PROPOSALS FOR REDUCING POVERTY

HEARING

BEFORE THE

SUBCOMMITTEE ON
INCOME SECURITY AND FAMILY SUPPORT

OF THE

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U.S. HOUSE OF REPRESENTATIVES

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THURSDAY, APRIL 26, 2007

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON INCOME SECURITY AND FAMILY SUPPORT,
Washington, DC.

The Subcommittee met, pursuant to notice, at 1:00 p.m., in room B–318, Rayburn House Office Building, Hon. Jim McDermott (Chairman of the Subcommittee), presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON INCOME SECURITY AND FAMILY SUPPORT

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McDermott Announces Hearing on Proposals for Reducing Poverty

Congressman Jim McDermott (D–WA), Chairman of the Committee on Ways and Means Subcommittee on Income Security and Family Support, today announced that the Subcommittee will hold a hearing on proposals for reducing poverty. **The hearing will take place on Thursday, April 26, 2007, at 1:00 p.m. in room B–318 Rayburn House Office Building.**

Witnesses will range from a Deputy Mayor of New York City, where new anti-poverty initiatives are underway, to leaders on the front lines in charitable organizations like Catholic Charities, to experts from social research organizations and think-tanks.

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

According to the most recent statistics (2005), there were 37 million Americans living in poverty, including nearly 13 million children. After prior years of decline, the number and percentage of Americans in poverty began to climb after the year 2000, resulting in an additional 5.4 million Americans living below the poverty line. Poor Americans suffer various hardships, including reduced access to economic and educational opportunities, substandard housing, inadequate diet, greater levels of crime victimization, and diminished health.

Local governments, academic experts, religious leaders, and many others have suggested a variety of proposals to reduce poverty in America. Many of these suggestions focus broadly on increasing the returns from work, expanding access to quality education, reaching out to disconnected populations, and strengthening existing safety net programs. As a starting point, some have advocated the United States adopt a goal to significantly reduce poverty by a date certain.

In announcing the hearing, Chairman McDermott stated, **"We are beginning to hear a chorus of voices urging action on poverty. Leaders in city government, social research and charitable organizations have proposed specific steps they think will make a positive difference. This hearing allows us the opportunity to hear, discuss and evaluate these proposals to reduce poverty in America."**

FOCUS OF THE HEARING:

The hearing will focus on proposals to reduce poverty in the United States.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "*110th Congress*" from the menu entitled, "*Hearing Archives*" (*http://waysandmeans.house.gov/Hearings.asp?congress=18*). Select the hearing for which you would like to submit, and click on the link entitled, "*Click here to provide a submission for the record*." Once you have followed the online instructions, completing all informational forms and clicking "submit" on the final page, an email will be sent to the address which you supply confirming your interest in providing a submission for the record. You ***MUST REPLY*** to the email and ***ATTACH*** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business **May 10, 2007**. **Finally**, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at *http://waysandmeans.house.gov*.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman MCDERMOTT. Good morning. I am sorry I'm a little bit late, and I apologize for that. I like to start on time.

We are here today to ask some tough questions and explore some reasonable responses to concerns about economic opportunity and activity and poverty in America. Without such an examination, we are doomed to repeat the images of desperation and deprivation so vividly exposed by Hurricane Katrina. Hurricane Katrina was an opportunity for America to see the soft underbelly of this economy.

When income inequality continues not only to grow, but to accelerate, we should ask why, and what can be done. When the number of Americans struggling in poverty climbs by over 5 million over the last 5 years, we should ask why, and what could be done. When two-thirds of poor families have a working mother or father, we should ask why, and what could be done. When America has one of the highest poverty rates among all the relatively prosperous countries of the world, we should ask why, and what we can do.

Fortunately, a growing number of people have begun to ask these questions, and suggest some answers. Leaders in city government, social research, and the faith community have started to say there is a better way.

Today we will hear from some of those who say now is the time to make a difference, and we will hear that we need to do more to make work pay through a higher minimum wage and improved tax policies. We will hear about the need to increase access to educational opportunities, starting with pre-school. We will hear about the need to provide a fair unemployment insurance system for low-wage workers, an issue we have already begun to address in this Committee.

Finally, we will hear recommendations in many other areas, including improved housing policies, greater outreach to disconnected youth, more help in promoting savings, and increased child care assistance.

The House has begun to act on some of these suggestions, such as increasing the minimum wage, and I expect us to make progress on some of these others in the coming months. Now, change may come incrementally, but you have to start a course in the right direction. I don't expect Members of this Subcommittee to agree with every one, or even most of the proposals put forward, but all of us have a special area of interest that we believe should be emphasized.

We do not need complete consensus on the road map to agree on our final destination. We all want to reduce poverty and increase economic opportunity. Some of the witnesses today will suggest that we set a goal toward that end. I would hope that is one suggestion that might garner broad bipartisan support. Our moral compass, and our economic common sense, tell us that we can no longer leave so many fellow citizens outside the doors of opportunity.

Some might cite the cost of expanding opportunity and reducing poverty, but surely, inaction has even a higher cost. We cannot any longer afford the lower productivity and greater social problems that poverty brings. We should commit ourselves to reducing poverty in America.

I now yield to my Ranking Member, Mr. Weller.

Mr. WELLER. Well, thank you, Mr. Chairman, and thank you for conducting today's hearing. I also want to welcome our panelists, and thank you for taking time to appear before this Subcommittee today on ideas for reducing poverty.

Reducing poverty was one of the motivations behind the work-based 1996 welfare reforms, which reduced poverty for key groups, like African American children, to all-time lows. Today, we will hear a variety of specific proposals to do more.

Some are time-tested and elementary. For example, we will learn that if young people finish high school, get married before having children, and work full-time, the odds are great they will avoid poverty and live a middle-class life. We should do anything we can to promote that kind of outcome.

Still, millions do not follow that path, and poverty has remained stubbornly high, despite progress and increasing work, and reducing welfare dependence. As a result, our Chairman, Mr. Rangel, and others are suggesting we set a national goal of reducing poverty by 50 percent over the next 10 years. That's a worthy goal.

Before doing so, we should also ask if we are accurately measuring poverty today, so we can know if we have succeeded in cutting poverty in half.

One senior Member of this Subcommittee has his doubts. He stated flatly in 2004 that using a deficient poverty measure that fails to accurately reflect the impact of important economic policy and societal changes may create misperceptions about the effectiveness of public policy, and ultimately lead to misguided policymaking.

Mr. Chairman, you have shown the precedent of having some slides, and I have a few slides today, which I am happy to share with the Subcommittee. This senior Member of this Subcommittee went on to suggest, "Is today's official poverty rate inaccurate? Since the sixties, major policy changes have altered the social safety net, increasing the resources available to low-income individuals. The official poverty measure does not reflect these and other important changes that affect the material well-being of low-income Americans."

So, today's poverty rate, by failing to count, literally, tens of billions of dollars and antipoverty benefits, provides an inaccurate picture of poverty. Now, my colleagues, they know who this mystery Member of this Subcommittee is and he is a respected senior Member of the Committee. None other than our colleague, Congressman Pete Stark of California, when he wrote in 2004, as a senior Democrat on the Joint Economic Committee, this statement.

Analyst Doug Besharov, of the American Enterprise Institute, using Census Bureau data, found that for 2004, using the correct inflation adjustment and counting all household income results, results in a poverty rate of about 7.9 percent, not the official rate of 12.7 percent. That's not all. Using the Stark formula, just like Pete Stark's report suggested, taking the next logical step of counting non-cash benefits like welfare work supports, food stamps, and housing assistance, resulted in a poverty rate of about 5.1 percent, as reflected in the slide.

That is a 60 percent reduction from the official poverty rate—again, going from 12.7 percent to 5.1 percent, using the Pete Stark formula for determining poverty.

Granted, no definitional changes will change the income of any individual family, but better understanding of who is poor will allow policy-makers to more accurately judge how current antipoverty programs work. We will then be better positioned to decide what changes are needed.

Some of our witnesses today will call for $90 billion in increased antipoverty spending, on top of the $600 billion we already spend each year. That would be paid for by new tax increases, even though others have suggested these same tax increases also be used to fix the alternative minimum tax, pay for national health care, and many other proposals that are floating around this Congress.

Setting that tax hike, double counting aside, before we add up half-a-trillion dollars in new spending over the next 5 years, shouldn't we actually count what we are spending on current anti-poverty programs? Otherwise, this exercise becomes just one more way for the government to redistribute income, without ever knowing whether it's the poor who are actually benefiting.

Again, to use my colleague, Pete Stark's, words, "That would be misguided policymaking." I look forward to the testimony we will receive. Again, Mr. Chairman, thank you for this hearing.

Chairman MCDERMOTT. Thank you. We have an excellent panel here today. We will start on the far left—or my far left. John Podesta, the Center for American Progress.

STATEMENT OF JOHN PODESTA, PRESIDENT, THE CENTER FOR AMERICAN PROGRESS

Mr. PODESTA. Progress. Thank you, Chairman McDermott, and Mr. Weller. I appreciate the opportunity to be here. I am the president of the Center for American Progress. I want—again, I want to say thank you for letting me speak about the central challenge for policy-makers in society at large today, which is how to best address and reduce the ranks of the poor and build a strong and growing middle class.

As my written testimony outlines, the Center put together a group of—a 14-member task force of national experts and leaders. Just yesterday we released a report, "From Poverty to Prosperity," which was the result of the work of over a year by that task force. Chairman McDermott mentioned Hurricane Katrina. We really put this task force together in response to what we saw, and the devastation that we saw, as a result of Hurricane Katrina.

It proposes a four-part strategy to reach a very important goal, which is to cut poverty in America in half, within a 10-year period. It does so by promoting decent work, providing opportunity for all, ensuring economic security, and helping people build wealth. It lays out 12 concrete steps in order to achieve that goal.

I do want to acknowledge a couple of people. The cochairs of the task force, Peter Edelman, who is here with me today, who is one of my colleagues at Georgetown University Law Center, and Angela Glover Blackwell, the CEO of Policy Link, who serve as the cochairs of the task force. I'm also joined by Mark Greenberg, the task force executive director, and Indivar Dutta-Gupta, who is sitting behind you, who was one of our staff people, who joined the Subcommittee staff. It was good steal, I have to tell you.

I don't have time to go into the details of the entire report, so I would really just like to make four brief points.

First, the current status of the poor and low-income families in America is bad, and getting worse. As you all know, the United States has one of the highest poverty rates of any developed country in the world, defined by any measure, Mr. Weller. Even with an economy that produces $13 trillion annually, 37 million Americans live below the official poverty line, including nearly one-fifth of our children. Sixty million Americans live in extreme poverty. Roughly one-quarter of African Americans and Native Americans, and one-fifth of Hispanics are poor.

All told, there are more than 90 million Americans that can be classified as low-income, and that's what this task force really focused on, people living under 200 percent of the official poverty line, who face a constant struggle to keep ahead and avoid falling into severe economic hardship.

The other part I would make is that the situation is getting worse. The number of poor Americans is growing again. The Federal minimum wage has remained flat. Funding for key Federal programs has remained flat.

My second point is that it doesn't have to be this way. There are proven, cost-effective means for combating poverty and building a stronger middle class. Partnering with the Urban Institute, the Center's task force modeled 4 of the 12 recommendations focusing on: raising the minimum wage; the EITC; child tax credits; and expanding child care support for working families.

Taken together, those four recommendations alone would reduce poverty by 26 percent, according to the Urban Institute's modeling. That would mean over 9 million fewer people living in poverty, a national poverty rate of 9.1 percent, the lowest in recorded U.S. history. The racial poverty gap would be narrowed, child poverty would drop by 41 percent. The number of people in extreme poverty would fall by over two million, and millions of low and moderate income families would benefit.

My third point is that we cannot expect to reduce poverty and strengthen the middle class without a serious Federal strategy and coordinated effort. Our country has made great strides in reducing poverty in the past. In the 10 years between 1964 and 1973, poverty fell by an astounding 42 percent. In the 8 years between 1993 and 2000, when I served in the White House, poverty fell by 25 percent.

How did that occur? Each period, there was a nearly full employment economy, there were sound Federal and State policies that focused on rewarding work, individual initiatives, supporting civic institutions and communities, and a sustained national commitment that led to significant progress.

I think for those of us who worked in the Clinton Administration, we recognize that the success in fighting poverty and growing the middle class required a serious commitment, leadership, and the full force of Federal, State, and community action, and it required a growing private sector, growth that was key, but poverty reduction, I think we also understood, wouldn't occur just naturally or simply through the miracle of the marketplace.

Finally, my last point is that fighting poverty will not require extensive new bureaucracy, or encourage greater dependency amongst the poor. Americans are right to expect that anti-poverty efforts should honor work and personal responsibility. That's what this report is all about. We know that policies such as the Earned Income Tax Credit, and expanded child care, and raising the minimum wage, can fight poverty in a lean and efficient manner.

So, again, our recommendations could be fully paid for by an alternative set of tax policies. I think that the goal is worthy of a great Nation, which is to cut the poverty in half in the next 10 years. What would that mean? Twenty million fewer Americans living in poverty. There would be more working Americans, dramatically fewer working people in poverty, stronger, more vibrant communities, and millions of children beginning their lives with vastly more opportunity than they have today.

With that, let me turn to the other panelists. Thank you.
[The prepared statement of Mr. Podesta follows:]

Prepared Statement of John Podesta, President, The Center for American Progress

Thank you, Chairman McDermott and Members of the Subcommittee. I am John Podesta, President and Chief Executive Officer of the Center for American Progress. I am also a Visiting Professor of Law at the Georgetown University Law Center. I appreciate the opportunity to speak with you today about a central challenge for policymakers and society at large today: how best to reduce the ranks of the poor and build a strong and growing middle class.

As you well know, the U.S. has one of the highest poverty rates of any developed country in the world. Even with an economy that produces $13 trillion annually, 37 million Americans live below the official poverty line, including nearly one-fifth of our children. Sixteen million Americans live in "extreme poverty" (defined as a family of four living on less than $10,000 per year or an individual living on about $5,000 annually). Roughly one quarter of African Americans and Native Americans, and over one-fifth of Hispanics, are poor. All told, more than 90 million Americans can be classified as "low income" (living on less than about $40,000 per year for a family of four), meaning they face a constant struggle to keep ahead and avoid falling out of bare minimum economic existence.

In February of 2006, the Center for American Progress convened a diverse group of national experts and leaders to examine these and other issues of poverty and to make recommendations for national action. I'd like to acknowledge Peter Edelman, who is here with me today and who, along with Angela Glover Blackwell, served as a co-chairman of the Center's Task Force on Poverty.

Our Task Force was formed in the wake of Hurricane Katrina, a searing national event that exposed the desperate condition of many of our fellow citizens who were jobless, underemployed, and incapable of exercising the most basic elements of self-survival due to their poverty.

In its report, the Task Force calls for a national goal of cutting poverty in half in the next ten years and proposes a strategy to reach the goal. The report calls for the Congress, the president, and the next administration to join this effort and set our country on a course to end American poverty in a generation. We recommend a strategy that promotes decent work, provides opportunity for all, ensures economic security, and helps people build wealth.

The taskforce started with the belief that our Nation has both a moral and an economic obligation to address poverty. The persistence of millions of our fellow citizens living in economic hardship amid great national wealth violates America's basic commitment to human dignity, freedom, and advancement for everyone. Poverty also imposes enormous costs on our society in terms of the lost potential of our children, lower productivity and earnings, poor health, and increased crime and broken neighborhoods.

A recent report commissioned by the Center for American Progress, co-authored by Harry Holzer, Diane Whitmore Schanzenbach, Greg Duncan, and Jens Ludwig, concludes that allowing children to grow up in persistent poverty costs our economy $500 billion dollars per year in lost adult productivity and wages, increased crime, and higher health expenditures. Before I describe our strategy and recommendations in more detail, I'd like to quickly discuss some of the misleading ideas that define many discussions of poverty. *First, poverty is not just a "poor person's" issue*. It affects us all in distinct and important ways. Too often, discussions of poverty are treated as if they're unrelated to the issues facing the middle class. But large numbers of Americans—both low-income and middle class—are increasingly concerned about uncertain job futures, downward pressures on wages, and decreasing opportunities for advancement in a global economy. Employment for millions of Americans is now less secure than at any point in the post-World War II era. Jobs are increasingly unlikely to provide health care coverage and guaranteed pensions. The typical U.S. worker will change jobs numerous times over his or her working years and must adapt to rapid technological change. One-quarter of all jobs in the U.S. economy do not pay enough to support a family of four above the poverty line.

It is in our Nation's interest that those jobs be filled and that employment rates be high. It is not in our Nation's interest that people working in these jobs be confined to poverty. Large numbers would benefit if more jobs paid enough to support a family. Some issues are distinct, particularly for the smaller group of Americans in long-term, persistent poverty. But much of the agenda to reduce poverty is also one to promote opportunity and security for millions of other Americans, too. Second, *poverty is not unconquerable.* Our country has made great strides against poverty in the past. With the right mix of policies and societal action, we can make even greater strides in the future. Fueled by years of inaccurate characterizations of past efforts ("We fought a war on poverty and poverty won," as Ronald Reagan stated) many Americans are left to conclude that little can be done beyond providing private charity and urging the poor to do better. Nothing could be farther from the truth. The United States has seen periods of dramatic poverty reduction. Amid the strong economy of the 1960s and the War on Poverty, the poverty rate fell from 22.4 percent to 11.1 percent between 1959 and 1973. In the 1990s, a strong economy was combined with policies to promote and support work; the poverty rate dropped from 15.1 percent to 11.3 percent between 1993 and 2000. In each period, a near-full employment economy, sound federal and state policies that focused on rewarding work, individual initiative, supportive civic institutions and communities, and a sustained national commitment led to significant progress. In the last six years, our Nation has moved in the opposite direction. The number of poor Americans has grown by five million. The federal minimum wage has remained flat. Funding for key federal programs that help people get and keep jobs has been stagnant or worse. *Third, fighting poverty does not mean the poor will become more dependent on government.* To the contrary, as our Task Force report shows, smart policies to fight poverty will actually increase the value of work and the commitment to work and help low-income families become more economically self-sufficient in the long run. A false argument exists that anything done by the Federal Government to combat poverty naturally leads to negative consequences. In fact, we know that policies such as the Earned Income Tax Credit and expanded child care provisions encourage work and strong families.

Therefore, our Task Force has recommended a four-part strategy to fight poverty:

Promote Decent Work. We start from the belief that people should work, and that work should pay enough to ensure that workers and their families can avoid poverty, meet basic needs, and save for the future.

Ensure Opportunity for All. Children should grow up in conditions that maximize their opportunities for success; adults should have opportunities throughout their lives to connect to work, get more education, live in a good neighborhood, and move up in the workforce. *Ensure Economic Security.* Americans should not fall into poverty during times when they cannot work or work is unavailable, unstable, or pays too little to make ends meet. *Help People Build Wealth.* All Americans should have assets that allow them to weather periods of flux and volatility and to have the resources that may be essential to upward economic mobility.

Our strategy is based on the reality that poverty is complex and that the faces of the poor are many. No single approach or policy solution could viably move huge numbers out of poverty. Good jobs and benefits matter. Solid education matters. Safe and enriching neighborhoods matter. Opportunities to increase assets and wealth matter. Economic security and access to health care matter. Protections for the most vulnerable matter. Personal initiative, strong families, and corporate responsibility matter. We understand that some policymakers highlight the importance of promoting marriage as a strategy for reducing poverty. Research consistently finds that all else being equal, children growing up with both parents in a healthy marriage are more likely to fare better over time in terms of social and educational outcomes. At the same time, all else is often not equal. Children with loving parents can and do thrive in a range of family structures. Government policies should find ways to support marriage, such as eliminating the marriage penalty in the EITC, but they should also support families in ways that recognize the range of settings in which children grow up. In more general terms, our basic strategy is to offer solutions to help replace America's cycle of poverty—the tens of millions of people consigned to destitution every year because of our collective inability and unwillingness to prevent it—with a new cycle of prosperity.

