts have a positive significant effect on MG poverty, and this result is due to the role of elderly populations. Model 2 shows that economic growth and unemployment continue to have significant positive effects, while productivity does not significantly impact MG HI poverty. Ultimately, government receipts and economic factors do not mediate each other, and their effects for MG poverty are not sensitive to other independent variables.

In the two models in Table 4, I analyze these alternative models for SM HI poverty. As with MG poverty, these models demonstrate that the empirical results and substantive conclusions of Table 2 are robust. Government receipts have a large significant negative effect on SM poverty. Also, none of the economic factors have a significant influence on SM poverty. In fact, in model 2, the size and significance of coefficients is weaker than in Table 2. Therefore, in this empirical analysis, it appears that government receipts and economic factors do not mediate each other. In sum, the influence of the four independent variables is not sensitive to which, if any (see Appendix II), other independent variables are also included in the model.³⁸

DISCUSSION

The empirical analysis offers two main advantages over past assessments of the liberal economic approach. First, this study surpasses the unbalanced focus only on the U.S. economy and utilizes the largest comparative historical sample to date. Second, this analysis does not rely on the invalid and unreliable official U.S. measure. While liberal economists have focused on such absolute measures, this study hopefully shows there is merit in examining relative measures of poverty as well. In the process, the analysis illustrates the virtues of comparative historical inquiry and the importance of measurement in the analysis of poverty. In the process, the empirical analysis provides a critical perspective on the liberal economic model of poverty.

³⁸ Of course, there are additional possible indirect effects of the independent variables left unexamined. It is important to acknowledge that the macroeconomic variables may impact SM poverty through causal processes that are not modeled in this paper. In one scenario, unemployment may still affect government receipts in a manner that is not revealed by Tables 3 and 4 or the Appendix. Since government receipts powerfully reduce SM poverty, any influence of macroeconomic variables on government receipts is important. In a second scenario, since unemployment significantly affects MG poverty, it possibly indirectly affects SM poverty if MG poverty has an effect on SM poverty. That is, unemployment increases MG poverty, which likely increases SM poverty. However, the empirical data suggest this second scenario is less likely. In fact, MG and SM poverty are only weakly and surprisingly negatively correlated ($r = -.20$ for H, and $r = -.21$ for HI). Further, in RC, RE and FE models with MG poverty as the only independent variable, it does not even significantly affect SM poverty. In the author's preferred RE models, the t-score of MG poverty is weak ($t = .57$ for H and $t = 1.14$ for HI). Still, however, it is possible that MG poverty would positively impact SM poverty in a model incorporating a full set of controls.

The first of liberal economic precepts, that the harmonious progress of economic growth benefits the poor, was not confirmed by the empirical analysis. Economic growth has a positive effect on MG poverty and does not have a significant effect on SM poverty in five of the six models in Table 2. The second precept held that government intervention into the free market should produce more poverty. While government receipts are positively associated with MG poverty, this effect is the spurious result of the influence of large elderly populations, who produce higher MG poverty, on the government's budget. More importantly, government receipts had a very large negative effect on SM poverty, which confirms the essential and effective role of the welfare state for poverty reduction. The third precept is not really supported as productivity has no effect on MG poverty and, at best, has only a small not quite significant effect on SM poverty. The fourth liberal economic precept, that unemployment rates predict poverty, was somewhat supported by the analysis. Unemployment stands out as one of the main direct sources of MG poverty. Still though, unemployment does not have a significant effect on SM poverty. This demonstrates that after considering the mediating influence of government taxes and transfers, unemployment rates are not associated with patterns in SM poverty.