We believe that decent work should be at the center of this new approach. Nothing is more important to the cycle of prosperity than good jobs—with adequate income and benefits—that allow people to take care of their families and start building assets.

Along with a job that pays a livable wage, strong personal character and individual initiative help to build strong and stable families. Strong families, in turn, help to build stable, safe, and caring communities. Communities foster good schools and encourage a culture that takes pride in personal achievement and educational success—all essential elements of economic mobility. Research clearly shows that educational attainment and personal qualities that value success and achievement early in life are directly correlated to higher wages and a better quality of life later in life.

Educational achievement leads to enhanced job prospects and increased earning potential. As wages rise, opportunities to build wealth and assets through increased savings, homeownership, and small business investments increase one's life prospects and bring additional funds to neighborhoods, communities, and local schools.

As economists and academics have shown, assets provide insurance and cushions against unforeseen economic shocks. They encourage people to focus long term and improve their own intellectual and creative development. They increase self-sufficiency and help people move away from public support. And they encourage people to become active in the actions of government and society. Rising wages and wealth in turn provide new opportunities for the overall economy and a better quality of life in our neighborhoods and communities. To flesh out this strategy, we specifically recommend 12 steps for federal, state, and local governments, non-governmental actors, individuals, and businesses to take in order to move millions of Americans from poverty to prosperity. 1. **Raise and index the minimum wage to half the average hourly wage.** At $5.15, the federal minimum wage is at its lowest level in real terms since 1956. The federal minimum wage was once 50 percent of the average wage, but is now 30 percent of that wage. Congress should restore the minimum wage to 50 percent of the average wage, about $8.40 an hour in 2006. Doing so would help over 4.5 million poor workers and nearly 9 million other low-income workers.

2. Expand the Earned Income Tax Credit and Child Tax Credit. As an earnings supplement for low-income working families, the EITC raises incomes and helps families build assets. The Child Tax Credit provides a tax credit of up to $1,000 per child, but provides no help to the poorest families. We recommend tripling the EITC for childless workers, eliminating the marriage penalty by disregarding half of the lower-earning spouse's wages if doing so would result in an increased EITC for the family, and expanding help to larger working families. We recommend making the Child Tax Credit available to all low- and moderate-income families. Doing so would move 2 million children and 1 million parents out of poverty. **3. Promote unionization by enacting the Employee Free Choice Act.** The Employee Free Choice Act would require employers to recognize a union after a majority of workers signs cards authorizing union representation and establish stronger penalties for violations of employee rights. The increased union representation made possible by the Act would lead to better jobs and less poverty for American workers. **4. Guarantee child care assistance to low-income families and promote early education for all.** We propose that the federal and state governments guarantee child care help to families with incomes below about $40,000 a year, with expanded tax help to higher-earning families. At the same time, states should be encouraged to improve the quality of early education and broaden access to early education for all children. Our child care expansion would raise employment among low-income parents and help nearly 3 million parents and children escape poverty. **5. Create 2 million new "opportunity" housing vouchers and promote equitable development in and around central cities.** Nearly 8 million Americans live in neighborhoods of concentrated poverty where at least 40 percent of residents are poor.

Our Nation should seek to end concentrated poverty and economic segregation, and promote regional equity and inner-city revitalization. We propose that over the next 10 years the Federal Government fund 2 million new "opportunity vouchers," designed to help people live in opportunity-rich areas. Any new affordable housing should be in communities with employment opportunities and high-quality public services or in gentrifying communities. These housing policies should be part of a broader effort to pursue equitable development strategies in regional and local planning efforts, including efforts to improve schools, create affordable housing, assure physical security, and enhance neighborhood amenities. **6. Connect disadvantaged and disconnected youth with school and work.** About 1.7 million poor youth ages 16 to 24 were both out of school and out of work in 2005. We recommend that the Federal Government restore Youth Opportunity Grants to help the most disadvantaged communities and expand funding for effective and promising youth programs—with the goal of reaching 600,000 poor disadvantaged youth through these efforts. We propose a new Upward Pathway program to offer low-income youth opportunities to participate in service and training in fields that are in high demand and provide needed public services.

7. Simplify and expand Pell Grants and make higher education accessible to residents of each state. Low-income youth are much less likely to attend college than their higher-income peers, even among those of comparable abilities. Pell Grants play a crucial role for lower-income students. We propose to simplify the Pell Grant application process, gradually raise Pell Grants to reach 70 percent of the average costs of attending a four-year public institution, and encourage institutions to do more to raise student completion rates. As the Federal Government does its part, states should develop strategies to make post-secondary education affordable for all residents, following promising models already underway in a number of states.

8. Help former prisoners find stable employment and reintegrate into their communities. The United States has the highest incarceration rate in the world. We urge Congress to pass the Second Chance Act, which will support successful models for reintegrating ex-offenders into their communities through job training and education opportunities, drug and mental health treatment, housing and other necessary services. Every state should establish an Office of Reentry Policy, which will oversee statewide reentry efforts and partner with local reentry commissions.

9. Ensure equity for low-wage workers in the Unemployment Insurance system.

Only about 35 percent of the unemployed, and a smaller share of unemployed low-wage workers, receive unemployment insurance benefits. We recommend that states (with federal help) reform "monetary eligibility" rules that screen out low-wage workers, broaden eligibility for part-time workers and workers who have lost employment as a result of compelling family circumstances, and allow unemployed workers to use periods of unemployment as a time to upgrade their skills and qualifications. **10. Modernize means-tested benefits programs to develop a coordinated system that helps workers and families.** A well-functioning safety net should help people get into or return to work and ensure a decent level of living for those who cannot work or are temporarily between jobs. Our current system fails to do so. We recommend that governments at all levels simplify and improve benefits access for working families and improve services to individuals with disabilities. The Food Stamp Program should be strengthened to improve benefits, eligibility, and access, and the Temporary Assistance for Needy Families Program should be reformed to strengthen its focus on helping needy families find sustainable employment.

11. Reduce the high costs of being poor and increase access to financial services.

Despite having less income, lower-income families often pay more than middle- and high-income families for the same consumer products. We recommend that the federal and state governments address the home mortgage foreclosure crisis through expanded mortgage assistance programs and by new federal legislation to curb unscrupulous practices. And we propose that the Federal Government establish a $50 million Financial Fairness Innovation Fund to support state efforts to broaden access to mainstream goods and financial services in predominantly low-income communities.

12. Expand and simplify the Saver's Credit to encourage saving for education, homeownership, and retirement. For many families, saving for purposes such as education, a home, or a small business is key to making economic progress. We propose that the federal "Saver's Credit" be reformed to make it fully refundable. This credit should also be broadened to apply to other appropriate savings vehicles intended to foster asset accumulation, with consideration given to including individual development accounts, children's saving accounts, and college savings plans.

We believe these recommendations will cut poverty in half. The Urban Institute, which modeled the implementation of one set of our recommendations (using a methodology drawn from recommendations of a National Academy of Sciences expert panel), estimates that four of our steps would reduce poverty by 26 percent, bringing us more than halfway toward our goal. Among their findings:

- **Taken together, our minimum wage, EITC, child credit, and child care recommendations would reduce poverty by 26 percent.** This would mean over 9 million fewer people in poverty and a national poverty rate of 9.1 percent—the lowest in recorded U.S. history.
- **The racial poverty gap would be narrowed.** White poverty would fall from 8.7 percent to 7.0 percent. Poverty among African Americans would fall from 21.4 percent to 15.6 percent. Hispanic poverty would fall from 21.4 percent to 12.9 percent and poverty for all others would fall from 12.7 percent to 10.3 percent.
- **Child poverty and extreme poverty would both fall.** Child poverty would drop by 41 percent. The number of people in extreme poverty would fall by over 2 million.
- **Millions of low- and moderate-income families would benefit.** Almost half of the benefits would help low- and moderate-income families.

The combined cost of our principal recommendations is in the range of $90 billion a year—a significant cost but one that is necessary and could be readily funded through a fairer tax system. An additional $90 billion in annual spending would represent about 0.8 percent of the Nation's gross domestic product, which is a fraction of the money spent on tax changes that benefited primarily the wealthy in recent years. Consider that:

- The current annual costs of the tax cuts enacted by Congress in 2001 and 2003 are in the range of $400 billion a year.
- In 2008 alone the value of the tax cuts to households with incomes exceeding $200,000 a year is projected to be $100 billion.

Our recommendations could be fully paid for simply by bringing better balance to the federal tax system and recouping part of what has been lost by the excessive tax cuts of recent years. We recognize that serious action has serious costs, but the challenge before the Nation is not whether we can afford to act, but rather that we must decide to act. What would it mean to accomplish a 50-percent reduction in poverty? In concrete terms, it would mean that nearly 20 million fewer Americans would be living in poverty. It would mean more working Americans, dramatically fewer working people in poverty, stronger, more vibrant communities, and millions of children beginning their lives with vastly more opportunity than they have today. It would mean a healthier population, less crime, more economic growth, a more capable workforce, a more competitive Nation, and a major decline in the racial inequities and disparities that have plagued our Nation. I think this is a vision of society worth fighting for. Reducing poverty is the right thing to do and critical for the success of our Nation and our people. I urge Congress to consider the ideas presented here as proven, cost-effective ways to strengthen our Nation and our people.

In doing so, remember the words of Robert F. Kennedy in challenging all of us to create a better society:

> "The future does not belong to those who are content with today, apathetic toward common problems and their fellow man alike. Rather it will belong to those who can blend vision, reason and courage in a personal commitment to the ideals and great enterprises of American society."

Thank you, Mr. Chairman and Members of the Subcommittee for inviting me today. I'd be happy to take any questions you may have.

Chairman MCDERMOTT. Thank you very much. Our next witness is Linda Gibbs, who is the deputy mayor for health and human services for the City of New York.

STATEMENT OF LINDA GIBBS, DEPUTY MAYOR FOR HEALTH AND HUMAN SERVICES, CITY OF NEW YORK

Ms. GIBBS. Thank you, Mr. Chairman. Thank you for inviting me to participate in this panel today. Let me start by saying that New York City, under the leadership of Mayor Bloomberg, has made great improvements in critical areas that are needed to break the cycle of poverty.

So, we began with focused efforts on: reforming our education system; requiring personal responsibility for welfare recipients; developing a five-borough economic development strategy; setting up an aggressive public health agenda; and committing to an affordable housing plan. Those are the building blocks that I believe were necessary for us to really take on the issue of poverty in New York City.

As a city, we believe that poverty is not an inevitable condition of life for the almost 20 percent of our residents who are living below the poverty line. Even with all the impressive investments that we have made, at any given point in time almost one in five New Yorkers live in poverty. We don't believe this is acceptable.

A hallmark of the Bloomberg Administration is of tackling problems often seen to be insurmountable, like crime and like failing schools. Poverty is another example where we are committed to addressing it in a thoughtful and systematic way. We will, however, also need the help of the State and Federal Governments in these efforts.

I would first like to share some of the strategies that we are undertaking at the local level. Just over a year ago, the mayor appointed a Commission for Economic Opportunity to look at this issue. Co-chaired by Dick Parsons of Time-Warner and Geoffrey Canada of the Harlem Children's Zone, the commission members worked hard to survey the field, engage interested and knowledgeable participants, and look closely at different approaches to reducing poverty.

I would also note that Kevin Sullivan, out of Catholic Charities of New York City, who is here with us today, was also a member of the commission.

Last fall, the recommendations of the commission were released in its report. They identified three strategic groups to focus on: working poor adults; young adults between the ages of 16 and 24; and children under the age of 5. Nearly 700,000 of our 1.5 million people living in poverty fall into 1 of these 3 groups.

The commission's recommendation was, to have success, we needed to be targeted and focused, and really tailor recommendations specific to those populations.

With the working poor, we have 340,000 New Yorkers who are working, who live in poverty. By focusing on the working poor, we hope to build on gains that have been made in the last decade of welfare reform, by addressing the ever-widening skills gap, and raising the living standards of low-wage workers.

In particular, we will highlight the access to work supports, those benefits that are available to individuals who have earnings. We will focus on building new career pathways in ways that are not traditional to the history of our workforce. We will focus on workforce training.

What is really significant here—and I don't have this figure nationally—but over the past 15 years, the number of households in poverty that are poor in New York City has gone from 29 percent up to 46 percent. So, increasingly, households in poverty are working in New York City.

The second group that the commission focused on was young adults between the age of 16 and 24. Almost 25 percent of our young adults live below the Federal poverty line. Many of them are not engaged in either school or work, and the commission focused a great deal on strategies to work with the disconnected youth. Also, not to assume that education was not a priority, that many of them can be reconnected to education.

Strategies include preventing disengagement from school and work, and developing creative approaches to re-engage them.

Our third group of focus was children under the age of five. Over 185,000 children in this age category, or nearly 1 out of every 3, live in poverty. By investing in children under the age of five with critical interventions, like universal pre-K, child care, and at-home nursing programs to work with at-risk pregnant women before birth, we believe we can break the cycle of inter-generational poverty by making investments in their long-term human capital development.

In December, after considering the commission's recommendations, the Mayor announced the creation of a center for economic opportunity to implement the recommendations, and invested $150 million annually toward the implementation of this work. Agencies in the city will be held accountable for how effectively these new strategies impact the poor and individuals in communities, and reduce poverty. Only those solutions that are proven to work will be continued. Those that don't will be discontinued.

This includes: piloting the use of conditional cash transfers in New York City, which have been tried in other countries with great success, but have not yet been tried in the United States. In New York City, we will call this program Opportunity New York City, and will privately raise money to provide for these conditional cash transfers.

The mayor's belief is, as a very innovative, non-traditional approach in New York City, it's a perfect example of how foundation partners can come to support new initiatives. We will begin this program with foundation support. We have already raised $42 million of the $50 million necessary for the 2-year program.

The concept is that the program incentivizes behaviors that we know will break the cycle of poverty, conditioned on human capital development of, particularly, the children in the family, health care, education, and, to the extent that the families comply, they will receive a transfer payment.

The city is also initiating a child care tax credit, which will be refundable for poor households for up to $1,000 per child under the age of 3. We have implemented another—a number of the 37 recommendations of the commission already.

Although New York City has taken on the challenge to fight poverty at the local level, we cannot do it alone. I am encouraged by the success of welfare reform in helping single mothers transition to work, and it serves as an example of how large-scale government programs can make a critical difference.

However, it only provides a piece of the solution, leaving a gap in programs that target men in the same way. Work rates for men are decreasing. So, as we saw tremendous growth in the employment of single mothers, during that same period the work rates for men dropped.

Inequalities in income are increasing, and more of the people living in poverty, as I mentioned, are working. The result for the poor, single-parent families is that they lack an essential second income that would allow them to move the poverty line.

Chairman MCDERMOTT. Could you summarize? All of your written speech will be put on the record.

Ms. GIBBS. Okay. My apologies. Well, I was getting to the most important point, the Federal recommendations.

I think what we really want to do is to take those lessons that we learned from Federal welfare reform, and understand how we can replicate them, how we can airlift them over to those populations that have not benefited. Specifically, for the single adults.

I would like to reiterate the recommendations that have been made by John this morning. We believe looking at the earned income tax credit for single adults is very promising, and we would like to think and work with you more on that.

I would like to add a last point, which is the importance of the question of how we measure poverty. There was a great frustration that the commission felt, and that the Mayor has expressed, as we really try to understand, with these changes, when so many of the things that happen don't count toward the calculation of poverty, both on the revenue side—whether those income transfers are counted in household income—but also on the expense side, the fact that the Federal poverty line itself does not reflect a true cost of what it takes for a poor family to be able to meet the basic standards of living, and is without regional variation.

So, we also believe that in order to tackle this issue, we need to understand, much more clearly what it means to be poor. Thank you.

[The prepared statement of Ms. Gibbs follows:]

Prepared Statement of Linda Gibbs, Deputy Mayor for Health and Human Services, City of New York

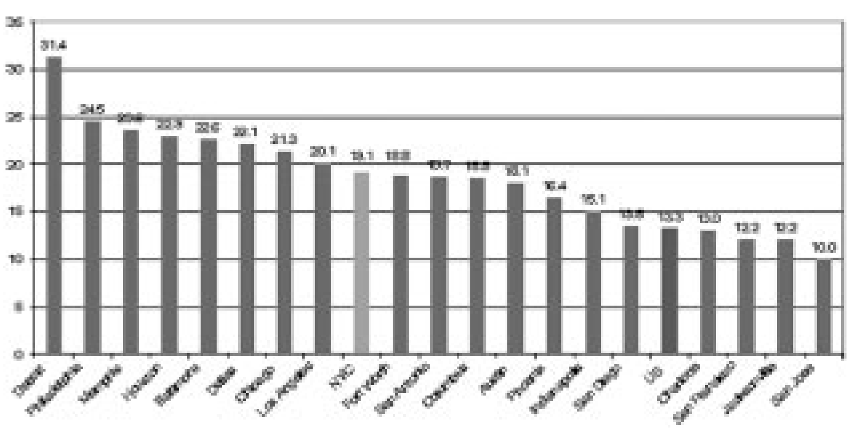
Thank you Chairman McDermott and members of the Ways and Means Subcommittee on Income Security and Family Support. I am pleased to testify before you today on New York City's plan for addressing poverty in New York City.

Let me start by saying that New York City, under the leadership of Mayor Bloomberg, has made great improvements in critical areas needed to break the cycle of poverty.

Focused efforts to reform our education system, require personal responsibility from welfare recipients, develop a five borough economic development strategy, set an aggressive public health agenda and commit to an affordable housing plan—which includes an unprecedented commitment to build 165,000 units of affordable housing—has set the platform to seriously explore and discuss strategies that will have an impact on poverty.

As a City, we believe that poverty is not an inevitable condition of life for almost 20 percent of our residents who are living below the poverty line. Even with all the impressive investments we have made, at any given point in time almost 1 in 5 New Yorkers lives in poverty. This is unacceptable given the prosperity of the City and the economy. However, New York City is not alone with a poverty rate that exceeds the national average. Cities like Los Angeles, Chicago and Philadelphia face similar struggles.

Poverty Rates 20 Largest Cities
United States, 2005



Source: American Community Survey, U.S. Census Bureau, 2005.

A hallmark of the Bloomberg administration is tackling problems that often seem insurmountable, like crime and failing schools. Poverty is another example of a problem that may seem beyond the ability of a city to impact, but we are committed to addressing it in a thoughtful and systematic manner. We will, however, also need the support of the federal and state governments in our endeavors.

NYC Commission for Economic Opportunity

I first would like to share with the subcommittee our strategy at the local level. Just over a year ago, Mayor Bloomberg announced the creation of the New York City Commission for Economic Opportunity. The Commission was a public-private taskforce charged with devising specific strategies to help low-income New Yorkers move out of poverty. Members of the Commission were asked to look critically at the experience of poverty for our residents and pinpoint strategic areas where a targeted approach could make a difference.

The Commission members worked hard to survey the field, engage interested and knowledgeable participants, and look closely at different approaches to reducing poverty. It was an extremely exhaustive process where many of the best thinkers in New York, the Nation and beyond were consulted. Time Warner Inc. Chairman and CEO Richard D. Parsons and Harlem Children's Zone President and CEO Geoffrey Canada were the Co-Chairs of the new Commission and other members included key civic leaders, like Monsignor Kevin Sullivan from Catholic Charities.

The Commission based its recommendations on the following shared goals:

- Hard work and shared responsibility fuel our economy
- All New Yorkers should share in the rewards of economic growth and prosperity
- Government and the private sector must work together to reward work and support working families
- Context is critical—poverty cannot be reduced outside of the network of families, religious institutions, schools and other community institutions

Last fall, the recommendations of the Commission were released in the report, "Increasing Opportunity and Reducing Poverty in New York City." The report brought to light the severity of poverty in New York City. Of almost 8 million New Yorkers, more than 1.5 million individuals are living in poverty—three times the entire population of Boston. Poverty is geographically concentrated in 11 percent of the City's census tracks—with over 40 percent of the population in those communities living below the federal poverty line. In addition, another 19 percent of the population is low-income; earning between 100–199 percent of the poverty line.

The Commission identified three strategic groups to focus on:

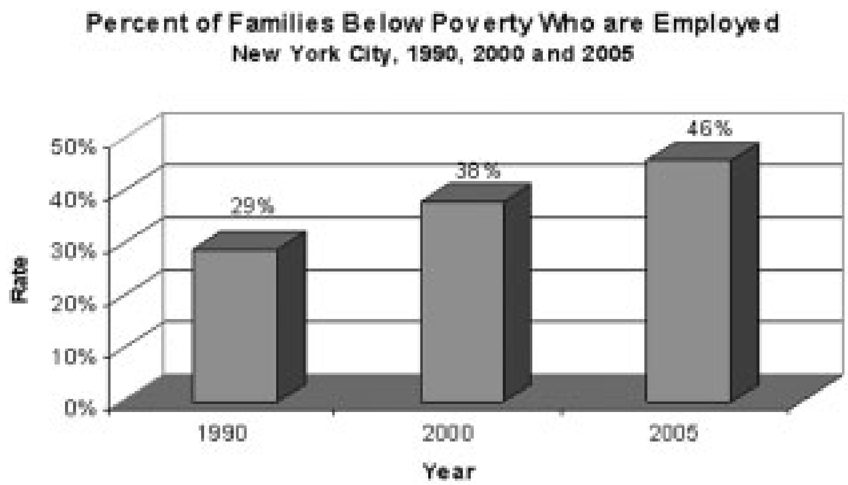
- working poor adults;
- young adults between the ages of 16 and 24; and
- children under the age of five.

Nearly 700,000 New Yorkers who live in poverty fall into one or more of these groups.

Working Poor

There are approximately 340,000 working New Yorkers who live in poverty. By focusing on the working poor, New York City will be able to build on the gains made in the last decade of welfare reform by addressing the ever-widening skills gap and raising the living standards of low-wage workers.

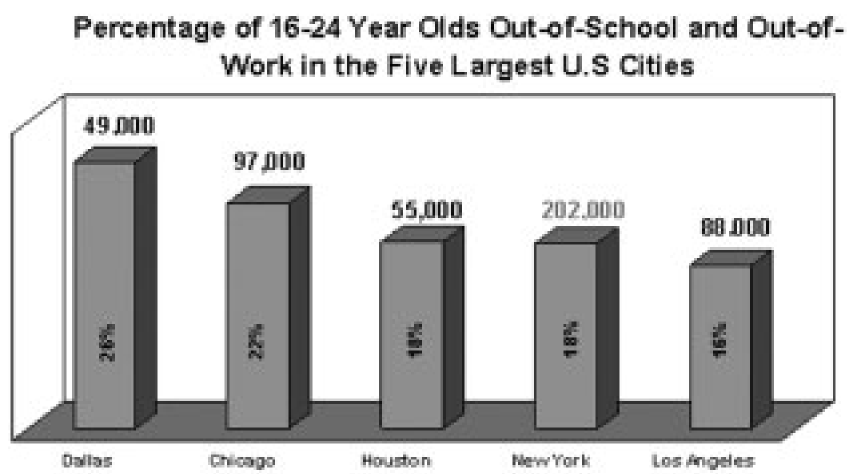
We discovered in our analysis of New York City that the percent of families in poverty who work has gone up from 29 percent in 1990 to 46 percent in 2005, highlighting the need to create solutions to address this population through access to work supports, career pathways, and workforce training.



Source: U.S. Census Bureau. Analysis performed by the Department of City Planning, City of New York.

Young Adults Between the Ages of 16 and 24

Almost 25 percent of New York City's young adults aged 16 to 24 live below the federal poverty line. By concentrating on this population, it will be possible to redirect the lives of youth at a critical transition point. Strategies for this population include preventing disengagement from school and work and developing creative approaches to re-engage those youth already disconnected.

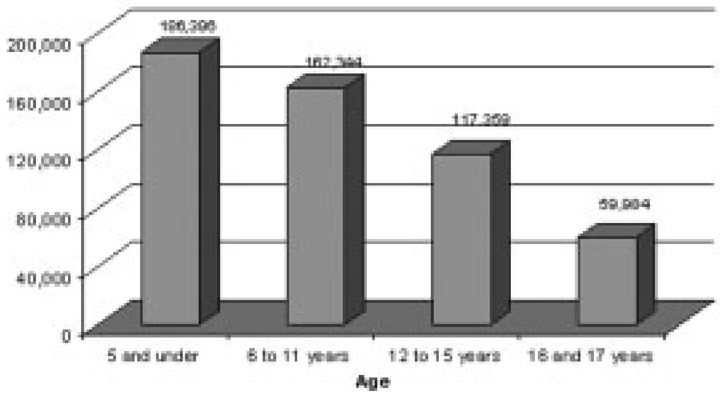


Source: 2001 Population Survey (CPS), U.S. Census Bureau. Tabulated by Northeastern University Center for Labor Market Analysis 2001; and 2000 United States Census Data. Note: baseline census data utilized for percentage calculation includes 15 year olds in each city population.

Young Children Under the Age of Five

Over 185,000 of New York City's young children, nearly one out of every three, live in poverty. By investing in children under five with critical interventions, like universal pre-k, childcare and at-home nursing programs to work with at-risk pregnant women before birth, we can break the cycle of inter-generational poverty and improve the life chances of young children.

Number of Children in Poverty by Age in New York City, 2005



Source: American Community Survey 2005

Center for Economic Opportunity

After reviewing the Commission's report, the Mayor announced his endorsement of the recommendations and established the Center for Economic Opportunity (CEO) to bring the initiatives to fruition. The Center is responsible for working with City agencies to implement the programs, manage the budget and conduct rigorous evaluations of the initiatives. The Mayor directed the City agencies to develop an action plan to turn the recommendations into real programs and policies under the direction of the Center.

Funding

In December, the Mayor announced the creation of the Innovations Fund, a $150 million yearly commitment to test and pilot the Commission's recommendations. Included in this fund is $25 million in private donations that the Mayor committed to raising towards a conditional cash transfer program. I'm pleased to report that we have already raised $42 million of the $50 million needed to test this program for two years. In addition to the $25 million in private funds for this year, the City has committed $75 million in public funds ($69 million City and $7 million in federal and state funds). That will be coupled with the City's $42 million Child Care Tax Credit and $11 million in baseline funding from existing successful poverty reduction programs.

Agencies will be held accountable for how effectively their new strategies impact poor communities and reduce poverty, and only the solutions that work will continue to get funded and expanded.

Office of Financial Empowerment

One of the strategies recommended by the Commission is the creation of the Office of Financial Empowerment that will address issues of family economic success. It is the first office of its kind to be created by any city in the country.

The office will institutionalize key recommendations of the Commission to increase financial literacy, to help to build savings and assets and to protect consumers from predatory and fraudulent practices that can have a disproportionate impact on the poor. It will work to empower and provide residents of lower-income communities with the tools and education they need to make more informed financial decisions.

Opportunity NYC

Another example of the innovative strategies New York City is piloting includes the use of "conditional cash transfers," which have been tried in other countries with great success but not yet in the United States. Mexico has had the most rigorously evaluated program, which has demonstrated improved health and education outcomes of participants and a reduction in poverty.

This program in New York City will be called "Opportunity NYC" and will use privately raised money to provide the conditional cash transfers. Opportunity NYC will encourage activities like higher attendance in school, more parental involve-ment in education, greater use of preventative health care and the development of career skills.

Childcare Tax Credit

The mayor also announced a City commitment to fund a local child care tax credit. The proposed tax credit is based on the federal and state credit, but would target resources to families with young children three years old and under with a household income less than $30,000. These families often experience the greatest difficulties finding and paying for child care. Eligible families that leverage this credit, in conjunction with the federal and state credit, would have the support needed to consistently participate and stay connected to the labor force.

Political Will and Commitment At All Levels

Although New York City has taken on the challenge to fight poverty on a local level, we cannot do it alone. We need support and cooperation from all levels of government in order to have a comprehensive strategy.

I am encouraged by the success of welfare reform in helping single mothers transition to work and it serves as an example of how a large-scale government program can make a critical difference. However, it only provides a piece of the solution leaving a gap in programs that target men in the same way.

Work rates for men are decreasing, the inequalities in income are increasing and more people living in poverty are working. The result for poor, single parent families is that they lack an essential second income that would allow them to move above the poverty line.

There are a number of ideas and proposals on how to apply the lessons learned from welfare reform to address the growing inequalities in our society. We all need to continue to work together to devise the next set of strategies that will be effective in addressing poverty on a national level. I am excited that so many people are here today who care about this issue and that the Ways and Means Committee has taken such leadership by holding a series of hearings on poverty.

Federal Recommendations

I encourage the Federal Government to look towards the tax system as one way to tackle the complicated issue of income inequality and poverty by increasing and expanding the Earned Income Tax Credit, one of the most effective anti-poverty tools provided by the Federal Government. As you may know, New York City has worked extensively to increase the number of residents who apply for the EITC, including mailing out the forms to residents who qualify.

Other critical areas that we strongly encourage Congress to support are:

- Increase the Child Care and Development Fund by a minimum of $6 billion over 5 years
- Restore funds to the Child Support Enforcement Incentive Grant as proposed in legislation by Chairman McDermott
- Remove restrictions on rehabilitation and other activities that were recently placed on the TANF Program
- Allow states to integrate and count job search as an integral part of all TANF employment-related activities
- Provide funds to measure poverty at the local level

I would like to explain my last point a little further. When the Commission tried to better understand poverty locally, we faced several hurdles in obtaining current and useful data. This is because either it did not exist or the samples were too small to produce reliable results. Investing time and resources in measures that are longitudinal and localized will help inform states and localities on how best to target resources. It is an important role the Federal Government can take to support states and cities in the fight against poverty.

I look forward to returning to share the results of what we have learned from our programs once they are fully up and running and when the evaluations produce empirical results.

Thank you for this opportunity to share our initiatives to reduce poverty. I invite all of the members of the Committee and your staff to New York City to see some of our efforts first hand.

Chairman MCDERMOTT. Thank you.

Reverend Snyder.

STATEMENT OF THE REVEREND LARRY SNYDER, PRESIDENT, CATHOLIC CHARITIES USA

Rev. SNYDER. Thank you, Chairman McDermott, and Ranking Member Weller. I appreciate the opportunity to testify at today's hearing on proposals for reducing poverty in our Nation.

Catholic Charities USA is one of the Nation's largest private networks of over 1,500 social service agencies and institutions, providing essential human services to almost 7.5 million people, annually.

Catholic Charities agencies and institutions, nationwide, provide vital social services to people in need, regardless of their religious, social, or economic background. Some of the services provided by Catholic Charities agencies include: child care services; workforce development; mental health services; and other programs to help families become and remain self-sufficient.

Catholic Charities agencies have worked for more than a century to serve those in need, and to empower them to build lives of dignity and economic security. The passage of welfare reform began the shift by the Federal Government of both the conversation about the poor in this country, and the responsibility for the poor.

The shift in responsibility to the States has been passed on to our local communities and local agencies, in many cases.

So, as the number of individuals on welfare declined, the number of individuals accessing emergency services at agencies like Catholic Charities, has steadily increased. In 2005, our agencies experienced a 14 percent increase in these requests. While the resources from the Federal Government continue to decline, the need in our communities continue to increase.

Through our daily work at Catholic Charities agencies across the country, we see the impact of poverty on families. The many misconceptions about the nature of poverty in the United States reinforced the commonly held view that poverty is due to failures and deficiencies of individuals, rather than the failures of structures that we put in place through the economic and political choices that we make, as a Nation.

While it is true that individual choices and behaviors do influence one's chances of living in poverty, these individual behaviors are frequently outweighed by the structures and policies that impact the poor. The experiences of our agencies are well supported by the numbers presented in the U.S. Census data, and independent research studies by some of my fellow panelists and government officials.

In 2006, Catholic Charities USA published a policy paper entitled, "Poverty in America: A Threat to the Common Good." In January of this year, in this very room, we launched a new campaign to reduce poverty in America.

The campaign is the result of conviction and passion to make the plight of the poor a priority in the wealthiest Nation in the world. This campaign calls upon policy makers, faith-based groups, civic leaders, and concerned citizens, to make a systematic and concerted effort to cut poverty in half by 2020. Now, if we can do that by 2017, we would be delighted.

The great American tradition has been that if you work hard, you can provide a better life for you and your family. This is the bedrock of the American dream. Unfortunately, today, too many Americans are working hard, but still cannot make ends meet. It is a moral crisis to a country as wealthy as the United States, that 37 million Americans live in poverty. The entire Catholic Charities network is committed to working hard and refocusing our efforts to see that this number is reduced.

In my written testimony, you will find many policy proposals. Due to the limited time, I would refer you to those.

Can we cut poverty in half? I believe that we can make significant progress if the country, as a whole, comes together to do so. Reducing poverty in this country will take a great deal of leadership, partnership, and accountability.

Two organizations who have successfully partnered with local governments are here today: Catholic Charities of the Archdiocese of New York, who have been part of a number of initiatives, including the employment and trading programs there; and Catholic Charities of the Archdiocese of Chicago, which has developed a program around asset-building.

Between Brooklyn, Queens Diocese, and the New York City Archdiocese Catholic Charities, they provide a significant portion of the child welfare services in New York City. Our agencies continue to work in effective partnerships with the Mayor's office, the kind of partnerships that need to be promoted at all levels of government if we are going to be successful in building a country where poverty is history.

An important component of our campaign will be engaging clients. Empowering those that we serve is critical. While serving the poor is something we do very well, we need to take the next step, and create partnerships with government that empower the poor, so that they can be accountable and able to serve themselves.

Thank you for the opportunity of testifying today.

[The prepared statement of Rev. Snyder follows:]

Prepared Statement of The Reverend Larry Snyder, President, Catholic Charities USA

Chairman McDermott, Ranking Member Weller, and members of the Subcommittee on Income Security and Family Support, thank you for the opportunity to testify at today's hearing on proposals for reducing poverty in our Nation.

I am Fr. Larry Snyder, president of Catholic Charities USA. Catholic Charities USA is one of the Nation's largest private networks of over 1,500 social service agencies and institutions, providing essential services to over 7.4 million people annually in communities across our Nation.

Background

Catholic Charities agencies and institutions nationwide provide vital social services to people in need regardless of their religious, social, or economic background. Some of the services provided by Catholic Charities agencies include nutrition assistance, child care services, workforce development, health care services, and other programs to help families become and remain self-sufficient.

Catholic Charities agencies have worked for more than a century to serve those in need and to empower them to build lives of dignity and economic security. Over the last several years, Catholic Charities agencies have seen a steady increase in the number of families seeking assistance. In 2005 we saw a 14 percent increase in emergency services.

A 2006 survey of Catholic Charities agencies shows requests for help are growing much faster than the resources to provide assistance, putting continued strain on social services. **This is occurring in communities as diverse as Las Vegas, NV; Lubbock, TX;** and **Charlotte, NC.**

Increasing Need

- 72 percent of Catholic Charities agencies report an increase in the need for financial assistance
- 64 percent report an increase in the need for food assistance
- 53 percent report an increase in the need for mental health services
- 45 percent report an increase in the need for prescription assistance
- 44 percent of the agencies cite an increase in the need for temporary housing

Who is Seeking Help?

We have seen more working families, more single parents, and more grandparents seeking such basics services as housing, shelter, and food. Too many of these families are just holding on and are struggling to make ends meet:

- 81 percent of agencies cite an increase in the working poor seeking help
- 68 percent of local agencies report an increase in the number of families coming to them for help
- 56 percent are seeing more seniors

The great American tradition has been that if you work hard you can provide a better life for you and your family. This is the bedrock of the "American Dream." Unfortunately, today too many Americans are working hard but cannot make ends meet.

Poverty in the United States

Through our daily work at Catholic Charities agencies across our Nation, we see the impact of poverty on families. The many misconceptions about the nature of poverty in the United States reinforce the commonly held view that poverty is due to failures and deficiencies of individuals, rather than the failures of structures that we put in place through the economic and political choices we make as a Nation. While it is true that individual choices and behaviors do influence one's chances of living in poverty, these individual behaviors are frequently outweighed by the structures and policies that shape the opportunities of people who are poor.

By age 60, more than half of all Americans will have experienced poverty at some point in their lives for a year or more. Of these, about one half will have lived in poverty for four years or more. Having a job does not preclude living in poverty. Two out of three families with incomes below the poverty level have at least one member who is employed.

Almost half of all people living in poverty—about 47 percent—are white and non-Hispanic. However, African Americans and Hispanics are much more likely to live in poverty than other population groups. For example, while the poverty rate for non-Hispanic whites is 8 percent, the rate for African Americans is 24.1 percent, for Hispanics, 21.8 percent, and for Native Americans, 23.2 percent. For children, the poverty rate for white children is 10 percent, while it is 28 percent for Hispanic children, 27 percent for Native American children, and 33 percent for African American children. The number of Hispanics living in poverty is now about the same as the number of African Americans living in poverty.

The experiences of Catholic Charities agencies are well supported by the numbers presented in U.S. Census data, independent research studies, and the media:

- The number of people who are poor by official government standards is 37 million, a number that is equal to the combined populations of Missouri, Kansas, Oklahoma, Colorado, Nebraska, Iowa, Minnesota, North Dakota, South Dakota, Wyoming, Nevada, Idaho, Utah, and Alaska. [i]
- Poverty is not limited to a small minority of our citizens. More than half of all Americans will experience poverty for at least one year during their adult life (ages 20–65). [ii]
- 25 million people in our Nation sought help from food banks last year—an increase of 18 percent since 1997. [iii]
- The highest rates of poverty are among children, especially children of color. [iv]
- African Americans, Latino Americans, and Native Americans are about three times as likely to live in poverty as are whites. [v]
- More than 7 million people living in rural areas are poor—a poverty rate of 17 percent.

[i] Calculation based on U.S. Census data, 2004.
[ii] Mark Rank. *One Nation, Underprivileged.* 2005, New York: Oxford University Press, p. 93.
[iii] America's Second Harvest Network, *Hunger in America, 2006.*
[iv] U.S. Census data, 2005.
[v] *Idem.*

- Millions of Americans do not fall below the official federal poverty levels. However, they are asset poor and are at risk of falling into poverty with a single emergency.

The Moral Imperative for Reducing Poverty

Far too often, in our communities we see the suffering of children who do not have access to adequate health care and nutrition. We see the plight of the working families who struggle to hold down two and three jobs just to make ends met—yet they cannot feed their children or find affordable housing. These struggles for survival put incredible strains on family life and often contribute to the break up of marriages and families. We see the difficulties faced by senior citizens who are dehumanized and demoralized when they have to choose between utilities and food. Many seniors who need special diets and adequate nutrition for their medications, lack access to adequate food. Working adults should earn enough to support their children in dignity and should not be relegated to standing in line for food for their children from their local food pantry or soup kitchen. Our Nation's seniors should not have to choose among eating, shelter, and purchasing medicine.

Today more than 37 million Americans live in poverty. This is a moral crisis for a country as wealthy as the United States. In 2006 Catholic Charities USA published a policy paper, *Poverty in America: A Threat to the Common Good.* Earlier this year, we launched the Campaign to Reduce Poverty in America. The campaign calls upon policymakers, faith-based groups, civic leaders, and all citizens to make a systematic and concerted effort to cut poverty in half by 2020.

The existence of such widespread and long term poverty amidst such enormous wealth is a moral and social wound on the soul of our country. Even while the economy as a whole prospers, this scourge of poverty is getting worse, and the harm it inflicts on our entire Nation continues to grow. After several years of decline in national poverty level, we have seen a steady increase since 2000, with over 5 million new Americans falling into poverty.