Overall, the empirical analysis problematizes the liberal economic account of poverty. Importantly, while the debate over the welfare state and government intervention into the free market remains contentious, these results augment an accumulating body of evidence that is skeptical of the three remaining liberal economic precepts (e.g. Goodin et al. 1999). Scholars have begun to question whether economic growth will consistently reduce a nation's amount of poverty (Blank 1997). Even if economic performance could benefit a nation's poor in the aggregate, there is substantial evidence that some urban and rural pockets of poverty and some demographic groups remain impervious to the supposed benefits of a progressing economy

(Jencks 1991; Osterman 1991).³⁹ In addition, recent evidence is quite unconvincing that worker productivity consistently reduces poverty. Blank (1997: 65) argues that it is erroneous to conclude that today's less skilled workers are less prepared for jobs. Of course, college-level educations have long been linked to social mobility and greater earnings for workers (e.g. Hout 1988). However, how human capital and productivity explain poverty beyond this categorical distinction remains uncertain. A simple lack of productivity or preparation is not the dominant cause of poverty and scholars remain unsure about the role of education and skill for the vast majority of workers without college degrees. It is also unclear why U.S. poverty has increased in recent decades, while college degrees have simultaneously become much more common in the labor force (Hout 1988).

The influence of unemployment as a key determinant of poverty also remains very unclear. Many of the American poor simply do not fit the profile of displaced workers lacking a niche in the labor market. Importantly, Blank (1997: 31) explains that the majority of poor households in the U.S. contain employed people: while 20 percent of poor families contain one adult who works full-time year-round, the majority receives some income from employment, and 63 percent contain at least one worker. While there is some evidence that the poor work less hours than the non-poor and fewer poor work full-time (Blank 1997: 32), the simple link between employment and escaping poverty is quite tenuous. In fact, among low-income single parents, work behavior has increased over time (Blank 1997: 32; see also Edin and Lein 1997). Further, on a macroeconomic level, unemployment has cycled up and down, but has not shown a long-term increase consistent with patterns in poverty or welfare reciprocity (Blank 1997: 57). In

³⁹ In addition to those sites discussed in the tours of poor areas, *The New York Times* recently reported that, "Despite the strongest economy in years, nearly one out of four New York City residents had incomes below the Federal Government's poverty threshold last year, a rate that has barely dipped since the last recession and that is twice as high as the national average" (Bernstein 1999b).

fact, with more sophisticated poverty measures, DeFina (2002) finds that unemployment does not have a significant effect on poverty in the U.S. states from 1991 to 1998.

In addition to the general scrutiny of the liberal economic model and the specific limitations of those three precepts, one main finding deserves additional mention. This study provides significant evidence that government intervention into the free market has a large negative influence on poverty. Because SM poverty is the ultimate measure of low-income household well-being and given the large negative effects of government receipts, this study demonstrates the state's crucial role for poverty reduction. In the future, research on poverty must begin with the axiom that the size of the state has a large, negative association with SM poverty. Whereas in the past, studies of poverty often implicitly, if not explicitly, reflected the assumptions of the liberal economic model; future studies must reconcile the central importance of the state.⁴⁰ Simply put, the state is essential to any understanding of why poverty varies comparatively and historically. While several researchers are beginning to untangle the specific causal genesis of the welfare state and poverty (see e.g. Blank 1997; Hout 1997; Kenworthy 1999; Smeeding et al. 2001), more research is warranted. For social scientific accounts and theories of poverty, the state's poverty reducing role should have a central place (Block 1990).

This paper details, analyzes and critiques the liberal economic paradigm for poverty. Liberal economics distills to a set of four precepts in explaining poverty: harmonious progress, free market capitalism, worker productivity, and supply and demand. These precepts are

⁴⁰ Unfortunately, the U.S. poverty research industry has maintained an unbalanced focus on welfare disincentives and dependency (e.g. Gottschalk and Moffitt 1994; Moffitt 1992, 2000). In the process, considerably less attention has been devoted to comparative analyses of welfare states and debates have been detrimentally framed around liberal economics. Moreover, the paramount clearly beneficial effects of welfare for poverty reduction have been neglected – partly because of a preoccupation with finding and highlighting small marginal disincentives. As a result, U.S. poverty research has not so much had the wrong answers, as it has let the debate be dominated by the wrong questions (Lichter and Jayakody 2002; O'Connor 2001). A positive step for U.S. poverty research would reduce the disproportionate focus on dependency and disincentives, and instead debate the more crucial matter of the welfare state's centrality to explaining the comparative historical variation in poverty (O'Connor 2000).