The fact that this powerful economy is leaving so many behind is a sign that something in our social and economic system is seriously broken. Unlike natural disasters such as hurricanes and floods, poverty in the United States is a human-made disaster. It is not a force of nature beyond our control; rather it is the result of economic, social, and political choices that we Americans have made, both as individuals and as a society.

As a Christian and Catholic organization, we are deeply troubled and frustrated by the fact that the issue of poverty has been largely ignored in our national debate for decades. Poverty has worsened in recent years and now afflicts more than one out of every eight families in our Nation. Meanwhile, the Federal Government has substantially reduced the resources devoted to assisting those who are impoverished, and states have been unable or unmoved to act. There has been a conscious and deliberate retreat from our Nation's commitment to economic justice for those who are poor. Poverty remains our Nation's most serious political blind spot and it remains a threat to the common good and the future strength of our Nation.

Human dignity is a core principle in Catholic social teaching. Poverty is a fundamental violation of human dignity and also a form of violence against the God who is present in every human person. As Pope Benedict XVI has said, "[W]ithin the community of believers, there can never be room for a poverty that denies anyone what is needed for a dignified life." [vi] As these words suggest, human dignity makes sense only if it is viewed in the context of community, because we are fundamentally social beings, bound together in the human family. If our society is to combat poverty successfully, then we will need a renewed sense of community, a renewed commitment to the common good.

Human dignity is protected by basic human rights. Among these are the right to life and the basic necessities of life such as food, shelter, clothing, health care, education, and employment at a livable wage. Included in these fundamental rights is the right to participate in decisions that affect one's life and one's future. For those living in poverty, this means that they have a right to participate in the process of their own development.

Catholic social teaching affirms the idea that every right carries with it a set of responsibilities, both on the part of the individual and the community. Thus, for example, all people have a right to health care, but they also have a duty to act responsibly in living a healthy life and caring for the physical and mental well-being of their bodies. They are responsible for their own decisions and actions. At the same time, society has a responsibility to ensure that everyone has access to decent health care, and individuals have a responsibility to contribute to the common good

[vi] Pope Benedict XVI, "God Is Love," December 25, 2005, 20.

by helping society reach this goal. Catholic teaching asserts that one of the principal means by which society and the state must defend human dignity is by giving priority to the needs of the poor.

Specific Public Policy Recommendations

The causes of poverty are complex. Identifying solutions to reduce poverty will take many different strategies and efforts from all sectors of the country. Catholic Charities agencies have a long history of serving and advocating on behalf of those who live in poverty. Utilizing this experience, we have identified several policy proposals in our policy paper that we believe will be an effective start to help cut poverty in half by 2020.

Improvements to the health care system, creating good jobs at a living wages, improvements to our housing policies, and changes to our tax system are among the changes we propose. We propose changes in two broad categories:

1. Implementing more equitable wage measures, specifically creating more livable wage jobs and raising the wages of existing low-paying jobs.
2. IInvesting more of our common wealth in social welfare policies for low-income people.

Creating Good Jobs and Raising Wages

In recent years, despite increases in the overall productivity of the workforce, wages for most workers have been stagnant or falling in real terms. For several decades before 1980, productivity growth and compensation rose together. American workers were more productive and they shared equitably in the gains from their productivity. Since 1980, workers have continued to become more productive, but they generally have not shared in the gains from their increased productivity. While raising the minimum wage is important, much more needs to be done in the long run to increase wages of low-income workers. We applaud the diverse efforts across the country to promote "living wages" by means of legislation. We also support the efforts to promote the general principle of livable wages by means of education and advocacy involving both the private and public sectors. Finally, declining union membership has played an important role in the failure of wages to keep pace with inflation for low- and middle-income workers.

Invest in Social Programs for Low-Income People

Federal and State Governments should invest in social policies that provide security and opportunities to low-income families and individuals. These policies fall into four major categories:

- Protecting families from economic risks;
- Strengthening families;
- Promoting life-long learning; and
- Promoting long-term economic security and asset building

Protect Working Families from Economic Risks

Work is the bedrock of the American culture, much more needs to be done to improve existing income support programs to ensure that they provide adequate protection to all workers.

- *Improve the Temporary Assistance for Needy Families (TANF) program*. In the 1990s, there were substantial increases in single-parent employment and reductions in poverty. Employment rates have remained relatively high since then, but poverty has increased significantly over the last five years. This suggests that many parents remain in low-wage jobs that do not provide enough income to support their families. At the same time, recent changes to TANF create further restrictions to economic mobility for low-income families. Catholic Charities USA strongly supports work as the core of the TANF program. But we also believe that a comprehensive plan that incorporates work with education and training has shown the most success. TANF programs must be flexible enough to recognize that not all families are ready to work and must address these barriers.
- *Improve access to safe and stable child care*. Every child deserves quality child care and the early education they need to get a strong start in life. They also need to be safe and secure when their parents are working. For many low-income families, access to child care determines the choice between work and training, on one hand, and a lifetime of poverty on the other. Unfortunately, federal child care funding continues to be insufficient to meet the needs of working families, and even fewer families can gain access to quality child care. The Federal Government should provide adequate child care funding to allow more

low-income parents to place their children in safe, nurturing, learning environments while they are working or going to school. Improve the Earned Income Tax Credit (EITC) to be more inclusive. The EITC is a critical support program that provides a strong incentive to work and helps lift millions of children out of poverty. The EITC has been enhanced by a number of states through state-EITC programs that provide additional benefits to the federal program. While the federal EITC averages $2,100 for families with children, it is extremely limited for adults without children and for non-custodial parents.[vii] In addition, low-income workers under the age of 25 are completely ineligible for the EITC even though they have one the highest unemployment and poverty rates of workers. Expanding the benefits of EITC to non-custodial parents and other young adult workers could reduce poverty and hardship and help "make work pay" for all Americans.

- *Reform unemployment insurance*. Unemployment insurance provides most low-wage workers with limited protection against the risks of unemployment. Researchers at the Urban Institute recently concluded that unemployment insurance "plays a relatively small role in reducing poverty and slows the rise of poverty during labor market downturns."[viii] The unemployment insurance system should be strengthened to provide greater protection against the economic loss that low-income workers experience as a result of unemployment.

Support Policies that Strengthen Families and Marriage

The Catholic community has consistently affirmed the vital importance of strong family life as a foundation for raising children. Children clearly do better economically and emotionally when raised by two parents in a stable, healthy marriage.

- *Extend services, benefits, and training to low-income men*. For decades, federal policies have not provided sufficient support to low-income men to help more of them become part of a stable family unit. We encourage the Federal Government to enhance and support programs that strengthen families. This includes providing support to programs that help young men develop the skills necessary to become better fathers. By supporting low-income men and fathers in a more comprehensive way, we can reduce many of the challenges that cause families to fall apart and children to fall into poverty. Provide more support to low-income parents. Poor children desperately need the support of both parents. The legislative agenda for improving support to low-income parents should focus on policies that help keep famines together by providing stronger support for marriage and two-parent families; more support for parents who are disconnected from their children due to incarceration; and reform to the child support system to encourage the presence of fathers in the lives of their children. Recent improvements in the child support system have increased family income and reduced child poverty. Thirty-six percent of poor children and 50 percent of near poor children received child support payments in 2001.[ix] Further, improvement to this program is critical to help lift more low-income children out of poverty.
- *Improve the Child Tax Credit*. The child tax credit provides nearly $50 billion in subsidies to families with children. This makes it the largest federal cash assistance program for children, but most of its benefits do not go to low-income families. The current credit provides $1,000 per child. Like the EITC, it is refundable, but current law excludes families with income under $11,000. As a result, millions of children are excluded from the credit. This exclusion falls disproportionately on Hispanics and African-Americans—19 percent of Hispanics and 28 percent of African-Americans receive no credit because their income is too low, compared to only 9 percent of whites. The child tax credit should be extended to all low-income families with children.
- *Improve protection and care of abused, neglected, and abandoned children and youth*. Catholic Charities agencies across the country provide an array of child welfare services—children under 18 make up 29 percent of the number of clients we serve. While a number of federal programs contribute to the intervention and prevention of child abuse and neglect, the systems supported by these

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[vii] The credit for workers not raising children averages about $220; this credit is available only to workers with incomes of less than about $11,750 (less than $13,750 for a married couple without children).

[viii] Similarly, in a report title titled *Unemployment Insurance: Role as Safety Net for Low-Wage Workers is Limited*, the Federal Government Accountability Office (GAO) noted that in the 1990s low-wage workers were twice as likely to be unemployed, but less than half as likely to receive unemployment insurance.

[ix] Elaine Sorensen, Urban Institute, *Child Support Gains Some Ground,* 2003—http://www.urban.org/publications/310860.html

programs have historically been fragmented and inadequate in meeting the needs of many vulnerable children, youth, and families. More efforts are required to sustain and expand the current level of services and create a full continuum of appropriate and timely support services for individual, family caregivers, and the agencies that provide care.

Promote Long Term Learning

Education and skills training are essential to the long-term success of our Nation's youth and adults. Education is a fundamental part of creating a competitive workforce and a strong economy that benefits all. Not only is education necessary for economic advancement, it also has wide-ranging social benefits that promote the common good.

- *Expand access to quality "Pre-K" education*. Research has shown that investing in early education for pre-school age children can make a lasting difference in children's lives, including increased high school graduation rates, reduction in adult criminal activity, and increased employment and incomes.[x]
- *Ensure access to post-secondary education and job training*. Education and training improve the odds of advancement for low-wage workers and are an absolutely necessary part of a larger strategy to fight poverty and build an economy that works for all.

Promote Long-Term Economic Security

A critical part of reducing poverty for more Americans is to help families develop strategies for long-term economic security. This not only involves reforms to the Nation's social welfare and workforce systems, it also involves creating other opportunities for families to build assets and achieve the American dream.

Conclusion

Can we cut poverty in half by 2020? We firmly believe that we can and we must.

Catholic Charities agencies have had a long history of serving and advocating on behalf of those who live in poverty. We will continue to fight for policy changes that provide more opportunities for more Americans. We believe we must cut poverty in half to make our county whole. Of course we realize that these proposals will have a cost, but we also understand that a society as wealthy as ours cannot continue to abandon those who are the least among us.

Our Catholic partners and other social service advocates must continue to work together to accomplish the goal of reducing poverty. Our local agencies have long history of developing unique partnerships and through our Campaign to Reduce Poverty in America we well continue to look for new opportunities. Only through partnerships between government and community leaders will we develop the capacity and the scale necessary to attack poverty in a comprehensive and sustained way. If we are going to cut poverty in half, we must all be accountable and willing to make the tough choices that it will take.

Thank you for the opportunity to testify. Catholic Charities USA stands ready to assist the subcommittee as it moves forward in developing policies to provide more economic mobility for the millions of Americans living in poverty as well, as those just above the poverty level who are still struggling to make ends meet.

Chairman MCDERMOTT. Thank you very much. Isabel Sawhill, who is a Senior Fellow in Economic Studies, the Cabot Family Chair at The Brookings Institution.

Ms. Sawhill.

STATEMENT OF ISABEL SAWHILL, PH.D., SENIOR FELLOW, ECONOMIC STUDIES, THE CABOT FAMILY CHAIR, THE BROOKINGS INSTITUTION

Dr. SAWHILL. Thank you very much, Mr. Chairman. I very much appreciate the opportunity to testify, and I agree with the goal of reducing poverty in the United States. I think that it is a moral imperative, as the last speaker and several others have said.

[x] See Robert G. Lynch, *Exceptional Returns*, (Washington, D.C.: Economic Policy Institute, 2004), 9–17.

I commend the Committee for refocusing on this question, and this issue.

The question, it seems to me, is how we are going to do it, and whether we can come together, as a Nation, to get it done.

My own view is that reducing poverty is going to require a focus both on what government needs to do, but also on what individuals need to do. We need, in other words, a combination of both responsible policies and responsible behavior.

I would note that the earned income tax credit, for example, which has historically had bipartisan support, is a wonderful example of this general philosophy. It expects people to work, but when they do, it helps them by supplementing their wages.

Let me make four additional points. The first is that there are many things that we could do to reduce poverty in the United States, and I am listening to my colleagues here today with great interest.

To me, the three greatest priorities should be: first, getting a good education; second, not having children before you marry; and, third, working full-time, if you possibly can.

Government should expect people to make real efforts to comply with those norms. When they do, government should reward that behavior, by making sure that if you do play by the rules, you will not be poor. Analysis that we have done at Brookings shows that individuals who do play by such rules are much less likely to be poor than those who don't.

Next point is that one of the most effective policies that we could put in place to ensure that everyone gets a good education would be to provide a very high-quality, early childhood experience to all children from low-income families.

Many people seem to believe that education in the pre-school years may help very young children, but what they fail to recognize is that it has dramatic effects on educational achievement throughout the Kindergarten through high school years, and can even increase college enrollment and adult earnings in a very cost-effective way.

So, the Federal Government, I think, could go further than it has in helping to fund such high-quality early education programs, perhaps by matching funding to the States, which are already very active in this area, and focusing the Federal funding especially on programs for lower income children, or children living in more disadvantaged neighborhoods.

The next point I want to make is that too many of our teenagers and young adults are having children before they are married. Equally important, if not more important, before they're ready to be good parents. In my view, the solution to this problem resides as much in the larger culture, and what parents and faith communities and key adults say and do, as it does in any basic shift in government policy, per se.

However, government could help by: providing resources to those in non-profit organizations and in faith-based communities who are fighting this battle; by ensuring that its own policies do not inadvertently encourage childbearing outside of marriage; and by supporting programs that have had some success in reducing early out-of-wedlock childbearing.

We had some news recently that some of the sex education programs that have focused entirely on abstinence were less effective than many of their advocates have hoped. However, we have other examples of programs that do encourage teenagers to delay sex until they're older, but also teach them about effective means of preventing pregnancy that have been successful.

However, I want to re-emphasize that we need a broad range of efforts here that includes both government and non-government institutions.

Finally—and I would be really remiss if I didn't emphasize this—encouraging and rewarding work are also important. I support the idea of work requirements in welfare, and perhaps in other programs as well, but I also feel strongly that the kind of employment we have seen—employment increases we have seen—amongst welfare mothers could be a pyrrhic victory if we don't find ways to provide more assistance to this group in the form of a higher minimum wage, a more generous earned income tax credit, and additional child care and health care assistance.

I will leave it there. Thank you very much.

[The prepared statement of Dr. Sawhill follows:]

Prepared Statement of Isabel Sawhill Ph.D., Senior Fellow, Economic Studies, The Cabot Family Chair, The Brookings Institution

Mr. Chairman and Members of the Committee:

Thank you for inviting me to testify on what might be done to reduce poverty in America. As a Senior Fellow and Co-Director of the Center on Children and Families at Brookings, I have done extensive work on these issues; although I should note that the views I will express are my own and should not be attributed to other staff, trustees, or funders of the Brookings Institution. Let me first summarize my testimony.

Overview

First, I strongly believe that reducing poverty requires a focus both on what government needs to do and on what individuals need to do. We need a combination of responsible policies and responsible behavior.

Second, although there are many things that might be done to reduce poverty in the U.S., I want to argue for a focus on three priorities: getting a good education, not having children before you marry, and working full-time. Government should expect people to make real efforts to comply with each of these norms. When they do, then government should reward such behavior by making sure that those who play by the rules will not be poor. The analysis we have done at Brookings shows that individuals who play by these rules are much less likely to be poor than those who don't.

Third, one of the most effective policies we could put in place to ensure that everyone gets a good education would be to provide very high-quality early education to all children from low-income families. Many people believe that education in the preschool years only affects young children. In fact, the evidence from both neuroscience and from carefully done program evaluations shows that preschool experiences have long-lasting effects and may be the most cost-effective way to insure that more children are successful in the K–12 years, graduate from high school, go on to college, and earn more as adults. The Federal Government could further this goal by providing matching funding to states that are willing to invest in high-quality early education for those living in low-income neighborhoods, starting in the first year of life.

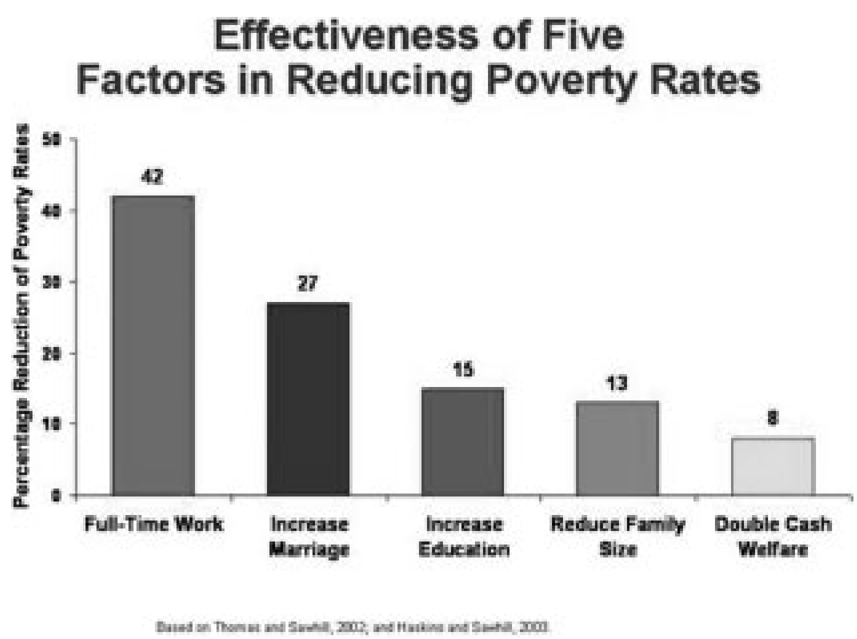
Fourth, too many of our teens and young adults are having children before they are married and before they are ready to be good parents. In my view, the solution to this problem resides as much in the larger culture—in what parents, the media, faith communities and key adults say and do—as it does in any shift in government policy per se. However, government can help by providing resources to those fighting this battle in the nongovernmental sector, by insuring that its own policies do not inadvertently encourage childbearing outside of marriage, and by supporting programs that have had some success in reducing early, out-of-wedlock childbearing.

Finally, encouraging and rewarding work is also very important. I support the idea of work requirements in welfare, and perhaps in other programs as well, but I fear that the kind of increased employment we've seen among welfare mothers will be a Pyrrhic victory if we don't find ways to provide more assistance in the form of a higher minimum wage, a more generous EITC, and additional child care and health care assistance. In my testimony today—at the suggestion of your staff—I will focus especially on preschool education and on the need to decrease childbearing outside of marriage and increase the share of children growing up in two-parent, married families. But I have written elsewhere about the importance of providing additional work supports for low-income working families. [1]

The Evidence that Education, Work, and Marriage are Important

If we could increase education, marriage, and work, poverty rates would fall substantially (Figure 1). More specifically, our research shows that if all able-bodied adults worked full time, even at the wage they currently earn (or, if unemployed, at a rate commensurate with their education), poverty would plummet by 42 percent. We also analyzed the impact on poverty rates of increasing the marriage rate to the level it enjoyed in 1970 by simulating marriages between single males and females matched on age, race, and education from Census Bureau data. [2] The effect of this simulation was to reduce poverty 27 percent.

Figure 1:



Insuring that everyone had a high school education reduced poverty by 15 percent. It had a less powerful effect than work and marriage. That said, I believe that education is more important than these results might imply because of its indirect effects on everything from improving health to opening up new employment opportunities and making people better parents.

[1] Isabel Sawhill and Adam Thomas, "A Hand Up for the Bottom Third: Toward a New Agenda for Low-Income Working Families," Washington, DC: The Brookings Institution, May 2001; Ron Haskins and Isabel Sawhill, "Attacking Poverty and Inequality," *Opportunity 08 Paper*, Washington, DC: The Brookings Institution, 2007.

[2] In the simulation, the income of the matched individuals were whatever the individuals actually reported to the Census Bureau. We matched enough couples in this fashion to reproduce the marriage rate that existed in 1970 before divorce and non-marital births began their rapid increases.

Finally, we compared these three simulations to a doubling of cash welfare. This large increase in cash assistance only reduced poverty by 8 percent.

Although these results are informative, they may partly reflect the fact that people who are better educated, married, and work more hours have other characteristics that lead them to have higher incomes. In addition, they tell us nothing about how to achieve the kind of improvements in education, in marriage rates, and in the extent of full-time work that the simulations assume. In what follows, I provide my judgment, based on good research, of the most effective ways to achieve the first two of these three goals. I also have ideas about how to encourage and support work but in the interests of time and space, and based on discussions with your staff, I will not address that issue in greater detail today.

Improving Educational Outcome among Children from Poor Families

My first recommendation is that Congress provide additional funding for an early education program that we call "Success by Ten." This proposal was developed jointly by myself and Jens Ludwig at Georgetown University for the Hamilton Project at Brookings.[3]

Success by Ten is a proposal designed to help every child achieve success in school by age ten. It calls for a major expansion and intensification of Head Start and Early Head Start, so that every disadvantaged child has the opportunity to enroll in an intensive, high-quality program of education and care during the first five years of life. Because the benefits of this intensive intervention may be squandered if disadvantaged children go on to spend time in low-quality elementary schools, the second part of our proposal requires that schools devote their Title I spending to instructional programs that have proven effective in further improving the skills of poor children, especially their ability to read.

Our proposal is based on the principle that early intervention is particularly important given brain plasticity during these early years. Children from different family backgrounds currently experience very different types of learning environments during the early years. The result is that large disparities in cognitive and noncognitive skills are found along race and class lines well before children start school and even before they can enroll in the federal Head Start preschool program at age three or four. Most of America's social policies try to play catch up against these early disadvantages yet most disadvantaged children never catch up. Gaps that exist when children enter school are nearly as large when they reach high school.

Findings from a number of rigorously conducted studies of early childhood and elementary school programs suggest that intervening early, often, and effectively in the lives of disadvantaged children from birth to age ten may substantially improve their life chances. These long-term benefits include higher educational attainment and greater success in the labor market, thereby helping poor children avoid poverty as adults. Another consequence would be to substantially improve the skills of tomorrow's workforce, thereby enhancing future economic performance. These benefits for children would be accompanied by benefits for their parents, many of whom are working and need the kind of high-quality child care that the program would provide.

Our proposal would work as follows. A high-poverty school (defined as a school in which at least 40 percent of the children are eligible for the school lunch program) would form a partnership with a local Head Start program or another early childhood program. They would jointly apply to the Federal Government for the extra funds that would be needed to serve all the poor children in their area. Eligibility for the preschool component would be based on family income or could be based simply on residence in a low-income neighborhood or school district.

Competitive grants would be made based on the quality of the local plan, including willingness to implement the key elements of Success by Ten (such as well-qualified teachers, low ratios of children to staff, a tested and effective curriculum) and assurances that the two agencies (typically Head Start and the local school) could work together. To reduce the initial cost of the program, to maintain quality during the scaling up of the effort, and to allow for some further learning and refinement of the design during implementation, we also propose that some local variation be allowed and that the school system maintain electronic student-level data on children in their enrollment areas and make these available to an independent set of program evaluators. We estimate that the cost of the program would be about $6 billion annually during the first six years of the program and up to $40 billion annually when fully implemented.

[3] Ludwig, Jens and Isabel Sawhill, "Success by Ten," *Hamilton Project Discussion Paper*, Washington, DC: The Brookings Institution, February 2007.

One model program of the type we are proposing had dramatic effects on children from poor families. Known in the literature as the Abecedarian program, it is the only program for which there is rigorous evidence for *long-term* effects on cognitive outcomes like IQ test scores. An evaluation of Abecedarian participants at age 21 shows IQ scores that are about 0.38 of a standard deviation higher for the treatment than the control group, with similarly large improvements in reading and math scores.

Other effects that are arguably as important, such as school achievement and completion, are even more impressive. For children who received the Abecedarian program intervention, for example, the college entry rate is 2.5 times the control group's rate. Teen parenthood and marijuana use in the group that received the Abecedarian intervention were around one-half of the average rates for the control group that did not receive the intervention. Smoking rates were about 30 percent lower for those who received the Abecedarian intervention when they were children compared with the average for the control group (Campbell and others, 2002). More suggestively, arrest rates were lower for treatments than controls, although the absolute numbers of those arrested in the two Abecedarian groups were small enough that it is impossible to prove statistically that this particular difference didn't result from chance.

To preserve and enhance these good results, early childhood intervention should be followed up with additional support at least in the early grades of school. However, the currently available evidence in support of most schooling interventions is quite limited. Based on our reading of available research, one of the few programs that has been shown to be effective in a rigorous randomized experiment is Success for All, which is a comprehensive whole-school reform model now in operation in more than 1,200 schools.

The philosophy of Success for All during the elementary school years is to focus on the prevention of reading problems, and the primary marker of success is the ability to read. Other subjects are important, but emphasis is given to the development and use of language through the reading of children's literature. Consistent with this emphasis, children receive 90 minutes of daily reading instruction in groups that are organized across grade levels based on each child's current reading level, which helps teachers to target instruction. Students engage in cooperative learning exercises in which they discuss stories or learn from each other, which helps reinforce what teachers do and builds social skills. Children are assessed at eight-week intervals, using both formal measures of reading competency and teacher observations. Children who are falling behind are given extra tutoring or other help with whatever might be impeding success (such as health or behavior problems).

A recent evaluation of Success for All funded by the U.S. Department of Education's Institute for Educational Sciences provides rigorous evidence of the program's effectiveness (Slavin and others, 2005). Two years later, the differences between children in the treatment and control schools were positive and statistically significant, usually on the order of about 0.2 standard deviations (about one-fifth the gap between low and high socioeconomic-status children).

We recommend using Title I money to expand the use of Success for All in kindergarten through fifth grade. If and when new evidence develops, schools could be encouraged, or even required, to use their Title I money on other proven programs.

Clues about what program ingredients might prove to be most important over time come from some of the striking similarities between Abecedarian and Success for All. These similarities include an emphasis on the development of language and reading skills, frequent assessments of children's developmental progress through regular testing, and clear, prescriptive curricular materials for teachers to follow that stand in contrast with more open-ended teacher—and student-initiated learning environments.

Reducing the Number of Single Parents and Encouraging Marriage

As we have seen, one of the best ways to reduce poverty is to decrease the number of single-parent families. If we could return the share of children raised in married-couple families to the level that prevailed in the 1970s, we could reduce the poverty rate by between 20 and 30 percent.

There are two ways to reduce the growth of single-parent families. The first is to reduce teen and out-of-wedlock childbearing, the latter of which has been the driving force behind the growth of such families since the 1980s. The second is to reduce divorce which has leveled off since the 1980s but still accounts for more than half of all children spending time in a single-parent family.

The good news is that teen pregnancy and birth rates have declined by about one-third since the early 1990s and this has contributed to the slower rate of growth in the proportion of children born outside of marriage.[4] The reasons for the declines are not well understood, but appear to be related to more conservative attitudes among the young, heightened concern about sexually transmitted diseases, and greater efforts to prevent teen pregnancy, including both new messages about abstinence and the availability of more effective forms of contraception.[5] These declines mean fewer children being born outside of marriage, fewer single-parent families, and less child poverty. Indeed, the decline in teen childbearing that has occurred over the past decade is responsible for more than 80 percent of the decline in the number of children under age six living with a single mother. Had the teen birth rate not declined between 1991 and 2002, the number of children under six in poverty would have been 8.5 percent higher.[6] Reducing teen childbearing has other desirable consequences as well, not the least of which is less government spending. Teen childbearing costs taxpayers at least $9 billion each year in direct costs associated with health care, foster care, criminal justice, and public assistance, as well as lost tax revenues.[7] And because women who have children outside marriage are less likely to marry than comparable women who do not, a decline in these births should increase marriage rates as well.[8]

Although there has been progress in reducing teen pregnancy rates, young women, and especially young black women, are marrying much later than they used to (and in some cases not marrying at all) and are thus exposed to the risk of a non-marital birth for longer periods of time. So out-of-wedlock childbearing rates remain high as does the rate of divorce. The question then is what are the most effective strategies for reducing out-of-wedlock childbearing as well as divorce?

Step one has to be a new set of messages. Part of the decline in marriage and the rise in non-marital births can be attributed to a culture that has reduced the social stigma of single motherhood. Thus, any strategy to reduce the number of single parent families should include a component aimed at changing broad cultural attitudes. Many younger people, teens especially, have not fully absorbed the message about the normative ordering of events that is critical to achieving life's goals: finish high school, or better still, get a college degree; wait until your twenties to marry; and do not have children until after you marry and at least one parent is stably employed.[9] Using the media, as well as the bully pulpit, to broadcast messages about this success sequence is one way to reach a broad cross-section of society and to get a message about responsibility into the cultural ether.[10]

A second way to change cultural attitudes and behavior is to fund programs that teach both values and relationship skills to younger Americans, while insuring that they are well informed about the best way to prevent an unwanted pregnancy. Included here is sex education that encourages abstinence among teens but also includes accurate information about contraception for those who are sexually active. In addition, programs that teach responsibility and engage young people in constructive activities through community service have shown themselves to be effective in reducing teen pregnancy.[11] An analysis by Julia Isaacs for the Brookings Institution suggests that a nationwide expansion of one such effective program would

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[4] Isabel Sawhill, "What Can Be Done To Reduce Teen Pregnancy and Out-of-Wedlock Births?," *Welfare Reform & Beyond Brief No. 8*, Washington, DC: The Brookings Institution, October 2001; Committee on Ways and Means Democrats, "Steep Decline in Teen Birth Rate Significantly Responsible for Reducing Child Poverty and Single-Parent Families," *Committee Issue Brief*, Washington, DC: Author, April 23, 2004.

[5] John S. Santelli, et al., "Can Changes in Sexual Behavior Among High School Students Explain the Decline in Teen Pregnancy Rates in the 1990s?," *Journal of Adolescent Health*, vol. 35 (2005): 80–90.

[6] Committee on Ways and Means (Democrats), 2004.

[7] Saul D. Hoffman, "By the Numbers: The Public Costs of Teen Childbearing," Washington, DC: National Campaign to Prevent Teen Pregnancy, October 2006.

[8] Daniel T. Lichter and Deborah Roempke Graefe, "Finding a Mate? The Marital and Cohabitation Histories of Unwed Mothers," in Lawrence L. Wu and Barbara Wolfe, editors, *Out of Wedlock: Causes and Consequences of Nonmarital Fertility*, New York, NY: Russell Sage Foundation, 2001, pp. 317—343.

[9] More description of this "success sequence" can be found in Barbara Dafoe Whitehead and Marline Pearson, "Making a Love Connection," Washington, DC: National Campaign to Prevent Teen Pregnancy, 2006.

[10] Sara McLanahan, Elisabeth Donohue, and Ron Haskins, "Introducing the Issue," *Future of Children*, vol. 15, no. 2 (Fall 2005): 3–12.

[11] Two of the more effective programs, as identified by Douglas Kirby for the National Campaign to Prevent Teen Pregnancy, are the Teen Outreach Program (TOP) and the Children's Aid Society-Carrera program. These programs focus on youth development, not just on family planning or abstinence. See Douglas Kirby, "Emerging Answers: Research Findings on Programs to Reduce Teen Pregnancy," Washington, DC: National Campaign to Prevent Teen Pregnancy, 2004.

cost $1.4 billion, but would produce numerous—albeit difficult to measure—benefits including a reduction in teen births and abortions.[12]

Yet another way to reduce unplanned pregnancies outside marriage is to provide more family planning services to low-income women. Several recent studies have found that states provided with family planning waivers under Medicaid have successfully reduced unintended pregnancies and births and saved money in the process.[13] Providing low-income women greater access to family planning services through Medicaid would cost less than $1 million per year, according to the Guttmacher Institute. This policy would substantially reduce unintended pregnancies. Over a decade's time, these declines in unintended pregnancies among low-income women could reduce the number of children living in poverty by roughly 600,000.[14]

Another way to reduce single parenting is by teaching relationship skills to those who are married or are contemplating marriage. Careful evaluations suggest that some premarital education programs reduce the risk of divorce.[15] Doubling the proportion of couples who receive premarital education would cost an estimated $184 million, reduce divorce rates by as much as 7 percent, and over a decade's time, reduce the number of children living in poverty by at least 160,000.[16]

Not all of these pregnancy prevention and marriage education programs have been successful and we need to learn more. Recent media reports on the effectiveness of abstinence education programs, for example, have been quite discouraging. Even so, there *is* good news to report when it comes to sex education interventions. There is now persuasive evidence that a limited number of programs can delay teen sexual activity, improve contraceptive use among sexually active teens, and prevent teen pregnancy. Some of these programs could be fairly described as "traditional" sex education programs that discuss both abstinence and contraceptive use; others focus primarily on keeping young people constructively engaged in their communities and schools. At the same time, a new and exciting frontier in sex education has been embodied in efforts such as the Love U 2 curriculum. These efforts tend to teach young people about healthy relationships at the same time they teach them about avoiding risky sexual behavior and the value of waiting. In short, these efforts are focused squarely on trying to help young people understand how to achieve responsible and respectful relationships.

Conclusion

Allocating increased resources to early childhood education, if done right, has an excellent chance of increasing educational attainment among children from lower-income families. It will take a commitment to high-quality programs that start at an early age and will not be cheap. However, everything we know suggests the benefits would greatly exceed the costs. At the same time, with less certainty but at a much lower cost, it should be possible to increase the share of children living in single parent families, thereby both improving their longer-term prospects and reducing poverty rates as well.

[12] Julia Isaacs, "Cost-Effective Investments in Children," *Budget Options Series Paper*, Washington, DC: The Brookings Institution, 2007.

[13] Cost estimate assumes that every state provides Medicaid coverage for family planning services for women with incomes less than 200 percent of the federal poverty line. By enabling women to avoid 522,000 unintended pregnancies, this type of Medicaid expansion would reduce the number of abortions by 16 percent and the number of unintended births by almost 18 percent. See Jennifer J. Frost, Adam Sonfield, and Rachel Benson Gold, "Estimating the Impact of Expanding Medicaid Eligibility for Family Planning Services," Occasional Report No. 28, Alan Guttmacher Institute, August 2006; Melissa Kearney and Phillip Levine, "Subsidized Contraception, Fertility, and Sexual Behavior," NBER Working Paper No. 13045, April 2007.

[14] There are about 1.4 million births to unmarried women each year. A 17 percent decline in such births would avert 238,000 or 2.4 million over a decade. If even one fourth of these births would have created a poor, single parent family, then 600,000 fewer children would be poor. Paul Amato and Rebecca A. Maynard, "Decreasing Nonmarital Births and Increasing Marriage to Reduce Poverty," *The Future of Children* vol. 17, no. 2 (forthcoming).

[15] Ibid. The best-known and most successful premarital education program is the Prevention and Relationship Enhancement Program (or PREP).

[16] Ibid. The paper assumes a doubling of current participation rates, from 40 percent of couples to 80 percent of couples. Amato and Maynard estimate that the decrease in divorce made possible by their premarital education proposal would lead to 720,000 fewer single parent families over a decade. If one fourth of such families are poor and each had 9 children, child poverty would fall by around 160,000 over the decade.

Chairman MCDERMOTT. Thank you very much. Now, Dr. Lawrence Mead, who is a professor of politics—maybe this is all about politics, anyway—from New York University.

STATEMENT OF LAWRENCE M. MEAD, PH.D., PROFESSOR OF POLITICS, NEW YORK UNIVERSITY

Dr. MEAD. Thank you very much, Mr. Chairman. It's an honor to be here. If on nothing else, I certainly agree about the need to address this question. It really is a critical issue for America's future.

I am speaking based on a paper for a project on antipoverty ideas at Brookings, which Isabel was an editor of. Gordon Berlin, should he appear, is also involved, and so is Mark Greenberg. So, we are speaking from that.

I think we should take our departure from what works, and we know that welfare reform was successful. It was successful in driving down the welfare rolls, and more importantly in my view, increasing work levels among single mothers.

This is achieved through a combination of what I call help and hassle—provided new benefits for mothers that they didn't have before, particularly the Earned Income Tax Credit, but we also levied a much more definite work requirement, that they should do something to help themselves in return for being on aid. The main impact of the reform came from that synergy, from the requirement to work, backed up by these support benefits.

My main message today is that we should keep going down that road. This had a more dramatic effect on family poverty than anything we have done for 40 years, and we should not abandon that formula. You should be skeptical of proposals, some of which we have heard already, where there is new spending on benefits, but where we don't very clearly require that the adults also do things to help themselves, especially by working.

There are two major things we need to do to pursue this approach. The first is to complete welfare reform. Successful though it was, the Personal Responsibility Act had some clear limitations. One was that there were certain weaknesses in the work requirements which had the effect of exempting much of the caseload from an actual need to work. The law had some loopholes that meant that States really didn't have to build work into their systems.

Equally important, the law and other policies did not do enough to keep mothers working after they left welfare, or indeed to make sure that they earned enough when they worked. So, we need to make sure that people really have to work, and we also have to make sure they keep working after they leave welfare.

Reauthorization of the TANF program last year closed only some of the loopholes, and it left much left to do. I would recommend, first of all, clsoing some further loopholes on the work test. That particularly means requiring a full family sanction if families do not comply with the work test. Right now, it can be a partial sanction, and the effect of that is to make it virtually impossible to fully implement the work test in the two big States, New York and California, which have partial sanctions.

I would also enforce the work tests in the food stamp program more effectively than they have been. We need to make that program into one that also promotes work.

I would also add an hours requirement to EITC. Although EITC is very successful, it doesn't require any minimum threshold of hours to get the benefits. We ought to say, "In order to get the current EITC, or perhaps an enhanced EITC, you have to put in 20 or 30 hours a week." That was a requirement in certain welfare reform programs in order to raise work levels, and we need to do that in EITC.

I would also increase the EITC benefit, and attach it to individuals rather than families, in the way that Gordon is going to describe. I think that's a good idea. It's also a good idea to raise the minimum wage, but in order to make sure that those steps do not actually produce a reduction in work effort, we again need to have hour thresholds.

The other thing I would do—and Linda Gibbs has already referred to this—is make a major effort in dealing with low-income men. They also had serious work problems. Indeed, because they're working less, the actual work levels among poor adults has actually declined in the last 15 years, despite welfare reform. In 2005, only 37 percent of poor adults last year claimed any employment at all.

So, we should not be persuaded by ideas that the poor are working, and all we have to do is raise their wages. We have a long way to go in raising work levels, particularly in getting men to work.

The way to do that, I think, is to try to develop a work requirement for men, by means of the child support system and also the criminal justice system. We can, I think, develop a mandatory work policy using those structures that will require men more definitely to work, I'm thinking particularly of people on parole, who are supposed to be working, and often don't, and also child support defaulters who owe judgments but aren't paying them regularly.

We have to make sure that the men pay up, and that means that they have to be working. We have to monitor them in the way we have done in welfare reform. At the same time, pay enhanced benefits of the sort we're talking about through the EITC.

So, again, the same idea, help and hassle. We will subsidize your wages, but you absolutely have to work, and we are going to make sure you do that. When we do that, you will have, I think, a major impact on poverty.

How to do that is set out more fully in my paper. I think a men's program along these lines would cost about $2.5 billion to $4.5 billion. That's a rough estimate. That would be offset by improved child support collections. The main thing, however, is to establish a clear cut norm in the culture that men, like women, on welfare have to be working. That's something we expect. At the same time, we will reward you if you do it.

[The prepared statement of Dr. Mead follows:]

Prepared Statement of Lawrence M. Mead, Ph.D.,
Professor of Politics, New York University

I am a Professor of Politics at New York University and a longtime scholar of antipoverty policy and welfare reform. I've written several books on these subjects, including a study of welfare reform in Wisconsin. [1] I appreciate this chance to testify on an important question: What should government do next to reduce poverty in America?