anchored in classical theory, are prominent in contemporary research and dominate popular and political debates. Across the social sciences, many of the existing approaches to understanding poverty basically reflect liberal economics. Despite this profound influence, my empirical analysis is inconsistent with the liberal economic paradigm of poverty. Further, many of the fundamental precepts of liberal economics receive no support and others receive only minimal support. In recent years, it has become more apparent that the liberal economic model only loosely fits contemporary poverty in Western nations. While liberal economics may remain a helpful model to compare developing and industrialized nations or to understand centuries of historical trends, the model simply fails to explain relative poverty in Western nations in the latter part of the twentieth century. Though I would not argue that liberal economics has nothing to offer for the study of poverty, alternative and broader theoretical frameworks should be developed (O'Connor 2000). A paramount need exists for a new paradigm for the study of poverty. As O'Connor (2001: 4) argues, "Building an anti-poverty agenda will require a basic change in the way we as a society think collectively about 'the poverty problem,' a change that begins with a redirection in contemporary social scientific poverty knowledge." Such a new paradigm should understand the limitations of the liberal economic model and appreciate the central role of the state in reducing poverty. In sum, scholars need to move beyond the reliance upon the liberal economic explanation in the study of poverty.

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Table 1. Liberal Economic Orthodoxy Determinants of Market Generated Poverty in Western Nations, 1967-1997 (N=76).

	MG Headcount			MG Interval		
	<i>Random Effects</i>	<i>Fixed Effects</i>	<i>Robust Clustered Errors</i>	<i>Random Effects</i>	<i>Fixed Effects</i>	<i>Robust Clustered Errors</i>
Economic Growth (t)	.2237** .189 (2.38)	.203* .162 (1.92)	.238 .190 (1.63)	.282*** .205 (2.76)	.247** .179 (2.31)	.309* .224 (1.95)
Government Receipts as % of GDP (t-1)	.145* .276 (1.91)	.034 .065 (.30)	.208** .395 (2.70)	.115 .119 (1.40)	-.007 -.011 (-.06)	.225*** .389 (2.80)
Productivity (t-1)	-.00001 -.013 (-.14)	-.00001 -.015 (-.15)	-.00001 -.021 (-.14)	-.000003 -.004 (-.04)	-.0001 -.019 (-.20)	.00001 .022 (.14)
Unemployment (t)	.571*** .455 (4.50)	.699*** .557 (4.39)	.415** .330 (2.72)	.564*** .408 (4.21)	.671*** .485 (4.15)	.436** .315 (2.60)
Constant	21.303*** (4.52)	25.619*** (4.37)	20.234*** (3.30)	18.670*** (3.74)	23.919*** (4.01)	14.201* (2.04)
Within R ²	.378	.391		.364	.377	
Between R ²	.295	.141		.276	.116	
Overall R ²	.292	.179	.323	.270	.147	.314

*** <.01 ** <.05 * <.10

Note: Each cell contains an unstandardized coefficient, *standardized coefficient*, and t-score in parentheses.

Table 2. Liberal Economic Orthodoxy Determinants of State Mediated Poverty in Western Nations, 1967-1997 (N=77).

	SM Headcount			SM Interval		
	<i>Random Effects</i>	<i>Fixed Effects</i>	<i>Robust Clustered Errors</i>	<i>Random Effects</i>	<i>Fixed Effects</i>	<i>Robust Clustered Errors</i>
Economic Growth (t)	-.104* -.107 (-1.96)	-.088 -.090 (-1.59)	-.103 -.106 (-1.12)	-.049 -.074 (-1.22)	-.040 -.059 (-.94)	-.062 -.093 (-.86)
Government Receipts as % of GDP (t-1)	-.208*** -.499 (-4.69)	-.146** -.352 (-2.42)	-.275*** -.661 (-3.82)	-.129*** -.450 (-3.79)	-.100** -.348 (-2.15)	-.161** -.561 (-2.86)
Productivity (t-1)	-.00003 -.062 (-.93)	-.00004 -.080 (-1.15)	.00004 .090 (.58)	-.00003 -.091 (-1.23)	-.0004 -.109 (-1.41)	.00003 .095 (.54)
Unemployment (t)	-.035 -.036 (-.49)	-.011 -.011 (-.13)	.007 -.007 (-.07)	.042 .062 (.77)	.029 .043 (.45)	-.008 -.012 (-.10)
Constant	19.697*** (7.40)	17.952*** (5.79)	19.880*** (5.64)	13.081*** (6.40)	12.297*** (5.16)	12.308*** (4.53)
Within R ²	.149	.156		.101	.105	
Between R ²	.558	.536		.406	.387	
Overall R ²	.494	.463	.521	.338	.310	.385