The main conclusions of my research might be summarized as follows:

- *Nonwork by parents is the main reason for poverty among the working-aged* and their children. Family breakup is also important but secondary.
- *Nonwork cannot generally be explained by barriers* to employment such as lack of jobs or child care. Barriers—particularly inferior education—have much more influence on the quality of jobs people get *if* they work.
- *Nonwork cannot be overcome by voluntary measures alone*, such as greater investments in child care, education, or training. These are of value mostly after nonworkers have entered jobs.
- *Rather, work levels can be raised by a combination of "help and hassle"*—new benefits coupled with requirements that poor adults work as a condition of aid.
- *Work enforcement is ultimately a political process* where stronger work expectations coupled with new benefits cause more poor adults to go to work without necessarily going on welfare at all.

The Success of Reform

In reforming welfare, government has largely followed this approach since enactment of the Family Support Act (FSA) in 1988, and especially since the enactment of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in 1996. Under PRWORA, Temporary Assistance for Needy Families (TANF) replaced Aid to Families with Dependent Children (AFDC). Tougher work requirements were combined with new spending on child and health care for families leaving welfare and on wage subsidies for low-paid workers (the Earned Income Tax Credit, or EITC).

These were the main effects:

- *A dramatic fall in dependency:* Since their height in 1994, the rolls in AFDC/TANF have plummeted by over 60 percent. Nor did dependency rebound during the recession of 2001–3.
- *A substantial rise in work levels among single mothers:* The share of AFDC cases meeting work participation norms rose from 22 percent in 1994 to 38 percent in 1999, before falling to 32 percent by 2004. [2] Work among poor single mothers also rose: The share working at all rose from 44 percent in 1993 to 64 percent in 1999, before falling to 54 percent in 2005. For work full-time and year-round, the comparable figures were 9, 17, and 16 percent. [3]
- *A substantial fall in poverty:* The overall poverty rate fell from 14.5 percent in 1994 to 11.3 percent in 2000, before rising to 12.6 percent in 2005. For children, the equivalent figures are 21.8, 16.2, and 17.6 percent. [4]
- *An absence of hardship due to reform*. Welfare reform did not generally make life tougher for poor families, although—as I note below—it did not solve all their problems. The noneconomic effects of reform on families and children were small and largely positive. [5]

Most analysts think that the main forces behind these gains were (1) the new work tests in welfare, (2) expanded support benefits—especially EITC—and (3) the superb economic conditions of the 1990s. There is some debate about the relative

[1] Lawrence M. Mead, *Beyond Entitlement: The Social Obligations of Citizenship* (New York: Free Press, 1986); idem, *The New Politics of Poverty: The Nonworking Poor in America* (New York: Basic Books, 1992); idem, ed., *The New Paternalism: Supervisory Approaches to Poverty* (Washington, DC: Brookings, 1997); idem, *Government Matters: Welfare Reform in Wisconsin* (Princeton: Princeton University Press, 2004); Lawrence M. Mead and Christopher Beem, eds., *Welfare Reform and Political Theory* (New York: Russell Sage, 2005).

[2] Data from the U.S. Administration for Children and Families. Work standards also were raised between FSA and PRWORA, so these figures understate the real work increase.

[3] Data from the March Current Population Survey for 1994 (table 19), 2000 (table 17), and 2006 (table POV15)

[4] U.S. Department of Commerce, Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2005*, Series P–60, No. 231 (Washington, DC: U.S. Government Printing Office, August 2006), tables B1, B2.

[5] Rebecca M. Blank and Ron Haskins, eds., *The New World of Welfare: An Agenda for Reauthorization and Beyond* (Washington, DC: Brookings, 2001); Pamela A. Morris et al., *How Welfare and Work Policies Affect Children: A Synthesis of Research* (New York: Manpower Demonstration Research Corporation, March 2001); P. Lindsay Chase-Lansdale et al., "Mothers' Transitions from Welfare to Work and the Well-Being of Preschoolers and Adolescents," *Science* 299 (March 7, 2003): 1548–52.

importance of these factors, but everyone thinks that work requirements were essential to forcing change.[6]

Government should follow the same general approach as it seeks to reduce poverty further. Neither "help" nor "hassle" will achieve much without the other. Government should not extend new benefits or opportunities to the employable poor without expecting work. Neither should it cut back spending, in an indirect attempt to force them to work. Rather, it should expect work directly while also providing the benefits people need to reorganize their lives around employment.

It should do this in two main ways: First, complete welfare reform. Second, extend the same approach to nonworking men.

The Limitations of Reform

Although successful, welfare reform did not enforce work consistently. It also did too little to ensure that families could "make it" after they left welfare.

PRWORA's bark was worse than its bite. The act demanded that states move 50 percent of their welfare cases into work activities by 2002—a huge jump over FSA or earlier law. But several provisions spared most states from having truly to build work into their welfare programs:

- *The caseload fall credit:* PRWORA allowed states to count against their work targets any percent by which their caseloads fell after 1995. Because the fall was unexpectedly great, the credit cut the participation levels states had to achieve to trivial levels, in many cases to zero.
- *Sanctions:* PRWORA allowed states to reduce grants only partially if adults fail to cooperate with the work test. Among the states choosing partial sanctions are California and New York, the states with the biggest caseloads. This has made it impossible fully to enforce the work test.
- *Child-only cases:* Welfare cases where only children are paid aid are exempt from the work test, even though in practice adults in the families also get support. These cases are growing as a share of the caseload, comprising 37 percent of all cases by 2001.[7]
- *Separate state programs:* Some states created separate programs for cases they wished to shield from the work test (often those with two parents where the TANF activity standard was a difficult 90 percent) or those on the rolls for more than five years and thus ineligible for federal aid. These programs could not draw federal funding, yet their costs counted toward a state's maintenance of effort (MOE) requirement.
- *Waiver programs:* PRWORA allowed states to continue "waiver" programs—experimental reform programs—which predated 1996. These usually had more lenient work rules than TANF.

When TANF was reauthorized last year under the Deficit Reduction Act of (DFA) of 2005, only two of these loopholes were closed: The caseload fall credit was re-bench-marked on caseloads as of 2005, and separate state programs were subjected to the same activity standards as TANF. States are now supposed to achieve the 50 percent participation norm in 2007.

At the same time, reform did not do enough to maintain the employment and incomes of families after they had left aid:

- *Work levels fell over time:* As noted above, poor single mothers worked more, on and off the rolls, until 1999, but their work levels have drifted downwards since, losing about half the gain realized through 1999. This is probably the main reason why poverty has risen somewhat since then.
- *Most leavers remained poor at least initially:* While most families leaving aid realized higher incomes through work, they did not usually escape poverty un-

[6] Douglas J. Besharov, "The Past and Future of Welfare Reform," *The Public Interest*, no. 150 (Winter 2003): 4–21; Council of Economic Advisors, "The Effects of Welfare Policy and the Economic Expansion on Welfare Caseloads, An Update" (Washington, DC: Executive Office of the President, August 3, 1999); David T. Ellwood, "The Impact of the Earned Income Tax Credit and Social Policy Reforms On Work, Marriage, and Living Arrangements" (Cambridge, MA: Harvard University, Kennedy School of Government, November 1999); Jeffrey Grogger, "Welfare Transitions in the 1990s: The Economy, Welfare Policy, and the EITC," *Journal of Policy Analysis and Management* 23, no. 4 (Fall 2004):671–95.

[7] U.S. Congress, House, Committee on Ways and Means, *2004 Green Book: Background Material, and Data on the Programs Within the Jurisdiction of the Committee on Ways and Means* (Washington, DC: U.S. Government Printing Office, March 2004), p. 7.88.

less they worked steadily for several years and claimed benefits for which they remained eligible, chiefly Food Stamps and EITC.[8]

- *Few leavers worked consistently:* While even low-paid workers do progress to higher incomes over time, they have to work steadily to do so, most leavers did not.[9]
- *Some families lost ground*, typically because they became detached from both welfare and work.[10] Whether this created active hardship is unclear.

And perhaps most seriously, welfare reform did little to address the serious work problems among low-income men, many of them the fathers of welfare families. I address that problem below.

Completing Welfare Reform

To reduce poverty further, the first thing government should do is enforce work in TANF more fully, motivate families to keep working once they leave TANF, and raise earnings.

- *Close further loopholes in work requirements:* The most important of the remaining "outs" from the work test is partial sanctions. Congress should mandate that all states close cases entirely when parents decline to cooperate with the work test without good cause, as welfare already does for other rule infractions. I would also recommend that child-only cases be brought under the work test, although how to this involves legal questions.
- *Strengthen Food Stamps work requirements:* Currently, Food Stamps requires only that employable parents with children over 6 register with a work agency and participate in work activities if asked. Those are the sort of work requirements that AFDC found to be ineffective prior to FSA and PRWORA. Congress should mandate that states involve specified percentages of Food Stamp cases in work activities, as FSA and PRWORA mandated for AFCC/TANF.
- *Add an hours threshold to EITC:* The main reason leavers remain poor is that they do not work steadily. Government lacks leverage to require them to work after they have left aid. Some way must be found to continue to motivate work after TANF. Currently, EITC subsidizes wages without any minimum number of working hours. Some welfare reform experiments required 30 hours of work per week before they paid benefits, in an attempt to raise work levels.[11] Twenty or 30 hours might well be required to get an enhanced benefit in EITC, although this would require some new administrative structure to monitor hours. That might help to keep families working.
- *Raise EITC and the minimum wage:* Leavers' earnings are low mainly due to low working hours, yet additional steps should also be taken to raise wages among the low-skilled. One idea is to raise EITC benefits and/or pay the EITC benefit to individual workers rather than just to parents with children.[12] Doing this could cause some reductions in work effort among those already working. To avoid that is one more reason to institute the EITC hours threshold suggested above. Congress could also raise the minimum wage, and proposals to do this are currently before Congress.

Two things Congress should *not* do:

- *Ease up on work requirements:* Some will argue that, now that the welfare rolls have fallen by so much, most of the remaining cases are unemployable. So these

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[8] Sheldon Danziger, Colleen M. Heflin, Mary E. Corcoran, Elizabeth Oltmans, and Hui-Chen Wang, "Does It Pay to Move from Welfare to Work?" *Journal of Policy Analysis and Management* 21, no. 4 (Fall 2002): 671–92; Gregory Acs and Pamela Loprest, with Tracy Roberts, "Final Synthesis Report of Findings from ASPOE 'Leavers' Grants" (Washington, DC: Urban Institute, November 27, 2001).

[9] Susanna Loeb and Mary Corcoran, "Welfare, Work Experience, and Economic Self-Sufficiency," *Journal of Policy Analysis and Management* 20, no. 1 (Winter 2001): 1–20

[10] Wendell Primus, Lynette Rawlings, Kathy Larin, and Kathryn Porter, "The Initial Impacts of Welfare Reform on the Incomes of Single-Mother Families" (Washington, DC: Center on Budget and Policy Priorities, August 22, 1999); Sharon Parrott and Arloc Sherman, "TANF's Results Are More Mixed Than Is Often Understood," *Journal of Policy Analysis and Management* 26, no. 2 (Spring 2007): 374–81.

[11] Examples included New Hope and the Minnesota Family Investment Program. See Virginia Knox et al., *Reforming Welfare and Rewarding Work: A Summary of the Final Report on the Minnesota Family Investment Program* (New York: Manpower Demonstration Research Corporation, 2000); and Johannes M. Bos et al., *New Hope for People With Low Incomes: Two-Year Results of a Program to Reduce Poverty and Reform Welfare* (New York: Manpower Demonstration Research Corporation, August 1999).

[12] Gordon Berlin, "Increasing Earnings among Low Wage Workers," *The Future of Children* 17, no. 2, forthcoming.

families should be allowed to receive aid indefinitely without having to work. This would blunt the impact of reform. The states with the toughest work requirements were those that reduced poverty the most in the 1990s, not the least.[13] Wisconsin, with a caseload fall of 80 or 90 percent, shows that one can move even most of the "bottom of the barrel" into jobs if the work test is well enforced and support benefits are generous[14] The best solution to "detached" families is individualized outreach to these families, not weakening requirements that have succeeded for the vast majority of cases.

- *Ease up on "work first":* Some also will argue that, now that work is required, welfare recipients must be allowed to enter education and training and have this count as work so they can move up to better jobs. But this was the policy that failed under FSA. Evaluations of the 1990s demonstrated that welfare work programs that expected work in available jobs outperformed those that stressed education and training. Thus, PRWORA mandated actual work in preference to training for most clients. Nothing in the experience of welfare reform to date has questioned that judgment.

TANF already allows states to exempt 20 percent of cases from the time limit, and it allows some time for education and training for cases that are already working. That is sufficient to meet these concerns. There is no need to change the system. There clearly is a case of "If it ain't broke don't fix it."

Low-Income Men

Besides completing welfare reform, government should promote higher work levels among low-income men.[15] They were largely left out of welfare reform because they seldom draw benefits themselves. Yet their work problems are as much a cause of family poverty as those of single mothers. One of the main reason low-skilled men leave their families—or are kicked out by their spouses—is that they cannot provide for them. If low-skilled fathers worked more regularly, fewer families would be female-headed, and far fewer children would be poor.

Under pressure from welfare reform, poor single mothers have been working more. But in the same period, low-skilled men have been working less. Their labor force participation rates drifted downward during the 1980s and 1990s despite tight labor markets most of the time. As a result the overall proportion of poor adults who worked at all in a year has actually declined—from 41 percent in 1990 to 37 percent in 2005—despite welfare reform.[16]

Experts traditionally blame nonwork among men, like women, on a set of external barriers, including lack of jobs and low wages. The evidence for this view is even weaker for poor men than it is for single mothers. Jobs for low-skilled men appear to be plentiful, as immigration proves. And while unskilled wages are low, they are sufficient to avoid poverty if men work regularly and claim EITC and Food Stamps. If men seldom work consistently, the main reason is not that idleness is forced on them but work discipline has declined. Unskilled men appear to be working less, in part, because their wages are garnished to pay child support and because they are incarcerated for crime.[17] While we might call those structures barriers, their presence makes clear that nonwork is seldom a rational response by these men. Rather, it is part of a syndrome of self-defeating behaviors.

Society's response to poor men has largely been to incarcerate those who break the law and to press absent fathers to pay child support. PRWORA took several steps to strengthen child support enforcement. Government has improved its ability to establish paternity and levy child support judgments. But it has much more difficulty in getting the men to pay.[18] In 2003, among the 3 million poor single mothers, only 60 percent had a child support order and only 36 percent received any pay-

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[13] Rebecca M. Blank and Robert F. Schoeni, "Changes in the Distribution of Children's Family Income over the 1990s," *American Economic Review* 93, no.2 (May 2003): 304–8.

[14] Mead, *Government Matters,* chs. 9–10.

[15] The following is based on Lawrence M. Mead, "Toward a Mandatory Work Policy for Men," The Future of Children 17, no. 2, forthcoming. A brief summary appeared in Lawrence M. Mead, "And Now, 'Welfare Reform' for Men," *Washington Post,* March 20, 2007, p. A19.

[16] Date from the U.S. Bureau of the Census, March Current Population Survey, 1991–2006.

[17] Harry J. Holzer, Paul Offner, and Elaine Sorensen, "Declining Employment Among Young Black Less-Educated Men: The Role of Incarceration and Child Support," *Journal of Policy Analysis and Management* 24, no. 2 (Spring 2005): 329–50.

[18] U.S. Congress, *2004 Green Book,* pp. 8.69—8.77.

ment.[19] About 1 million absent fathers owed child support to poor families yet paid either nothing or less than they owed.[20]

Putting pressure on the men is insufficient. Their own work problems must also be addressed. In welfare reform, society moved from an entitlement system, which paid benefits regardless of lifestyle, to one that also required work. With men we have to move the other way, adding benefits and opportunities to the criminal justice and child support systems, which are already quite punitive.

A first step is to raise the earnings of the men if they work. One way to do that, as for single mothers, is to increase wage subsidies, another to raise the minimum wage. Low-paid men who work regularly ought to get a sizable wage subsidy in their own right, not only if they have children to support as the EITC allows now.[21] At the same time, we should not imagine that doing this is enough to raise work levels. As with women, a higher subsidy might cause some nonworkers to take jobs, but it might also cause some men already working to work less, because they could now cover their needs with fewer working hours. So some minimum hours of work must be expected.

How might work levels be raised? Some will recommend voluntary education and training problems, but these have not shown much impact on employment and earnings. The most successful of them, such as Job Corps, have been directive in character. They tell their clients clearly that good behavior is expected, and work is not left as a choice. Low-skilled men, like welfare mothers, must be *obligated* to work, not just offered the chance to do so. The military may be the most successful shaper of youth into productive men, exactly because it can demand functioning. Unfortunately, today's military is voluntary and most disadvantaged men do not qualify for it.

Yet government can adapt other institutions that already deal with low-income men. The criminal justice and child support systems currently seem to be driving work levels down. But they could also be used to raise them. Both systems have experimented with programs aimed at improving employment among their clients. But most recent programs of this kind have been voluntary. That is, they offered services to help the men work, but they did not strictly require them to do so. This includes the Ready4Work prison reentry programs funded by the Bush administration.

A better idea would be to institute mandatory work program for men who have work obligations but have failed to meet them. This would include the 1 million poor men not paying all their child support plus another half million ex-offenders on parole who do not work regularly. Both groups could be served by the same program, as they overlap substantially. These men would be required to work steadily in either a private job, if available, or a government position if necessary. The sanction for noncooperation would be returning to prison or going to jail. Out of their earnings the men would pay any child support owed, but staff would also help them arrange any applicable pubic benefits, such as the proposed higher work subsidies. Supervision would be much closer than normally provided by the parole or child support system. Depending on how much government employment was needed, this program would probably cost from $2.4 to $4.8 billion a year. Those costs would be somewhat offset by higher child support payments and perhaps lower recidivism.

It is too soon to mandate a detailed program now. We do not yet have evaluation results showing that mandatory work can raise work levels for men, as it has for welfare mothers. The one evaluation of such a program—Parents' Fair Share in the 1990s—succeeded in raising child support payments by absent father, but not their work levels.[22] Several evaluations of new prison reentry programs are underway currently.

Assuming that they show promise, Washington should finance a multi-site demonstration designed to settle the best design of mandatory work programs for men. This would be comparable to the National Evaluation of Welfare to Work Strategies (NEWWS), conducted in the 1990s, as part of welfare reform. With those results in hand, a preferred work program for men could be implemented nationwide.

As with welfare reform, such a program would have its impact largely through diversion. Once it was clear that society was willing to enforce as well as facilitate

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[19] U.S. Department of Commerce, Bureau of the Census, Current Population Survey, April 2004, child support microdata file, table 4.

[20] This figure is the difference between the 1,582 million poor single mothers who were owed child support in 2003 and the 562,000 who received full payment. See Bureau of the Census, Current Population Survey, April 2004, child support microdata file, table 4.

[21] Berlin, "Increasing Earnings among Low Wage Workers."

[22] Fred Doolittle, Virginia Knox, Cynthia Miller, and Sharon Rowser, *Building Opportunities, Enforcing Obligations: Implementation and Interim Impacts of Parents' Fair Share* (New York: Manpower Demonstration Research Corporation, December 1998).

low-wage work, many men who are not working regularly now would begin to do so without direct prompting. The commitment of government and administrators to take work seriously would persuade the men to do the same. The goal, as in welfare reform, is positive. It is not to stigmatize these men but to reintegrate them into the community. Through steadier work, they can come in from the cold. And if they do, society will also take a big step toward overcoming family poverty.

One further thought: *immigration must be reduced*. The massive entry into the United States of low-immigrants, chiefly from Mexico, has undercut work opportunity for low-skilled men born in this country. Anecdotes say that employers often hire immigrants in preference to native-born men, viewing them as more tractable, and there is some evidence that immigrants depress the wages of the unskilled.[23] One thing Washington must do to solve the male work problem is bring this inflow under control.

Chairman MCDERMOTT. Thank you. Your timing is impeccable. Mr. Berlin is from the Manpower Demonstration Research Corporation. He is the president. You are on for 5 minutes. Your entire remarks will be put into the record, your written remarks will be put into the record, so just summarize to us what you think are the major points.

STATEMENT OF GORDON BERLIN, PRESIDENT/CHIEF EXECUTIVE OFFICER, MANPOWER DEMONSTRATION RESEARCH CORPORATION

Mr. BERLIN. Thank you, Mr. Chairman. On page three in my formal remarks I have a chart that lays out the nature of the problem, and helps us identify solutions.

Between 1959 and 1972, the official poverty rate fell by half—from 22 percent of the population to 11 percent, a 50-percent decline. For the next 30 years, poverty rates remained virtually unchanged. Why? The graph in figure one of my testimony provides one part of the answer.

Between the end of World War II and the mid-seventies, mean average earnings grew by 60 percent. It was as if the whole Nation was on an up escalator. Then the escalator came to an abrupt halt, and over the next 30 years average earnings actually fell by 15 percent or so, and of course, poverty stopped falling, too.

The loss of good paying manufacturing jobs, technological changes that placed a premium on higher education, globalization, decline of unions, all of these forces meant that economic growth no longer led to rising earnings at the low end. These changes hit men with a high school diploma or less the hardest.

How did families cope? They had fewer children, they sent both family members into the labor force, they postponed marriage, all of which contributed to the rise in single parent households, the other principal cause of poverty.

If we are to make further progress against poverty, we have to do something about low earnings, both for today's workers and for tomorrow's. Turning to the evidence, we have a reliable body of evidence on which to base future policies.

[23] George J. Borjas, Richard B. Freeman, and Lawrence F. Katz, "On the Labor Market Effects of Immigration and Trade," in *Immigration and the Workforce: Economic Consequences for the United States and Source Areas,* ed. George J. Borjas and Richard B. Freeman (Chicago: University of Chicago Press, 1992), ch. 7; George J. Borjas, "The Labor Demand Curve Is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market," *Quarterly Journal of Economics* 118, no. 4 (November 2003): 1335–74.

Three formal, large-scale randomized controlled trials, collectively known as the "Make Work Pay Experiments," deliver a consistent message: earnings supplements that reward work by providing cash to supplement the earnings of low-wage workers increase employment and employment stability, increase earnings and income, reduce poverty and the poverty gap, and improve young children's school performance.

Some of the largest and most lasting gains for parents and children accrued to African Americans and to some of the most economically disadvantaged families. Thus, one reliable way to tackle the problem of low earnings, and to reduce poverty in the short run, is to make work pay via the earned income tax credit and the minimum wage, or other related venues.

A second, longer term way to reduce earnings-related poverty is to invest in the education, attainment, and achievement of the next generation, via investments in early childhood education, K through 12 reform, and tackling the graduation and persistence problems in community colleges. The challenges here are well known. We have to figure out in those areas what works, and then we still face the very real difficulty of taking high-quality programs to scale.

Returning to the short-run strategies under the jurisdiction of this Committee, an increase in the EITC and a hike in the minimum wage offer complementary ways to boost income, and they share the burden of making work pay between the public and private sectors.

I think we face two fundamental choices: first, whether to expand the current EITC program with its emphasis on families with children, or whether to focus more on singles who have been underserved by the previous EITC increases. Second, whether to raise the minimum wage without also indexing it for inflation. I know that's controversial, but I want to explain the interaction between the two.

On the EITC, the choices are an across-the-board raise, a raise for married families only, or a more generous increase in the singles EITC. While any and all of these strategies would certainly reduce poverty, improvements in the EITC policy over the last two decades have, for the most part, bypassed singles, particularly men, the very group who have been hit the hardest by these economic changes.

One way to increase the EITC for singles would be to simply double the current maximum benefit for individuals, but this strategy would provide only a limited boost to individual earnings, and thus, might not have a big effect on work behavior. It might also exacerbate some of the marriage penalty issues.

A bolder expansion would provide all adult low-wage workers who work full-time a payment approaching two-thirds to three-quarters of the current one-child family EITC, but with a crucial twist. Payment would be based on an individual's personal income, not joint or family income. Singles would be eligible for the supplement, whether they have children or not, whether they marry or not, as would second earners in a married family receiving the existing family EITC. It's essentially trying to create an incentive structure for the poor that is very similar to the incentive structure that the rest of us face.

Now, would this earnings supplement increase employment rates, particularly among single men with low skills and those who owe child support? Would it increase marriage rates, and reduce single parenthood? There is certainly good correlational evidence to suggest that it could, but the simple truth is we don't really know whether the full benefits would exceed the cost.

So, the Committee might want to proceed in two stages, modestly boosting the EITC for singles, by doubling or tripling it, while supporting a formal test in five cities or so of the bolder plan, to determine if the benefits exceed the cost.

Just a few words about the minimum wage. Boosting the minimum wage and enhancing the EITC are complementary, not substitute strategies. Allowing the minimum wage to erode while the EITC is indexed to inflation has the perverse effect of substituting public dollars for private wage increases. So, an expansion of the EITC would exacerbate this problem, unless the minimum wage was also indexed for inflation.

In conclusion, making further progress on poverty requires that we tackle the secular decline in earnings, and there are two strategies for doing so. In the short run, we have to expand our efforts to make work pay. In the longer run, we have to make investments in education from early childhood education to community colleges. Thank you.

[The prepared statement of Mr. Berlin follows:]

Prepared Statement of Gordon Berlin, President/Chief Executive Officer, Manpower Demonstration Research Corporation (MDRC)

Good afternoon. My name is Gordon Berlin, and I am President of MDRC, a nonprofit, nonpartisan education and social policy research organization that is dedicated to learning what works to improve policies and programs that affect the poor. Founded in 1974, MDRC evaluates existing programs and tries out new solutions to some of the Nation's most pressing social problems, using rigorous random assignment research designs or near equivalents to assess their impact. I appreciate the opportunity to appear before this Committee today to describe what research tells us about the best ways to alleviate poverty.

I will make four points:

- After declining by half between 1959 and 1972, the poverty rate in the United States has remained stuck between 11 and 15 percent ever since. Why? The prime explanations are rising rates of single parenthood and falling real wages, particularly among men with low levels of education. Of the two, the decline in wages is the more instrumental—that is, falling earnings is a problem we can redress and we have good evidence about what works.
- A compelling body of evidence points to effective solutions—both short-term and long-term—for alleviating poverty related to low earnings today and the intergenerational transfer of poverty tomorrow. In the short term, enhancing the Earned Income Tax Credit (EITC), especially for single individuals, and indexing the minimum wage to inflation could be an effective strategy for boosting employment and earnings and reducing poverty. In the long-term, investments in educational reform—from pre-kindergarten classes to community colleges—should equip the next generation with the skills they need to obtain high-paying jobs.
- These short- and long-term two-generation strategies are interdependent: Providing enhanced work supports to adults and moving families out of poverty *today* has positive effects on young children's school performance—and provides a strong foundation for long-term efforts to prevent poverty *tomorrow* through improved educational opportunities for poor children.
- An aggressive strategy to address falling wages would redesign and expand the EITC benefit for individuals, regardless of their parenting or marital status,

conditioned on working 30 hours a week and determined on the basis of individual income rather than joint income. Retaining the current EITC for families with children while creating a new EITC for single individuals (including noncustodial parents and second earners in two-parent households) could have wide-ranging positive effects on employment, earnings, income, and poverty—as well as on family well-being. But because the costs of such an initiative would be high, a prudent first step would be a demonstration project with a rigorous research design in three or four cities to determine if the plan's benefits outweigh its costs.

Falling Wages and Poverty

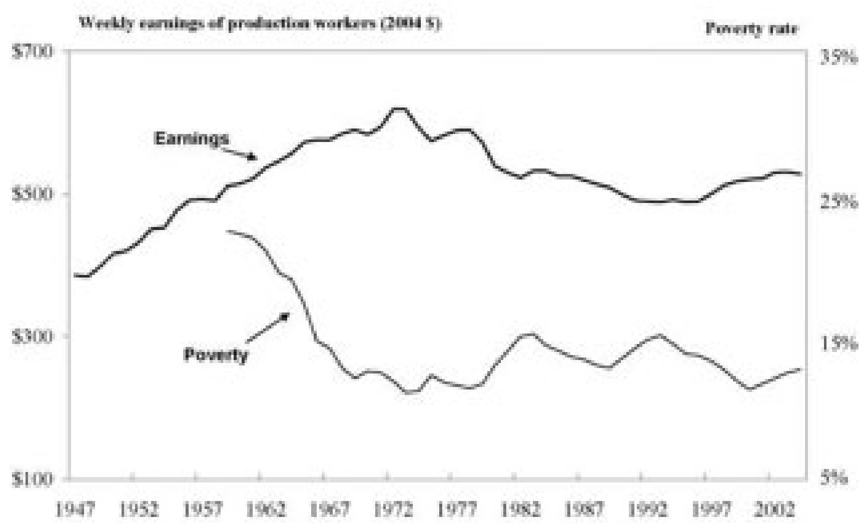
For more than 40 years, the conventional wisdom has been that the best anti-poverty strategy is to help the unemployed get jobs. And while work is a necessary precondition to escaping poverty, getting jobs is not the problem it once was for *most* segments of the population—as unemployment has remained at the historically low rate of between 4 and 6 percent for the past 10 years. The key problem facing most poor people is that many jobs simply don't pay enough.

In 1959, when we first began to measure poverty, 22 percent of all Americans lived in households with income below the poverty line. By 1972, the poverty rate had been cut in half, falling to 11 percent nationally. But then the poverty rate stopped declining and ranged between 11 percent and 15 percent, depending on the state of the economy, for the next 30 years (see Figure 1). Why didn't poverty continue falling?

Falling wages and increasing rates of single-parenting are the two principal explanations, and, as I'll explain, these phenomena are closely related. Economic changes led to stagnant and declining wages at the bottom of the wage distribution, especially among men with a high school diploma or less, and demographic changes saw a near doubling of the fraction of all families with children headed by a single parent.

Let's focus on wages and earnings. Between 1947 and 1972, average earnings grew in real terms by 60 percent for nonsupervisory workers. As Frank Levy has described, it was as if the whole Nation were on an economic up-escalator. It was this rise in earnings that explains much of the postwar decline in poverty until 1972. But then earnings began to tumble. In fact, by 2004, the average production worker's weekly earnings had fallen to $528 (in inflation-adjusted dollars), a 15 percent decline (see Figure 1).

Tracking Trends in Earnings and Poverty, 1947/1959-2004



Sources: Bureau of Labor Statistics, U.S. Census Bureau.

Wages and earnings declined initially as a result of the recessions of the 1970s. But this era was also the start of a major restructuring of the economy, in which the premium placed on education began to grow. A new skills bias started to dominate the labor market, creating high-paying jobs that required a college degree or better and lots of low-paying jobs that required no more than a high school diploma and often less. As a result, economic inequality—the gap between the richest and poorest Americans—widened during the 1970s and 1980s as earnings for those with college accelerated, while wages for those at the bottom fell in step with the massive loss of high-paying blue-collar jobs as a result of industrial restructuring. The decline of unions, rising competition from low-skilled newcomers, and the erosion of the minimum wage all exacerbated these trends.

How did Americans cope with this decline in earnings? Two-parent families maintained their standard of living by having fewer children and sending both parents into the workforce. Single-parent families, of course, did not have the option of putting another parent to work. In fact, employment rates among single mothers grew rapidly during the 1980s and 1990s—but, because single parents were more likely to be poorly educated and because they only had one earner, inequality widened.

As earnings fell, other manifestations of poverty worsened: employment declined (particularly among less-educated men), marriage rates fell, and crime rates rose. Of course, these problems are intertwined and reinforcing. For instance, as the wages of men with a high school education or less tumbled, the employment rates of these men also fell, and, in turn, the share who could support a family above the poverty line began to decline—and with it the professed willingness of low-income mothers and fathers to marry. Indeed, among men aged 25–54 with a high school diploma or less in 2003, the earnings of a quarter of whites, a third of blacks, and two-fifths of Hispanics were inadequate to support a family of four above the poverty line. Certainly, the choices that individuals make—whether to have children within marriage or not, whether to take a low-paying job or to become involved in criminal activity—play an important role in determining one's poverty status. Yet, it is hard to argue that technological change, globalization, and other large macroeconomic forces that have transformed the American and world labor markets haven't played an independent, causal role in poverty's persistence.

Men with a high school diploma or less, especially men of color, have been particularly hard hit. Over the same period that wages were falling, employment rates among men were also tumbling, down a startling 20-plus percentage points between 1970 and 2000 for men with a high school education or less and roughly 7 percentage points for those with some college. By contrast, as a result of economic necessity, changing norms, and the rise of service sector jobs, women's employment rates rose dramatically as more and more women entered the labor market, especially in the 1990s.

Why have men's employment rates been declining? For some men, as blue-collar jobs evaporated and wages fell, employment became less attractive. The strong economy of the 1990s offers a reverse proof: As wages at the bottom rose, the employment rates of white, black, and Hispanic young men stabilized and began to grow. For example, the employment rates of black men aged 16 to 34 *rose* between 1992 and 2000, as did the rates for young black men (16 to 24) with a high school diploma or less (see Table 1). But once the boom years were over, the employment rates of black men resumed their downward trend, plunging following the 2001 recession much as they did during the 1991 recession. While the reasons for the dismal position of young black men in the labor market are complex (and include racial discrimination and inadequate basic skills and education, as well as the behavioral changes noted by Larry Mead and others), a key part of the explanation is the interaction among low wages, the rewards of illegal activity, and strict drug laws, which have resulted in as many as 30 percent of all young black men becoming entangled with the criminal justice system at some point. Incarceration appears to have its own independent effect—the label of ex-offender further worsens and taints the future employment prospects for all former prisoners reentering society.

In sum, poverty stopped falling in large part because earnings stopped rising. And while poverty is a complex problem with many causes, it seems clear that the Nation must address the problem of low-wage work in order to further reduce poverty—because low-wage work is here to stay. The Bureau of Labor Statistics projects that 46 percent of all jobs in 2014 will be filled by workers with a high school diploma or less. The bulk of these jobs—janitor, food service, retail sales, laborer, child care provider, home health aid—are expected to offer either low or very low pay.

Table 1

Change in the Employment Rates of Young Black Men by Age and Educational Status, During the Boom Years of 1992-2000

	1992	2000	Absolute Change
Enrolled in School, Ages 16-24			
Ages 16-24	22.5	29.4	6.9
Ages 16-19	17.4	22.8	5.4
Ages 20-24	35.8	46.7	10.9
Not Enrolled in School, Ages 20-24			
All levels of education	62.2	66.2	4.0
Less than H.S. diploma	41.6	48.4	6.8
H.S. diploma, no college	64.2	66.7	2.5
Some college, less than bachelor's degree	73.8	79.6	5.8
College graduates	85.7	88.1	2.4

SOURCE: Analyses by the Center for Labor Market Studies, Northeastern University.

Strategies That Work to Reduce Poverty

So, what to do? There are essentially two types of antipoverty strategies the Nation could pursue. The first are short-term interventions, most focused on "making work pay" by supporting low-wage workers with earnings supplements and other kinds of supports, including upgraded training. The second type are long-term, intergenerational strategies—principally investments in preschool through postsecondary education—so that the next generations of young people have the knowledge and skills to fill higher-paying jobs. Importantly, the two strategies reinforce each other; for example, lifting a family above the poverty line with an earnings supplement can increase young children's school performance—in effect, enhancing the payoff of a high-quality early childhood education program. My focus today is on some of the short-run strategies that fall under the jurisdiction of the Ways and Means Committee.

If low wages are the principal problem we face in reversing poverty, one might reasonably ask: Can government successfully intervene to raise earnings and incomes and reduce poverty? Encouragingly, a reliable body of evidence demonstrates that work-based earnings supplements—including the Earned Income Tax Credit (EITC)—can boost employment and earnings and reduce poverty. For very low-wage workers, hiking the minimum wage would likely have similar effects, so long as the increase was not high enough to result in reduced hiring by employers.

The "Make Work Pay" Experiments. Concerned that low-wage work simply did not pay relative to welfare, the state of Minnesota, the New Hope community group in Milwaukee, and two provinces in Canada began to experiment during the 1980s with new approaches designed to increase the payoff from low-wage work—that is, to make work pay. All three provided work incentives in the form of monthly cash payments to supplement the earnings of low-wage workers. The payments were made only when people worked, and the amount of each month's cash payment depended on the amount of each month's earnings.

The results were encouraging. The mostly single mothers who were offered earnings supplements in these three large-scale, rigorous studies were more likely to work, earned more, had more income, and were less likely to be in poverty than control group members who were not offered supplements. At their peak, these employment, earnings, and income gains were large—reaching 12- to 14-percentage-point increases in employment rates, about $200-$300 more per quarter in earnings, and $300–$500 more in quarterly income. The earnings supplements also had a secondary benefit for children. Preschool-age children of participating parents did better academically than like children in the control group, in part because their parents had higher incomes and they were more likely to attend high-quality, center-based child care programs. The largest and most persistent effects on adults were found for African-Americans and for the most disadvantaged participants, particularly high school dropouts without recent work history and with long welfare spells. For these groups, the employment and earnings effects continued through the end of the follow-up period—six years in the Minnesota project—implying that early work experience could provide a lasting leg up in the labor market for more disadvantaged populations. The pattern of results for all participants also suggests that income gains—and thus the poverty reduction effects—could be sustained by an ongoing program of supplements. (The earnings supplements in these demonstration projects ended after three years.)

Rent Incentives for Public Housing Residents. A more recent program that used earnings supplements—in this case, in the form of rent breaks for public housing residents conditioned on work—had large positive earnings effects for many different types of residents, including striking earnings effects for immigrant men, and positive but smaller impacts on residents' employment rates. Called Jobs-Plus, this ambitious place-based effort changed traditional public housing rules so that tenants' rents did not rise as quickly or at all when their earnings grew (that is, rents were held flat). In addition to this financial work incentive, Jobs-Plus offered employment-related assistance, on-site case management, and job-related information sharing through resident networks.

The Earned Income Tax Credit. Members of this Committee have used employee subsidies as an integral part of the Nation's strategy for reducing poverty since the EITC was first passed in 1975. Today the EITC, which the Committee substantially expanded in 1986, 1990, and 1993, is available to all low-income workers who file tax returns. It is refundable, which means that its benefits are paid out even when the tax filer does not owe any income taxes. More than 20 million taxpayers take advantage of the EITC each year, at a cost approaching $40 billion, making it by far the largest cash benefit program for the poor.

The EITC's distinguishing feature is its status as a safety net built around work—only people with earnings can claim the credit. The amount varies by both family type and earnings. Families with two or more children can receive a maximum credit of $4,716; those with one child, $2,853; and single adults with no children, $428. However, because the EITC overwhelmingly benefits single parents supporting children, it largely excludes single adults without children who are poor (and disproportionately male) and it creates disincentives to work and marry for some families. Although recent changes have reduced marriage penalties in the EITC, some do remain, particularly when both spouses in a married-couple family have similar earnings.

Based on a comprehensive review of studies, Steve Holt reports that the EITC reduces family poverty by a tenth, reduces poverty among children by a fourth, and closes the poverty gap by a fifth. Note that the Census Bureau's official poverty estimate doesn't count the EITC as income. If it did—and if one also subtracted the cost of work expenses and child care—the poverty rate would likely fall by a couple of percentage points, but the trends described in Figure 1 would remain pretty much the same. On the other hand, if certain recommendations of a National Academy of Sciences Panel on Poverty were adopted, the poverty rate would likely be somewhat higher.