*** <.01 ** <.05 * <.10

Note: Each cell contains an unstandardized coefficient, *standardized coefficient*, and t-score in parentheses.

Table 3. Alternative Causal Processes of Liberal Economic Orthodoxy Determinants of Market Generated Interval Poverty in Western Nations, 1967-1997 (N=76).

	<i>Model 1</i>	<i>Model 2</i>
Economic Growth (t)		.273*** (2.70)
Government Receipts as % of GDP (t-1)	.198** (2.26)	
Productivity (t-1)		-.00002 (-.34)
Unemployment (t)		.612*** (4.66)
Constant	19.684*** (4.99)	24.105*** (7.87)
Within R ²	.037	.376
Between R ²	.156	.132
Overall R ²	.147	.162

*** <.01 ** <.05 * <.10

Note: All models are estimated with random effects. The numbers in parentheses are t-scores.

Table 4. Alternative Causal Processes of Liberal Economic Orthodoxy Determinants of State Mediated Interval Poverty in Western Nations, 1967-1997 (N=77).

	<i>Model 1</i>	<i>Model 2</i>
Economic Growth (t)		-.040 (-.93)
Government Receipts as % of GDP (t-1)	-.117*** (-3.67)	
Productivity (t-1)		-.00001 (-.53)
Unemployment (t)		-.007 (-.13)
Constant	11.431*** (7.89)	7.039*** (5.33)
Within R ²	.057	.023
Between R ²	.433	.000
Overall R ²	.366	.001

*** <.01 ** <.05 * <.10

Note: All models are estimated with random effects. The numbers in parentheses are t-scores.

Appendix I. Descriptive Statistics for Variables: Means and Standard Deviations in Parentheses.

<i>Variable</i>	<i>MG Poverty</i> (<i>N=76</i>)	<i>SM Poverty</i> (<i>N=77</i>)
Headcount Poverty (t)	32.099 (4.491)	9.630 (3.474)
Interval Poverty (t)	28.382 (4.950)	6.483 (2.399)
Economic Growth (t)	2.247 (3.586)	2.254 (3.577)
Govt. Receipts as % of GDP (t-1)	43.178 (8.545)	43.490 (8.355)
Productivity (t-1)	45071.610 (7428.157)	44891.040 (7389.834)
Unemployment (t)	7.111 (3.579)	7.077 (3.567)

Appendix II. Alternative Temporal Lags for Liberal Economic Orthodoxy Determinants of State Mediated Interval Poverty in Western Nations, 1967-1997 (N=77).

	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>	<i>Model 6</i>	<i>Model 7</i>	<i>Model 8</i>
Economic Growth (t)	-.040 (-.98)							
Economic Growth (t-1)		-.015 (-.31)						
Government Receipts as a % of GDP (t)			-.117*** (-3.57)					
Government Receipts as a % of GDP (t-1)				-.117*** (-3.67)				
Productivity (t)					-.00001 (-.49)			
Productivity (t-1)						-.00001 (-.48)		
Unemployment (t)							-.017 (-.30)	
Unemployment (t-1)								-.030 (-.61)
Constant	6.395*** (12.91)	6.335*** (12.09)	11.438*** (7.66)	11.431*** (7.89)	6.838*** (5.69)	6.832*** (5.65)	6.423*** (9.95)	6.520*** (10.45)
Within R ²	.009	.001	.103	.057	.013	.016	.004	.010
Between R ²	.135	.004	.406	.433	.105	.150	.009	.007
Overall R ²	.033	.000	.354	.366	.074	.097	.002	.001