Raising the Minimum Wage. Both experience and empirical evidence suggest that the minimum wage can play a valuable role in raising wages and reducing poverty without severely distorting labor markets. However, as of early 2007, the value of the federal minimum wage had fallen to its lowest level in 50 years. Both President Bush and Congressional leaders have vowed to increase the minimum wage to $7.25, although if it is not indexed to inflation, its value will once again gradually erode over time. Thirty states and the District of Columbia have established minimum wages above the federal level.

However, only one in five minimum-wage workers live in families with below-poverty income. Many are between 16 and 24 years old and do not support families, making the minimum wage a relatively inefficient way to reduce family poverty, although its efficiency improves somewhat if the goal is to help workers up to 200 percent of the poverty line. In addition, the political unpredictability of the minimum wage makes it an unreliable policy lever for supporting low-wage workers. A minimum wage increase to $7.25 an hour could substantially boost wages at the bottom, lifting some families above the poverty line, helping other families both below and just above the poverty line, while reducing the overall public cost of the EITC. While available evidence summarized by David Card and Alan Krueger suggests that a boost to $7.00 an hour or so would not have a noticeable effect on employment rates, economic theory and practical experience suggest that, above some wage level, employers would cut back on hiring. For all of these reasons, a higher minimum wage, in and of itself, would not permanently address the problems of persistent poverty.

Considering the Policy Choices: Expanding the EITC and Boosting the Minimum Wage

Over the next 10 to 20 years, it is hard to imagine reducing poverty without finding a way to make low-wage work pay better. The compelling body of evidence that I've just described suggests that expanding the EITC, preferably in combination with a boost in the minimum wage, would be an effective way to supplement low earnings. While there are a number of ways that one could envision such an expansion, I believe that it boils down to essentially two broad policy questions:

1. Is it best to expand the current EITC program, with its emphasis on families with children, or to address the imbalance that has emerged between singles and those with children by expanding the EITC program for individuals?
2. Is it enough to raise the minimum wage without indexing it for inflation?

On the first question, there are essentially three options for expanding the EITC: (a) increase the EITC for families with children and especially for large families, (b) increase it for married couples only (in order to further reduce marriage penalties and incentivize marriage), or (c) increase the EITC for individual low-wage workers.

An across-the-board increase in the existing EITC moves more families above the poverty line and increases the incomes of those just above and below the poverty line, but perpetuates current inequities by doing little to address the companion problems of single parenthood, single men's and women's low earnings, or remaining marriage penalties in two-earner families. The second approach has the advantage of reducing marriage penalties, but it shares several of the shortcomings of the first, it may create stronger work disincentives for second earners, and it encourages people to marry for the money, running the risk of promoting any marriage over a healthy marriage. Moreover, it fails to tackle the problem of the low wages of single adults, particularly men.

Expanding the EITC for Singles. The third strategy for expanding the federal EITC—further supplementing the earnings of individual workers without children—may seem counterintuitive at first. But single men and women (as well as second earners in two-parent households) have been mostly ignored by the expansion of the EITC in the last 20 years. Single men (many of whom are noncustodial parents with child support obligations) have been the hardest hit by the losses in the manufacturing sector and the decline in earnings since the early 1970s. This imbalance in the EITC has had the unintended effect of distorting incentives to work, marry, and have children. An increase in the EITC for singles would help counter three decades of wage stagnation and persistent poverty, with likely positive corollary effects on employment and parental child support. In addition, if the expansion were accompanied by two admittedly radical changes—(1) creating a full-time work requirement and (2) basing eligibility on individual rather than joint income—it would help both singles and parents with children.

One way to increase the EITC for singles would be to simply double the current maximum benefit for individuals, which currently stands at $428. But this strategy would provide only a limited boost to individual earnings and thus might not have a big effect on work behavior; it would surely exacerbate marriage penalties if done alone; and, if passed in conjunction with a rise in the minimum wage, would primarily affect part-time workers rather than full-time workers.

A bolder expansion would provide all adult low-wage workers (aged 21–54) who work full time (30 hours a week) a payment approaching that of the current family EITC (for example, a 25 percent subsidy rate to a maximum payment amount of $1,950) but with a crucial twist: payment would be based on an individual's personal income, not joint or family income, and singles would be eligible for the supplement whether they have children or not and whether they marry or not, as would second earners in a married family receiving the existing family EITC. By conditioning this new benefit on full-time work, by targeting individuals regardless of their family status, by keeping the existing EITC for families with children in place, and by calculating EITC eligibility on the basis of individual income (as Canadians and Europeans do) rather than joint income for tax filing purposes, this earnings-based supplement would restore equity to the American social compact while minimizing the distortion of incentives to work, marry, and bear children. (A fuller explanation of this idea will be published in the September issue of *The Future of Children;* a working paper can be found on the MDRC website, www.mdrc.org)

Adults working less than 30 hours a week, including second earners in two-parent households, would have an incentive to increase their work hours, further boosting income, promoting self-sufficiency, and reducing poverty. And those adults not in the labor force would have added incentive to find a full-time job, which would substantially boost total income. To administer the 30-hour requirement, employers would be required to report monthly or quarterly hours worked on the end-of-year W–2 statements that employees rely upon when filing taxes. Next, by supplementing the earnings of single men in low-wage jobs and increasing their income, this plan would encourage more "on the books" work, while helping men meet their child support obligations. As in current law, single people who are parents and owe child support would have their EITC payment attached to pay their child support obligations. Importantly, some of the largest benefits would accrue to two-parent households when both adults can work full time. Roughly, 21 million low-wage married individuals and another 16 million single individuals would receive an EITC payment under this plan. Such an expansion would not be cheap; depending on how one structured the benefits, the annual cost for a national expansion would range from $4 billion to $33 billion.

Would an earnings supplement like this really increase employment rates, particularly among single men? Honestly, we don't know. But there is good evidence to suggest that it might. Economists estimate that increasing the hourly wage of a low-income worker by 10 percent would boost employment between 2 and 10 percent. Adding credence to these estimates, the three make-work-pay experiments that I described earlier had similar employment, earnings, and income effects, albeit for a population of mostly single mothers. And, the New Hope program, which also served single men, did achieve modest, statistically significant gains in the number of quarters employed for men overall, as well as for single men, when cumulated over the full eight-year follow-up period—although the small number of men in the study sample (by design) makes these findings suggestive at best. And as noted above, the higher wages that came with the economic boom of the 1990s also led to increases in men's employment rates.

Indexing the Minimum Wage to Inflation. History makes it clear that the value of a boost in the minimum wage declines over time, as political will must be continually rebuilt to adjust it for inflation. To address this problem, policymakers should consider going beyond just raising the minimum wage to $7.25 an hour and also index it to inflation. While this won't bring the minimum wage back up to its original value of about half the median hourly wage, it would forestall a quick return to the erosion in value it has seen in the last decade.

Boosting the minimum wage and enhancing the EITC are complementary, not substitute, strategies. Allowing the minimum wage to erode while the EITC is indexed to inflation has the perverse effect of substituting public dollars for private wage increases. An expansion of the EITC would exacerbate this problem unless the minimum wage was also indexed. In short, increasing the minimum wage *and* indexing it for inflation would provide a floor below which wages could not fall, would make the expansion of the EITC more effective and more affordable, and would prevent an inflation-indexed EITC from substituting for wage increases employers would otherwise have provided.

What Do We Know About Other Strategies for Reducing Poverty?

While an expanded EITC, like the one I have described, would do much to help low-wage workers and their families, we have to acknowledge that it would not be enough to address all the causes of poverty. Given the prominent role of single parenthood in persistent poverty, why not propose an expansion in marital education programs? Given the changes in the labor market, why not propose additional investments in job retention and advancement? Given the problems of the "hard to employ," why not propose additional programs to tackle the problems of youth and adults with low skills, no work history, or mental health and substance abuse problems? The short answer is that we don't have good evidence about what would make a difference. Fortunately, research is now underway that, I believe, will provide more reliable information about what does and does not work to address these problems.

For instance, marriage and childbearing behaviors and high rates of single-parenting, while related to economic changes, are also largely the product of social norms. Low-income couples face greater challenges to building and maintaining healthy relationships (for instance, because of the stress of financial difficulties), and their families are consequently less likely to experience stable marriages. While an extensive body of evidence on how to strengthen marriages exists, this research consists primarily of small-scale studies of typically short-term programs for middle-class couples. MDRC is involved in two large-scale, random assignment evaluations of new programs to promote healthy marriages and co-parenting relationships among low-income families, which should provide important answers about the value of these interventions.

Similarly, even if we were to boost the earnings and income of low-wage workers through an expanded EITC, real prosperity for most Americans comes from moving up the career ladder. In the U.S., no government agency is tasked with supporting low-wage workers by connecting them to benefits (like public health care, child care and housing subsidies, and food stamps) or helping them find better jobs. Through three large-scale projects in the U.S. and the United Kingdom, MDRC is learning how challenging it is to develop programs that actually promote career advancement. However, early results suggest that one-stop centers (created by the Workforce Investment Act) might be a good venue for these programs and that particular strategies, like using financial incentives, contracting with community-based groups with strong business connections, and combining work supports with advancement services (including community college-based education), could be promising.

Finally, earnings supplements are not much help to people who have a difficult time finding or keeping a job. Few strategies have been developed that have proven effectiveness in helping the hard-to-employ find stable employment, but rigorous studies of new initiatives are currently underway, including transitional jobs programs for reentering prisoners and long-term welfare recipients, intensive case management of single parents suffering from depression, accelerated health benefits for disability recipients, residential youth development programs for dropouts, and employment programs for substance-abusers.

Conclusion

The most direct way to alleviate poverty is to tackle the legacy of falling wages, particularly for men with less education. Solid and reliable evidence demonstrates that earnings supplements have encouraged work and reduced poverty among unemployed and underemployed single parents. Expanding the use of earnings supplement for single adults would go a long way toward reducing poverty among low-wage workers and their families. A first step would be to modestly expand the current EITC in conjunction with an inflation-indexed boost in the minimum wage, paying special attention to singles by doubling or tripling the current annual maximum EITC benefit for single adults with no children.

In addition, the Committee should also consider a limited test of a more enhanced EITC for singles along the lines that I have described: for all adult workers, aged 21 to 54, regardless of parenting or marital status, and conditioned on working 30 hours a week. One could imagine a multiyear demonstration in three or four cities that would determine the new benefit's effects on poverty, earnings, work, marriage/cohabitation, and childbearing and that would provide guidance about the feasibility of expanding the policy when the EITC is next reauthorized. While the cost of scaling up an EITC for singles, in which eligibility is based on individual rather than joint income, seems daunting, it may well be that the long-term benefits of such a plan could more than pay for itself in increased work effort, increased child support payments, increases in the number of two-parent households, and decreases in crime and nonmarital childbearing. But we won't know unless we conduct a comparatively inexpensive test of the idea in a few places that relies on random assignment research designs whenever feasible.

As I noted at the beginning, just addressing the effects of low wages will not be enough. To make a significant and long-lasting difference, we will need to invest both in short-term strategies that boost the well-being of poor families today—as well as in long-term educational strategies that ensure that succeeding generations will have the skills to succeed in the labor market. Children growing up in poverty do worse in school, have earnings that are substantially lower as adults, and are more likely to become teen parents, among other problems. By reducing poverty through work supports for parents, their children will be in the position to take advantage of better educational opportunities, as we learn more about what works in early childhood education, K–12, and postsecondary reform. The best incubator for developing human capital tomorrow is a family that is not living in poverty today.

Chairman MCDERMOTT. Thank you very much for your testimony, and we appreciate all of you coming and taking the time to do this.

It sounds like, from listening to some of you, that this is a matter of definitional problems here, that we don't have as much poverty as we say we do, it's all definitional. We had some testimony before this Committee from Mr. Bernstein, from the Economic Policy Institute, in which he says, talking about the NAS study, the National Academy of Sciences was asked about this, and we have heard the talk about how we've got to put more things on the income side. However, we're not talking about what this money is being spent on, what are the standards by which you are judging poverty.

He says that, on average, the NAS rates are about 1 percent above the official average if you take all the things that are added in and added out—child care and health care, and all these things that hit people.

I would like to hear this panel talk about the poverty—have we got the handle on how many people are there? Are we saying there are too many? Do you all think there are too many on the poverty roll, or do you think there are too few?

Ms. GIBBS. Maybe if I could start, just by providing a comparison in New York City. There are self-sufficiency calculators that are done across the Nation. In New York City, what that calculator estimates is what a family of four to meet basic needs. It doesn't provide any additional cash for anything, a family vacation, anything. It's just meeting housing, food, basic necessities. The cost would be $58,000 a year, compared to the Federal poverty measure nationally of just under $20,000.

So, we believe that not only do we need to calculate the value of tax credits and other transfer benefits into how much income is in the household, but you also need to really reflect how much it costs to meet those basic needs, to have a true sense of how many people are living in poverty.

Chairman MCDERMOTT. Mr. Podesta?

Mr. PODESTA. Well, Mr. McDermott, this reminds me a little bit of the discussion about science and global warming. I think we've got a problem. The fact that there could be some dispute about the variation of the problem doesn't undermine the problem.

I think that the National Academy recommendations are smart ones, and I think that the Committee could move on the question of what the right rate is. There is no question that there are millions of people living in poverty in this country, way too many, and there are millions more—we estimate about 90 million people—who are living on low incomes. They are struggling from paycheck to paycheck. They are one health crisis away, one job loss away, from falling into deep poverty. That's something that this country ought to do something about.

Chairman MCDERMOTT. You worked in the White House. So, if we set a policy of cutting poverty by 50 percent by 2020, how will that change decisionmaking?

Mr. PODESTA. Well, let me give that perspective also from the perspective of the United Kingdom, which set a goal of trying to eliminate child poverty, and trying to cut in increments of 25 percent, 50 percent, are on track to do that, because they oriented government policy toward that goal.

We had a goal of trying to reform welfare, reduce caseloads, but also support people going into work. I think that that informs decisionmaking, it informs priorities. A lot of ideas were put on the table here, just in the course of this panel. Much of—I think the panel agreed on the notion of trying to expand work support through the EITC and raising the minimum wage.

I think it gives strategic direction to—and it gives the ability for the public to have accountability, if you set firm goals to say you can measure against them whether you're making progress.

Chairman MCDERMOTT. Mr. Berlin, I was interested in reading your remarks. Some people say full-time work is the solution to poverty, but you know and I know that there are a lot of people working full time who are still below the poverty line.

How do you guarantee—if you don't work, of course you're not going to get there. We can understand that, but if you do work, how do we guarantee that you get out? Or, is this the free enterprise system, and we just say, "Well, it's tough. You didn't get out." Is that what your bottom line is in your analysis?

Mr. BERLIN. Well, I think that if you work full time you ought to be out of poverty, and you ought to be able to support a family above the poverty line. I think that comports best with American values. One of the terrific things that this Committee has done over time is to rethink the safety net, so that it's built more around work than non-work.

One statistic really bears out what the problem has been. In 1973, the average high school drop-out could support a family of 3 above the poverty line. Today that's not likely given their average earnings.

Chairman MCDERMOTT. Do you think we can get people above the poverty line without providing universal health care?

Mr. BERLIN. I think we could get them above the poverty line if the minimum wage was higher, and if we had an earned income tax credit that was a bit more generous than the current——

Chairman MCDERMOTT. You think individuals could buy their own insurance?

Mr. BERLIN. Well——

Chairman MCDERMOTT. Is that the scheme by which you're talking?

Mr. BERLIN. It's a related, but somewhat separate issue. You could think about the cost of health insurance——

Chairman MCDERMOTT. But it's the number one cause of bankruptcies in the country.

Mr. BERLIN. Right. You could think about health insurance as being another way to help make work pay. One of the experiments that we evaluated, the New Hope Project, both supplemented earnings and provided health insurance benefits, and provided child care benefits. So, a more comprehensive package would be one way to go.

Chairman MCDERMOTT. Mr. Weller will inquire. Thank you.

Mr. WELLER. Thank you, Mr. Chairman, and I want to thank each of the panelists for your testimony and for your time here today on an important subject. I think we all agree that we need to reduce poverty. I think we all agree that when one child is in poverty, that's too many.

You know, Dr. Mead, time is limited, so my first question I'm going to direct to you. As you noted, welfare was reformed in 1996 and although Clay Shaw is not with us today with his leadership—and I look back at the 13 years I have been on the Committee on Ways and Means, clearly, welfare reform was one of the great accomplishments of this Congress and of this Committee. It reduced welfare, and also lifted children out of poverty, as you noted.

As Chairman McDermott pointed out, defining poverty is pretty important, as we begin the process of looking to determine what further we should be doing to reduce poverty. Can you, from the standpoint of explaining for the Subcommittee, explain in exact terms today how we define poverty, including sources of income, factoring in costs.

Dr. MEAD. I may get this exactly right, I hope so. The poverty rate is calculated by setting a minimum threshold of income, which we take to be the minimum that you need to live a minimally decent life. It varies by family size. Then we count against that standard cash income on a pre-tax basis.

So, we take earnings, benefits like Social Security or welfare, pre-tax, and then we see if your income is up to that poverty threshold. We exclude in-kind benefits like food stamps. We also exclude post-tax benefits, including EITCs, because that is given through the tax system. So, we substantially under-estimate the income that people really get from various sources. Therefore, we over-estimate how many people are poor.

On the other hand, income is also measured pre-tax, so to the extent you're paying taxes, that is also not included. We also don't include work expenses. I more or less support the National Academy of Science's approach to revising the measure, because it would deal with both of these limitations, to a certain extent.

At the same time, I want to counsel against too great an absorption in the question of the poverty measure. Although we can debate that, and it does make some difference in how many poor people we have, poverty actually involves a combination of low income plus various lifestyles that tend to keep people at the bottom. All of that is part of what we mean by poverty. The lifestyle dimension, particularly, doesn't go away if you redefine the poverty line.

So, we should worry about integrating people at the bottom, and that includes raising their income, to be sure, but it also involves, as Isabel has suggested, focusing on problems of work, family, getting through school. Those are the things that really comprise the complex that we call poverty, and we should address all of that.

Mr. WELLER. The National Academy of Sciences, my colleague, Pete Stark, as the ranking Democrat on the Joint Economic Committee, the Urban Institute, and others have advocated including the EITC, food stamps, housing, that support that income as part of determining poverty.

What would happen, typically, if that were to be included as part of the formula?

Dr. MEAD. Well, you shared earlier Doug Besharov's calculation, which shows that it cuts the poverty rate very substantially, but, as I mentioned, to do that doesn't really do away with the manner of life that we associate with poverty, which is really a life of defeat. That is the most notable feature of the poverty population. These are people who have given up hope in important respects.

We really want to change that. We want to have people feel more in command of things. That's what happens, if we address these lifestyle dimensions that we have talked about, particularly employment. Employment has special importance is that we know how to change it. We have learned how to do that, unlike the family problems, where we don't have as much leverage.

We have reason to think that raising work levels has positive effects on the family problems. So, although it isn't a whole total solution, it's the thing that we can do that most directly raises income and addresses the lifestyle issues that are a part of the nature of poverty.

We have had a big success in this area in the last 15 years. We need to build on that, both for men and for women.

Mr. WELLER. Well, we have seen, in welfare reform, the emphasis on a two-parent household.

Dr. MEAD. Yes.

Mr. WELLER. Work has really changed lives for many children, lifting them out of poverty.

Dr. MEAD. That's right.

Mr. WELLER. Dr. Sawhill, the Joint Economic Committee, in 2004—Dr. Mead, maybe you can reflect on this, and others may want to comment—did a model utilizing, as some have discussed today, incorporating other taxpayer-funded benefits as part of the income, and also factoring cost of living, child care, and others.

That particular model, which—the Joint Economic Committee, which as you know, is a non-partisan, or I should say a bipartisan Committee and bicameral, too—incorporated in the income, as well as those costs as we discussed as recommended by the National Academy of Sciences. Based off the official census, they found there was a 30-percent reduction in poverty, based upon that formula which the National Academy of Sciences recommended, just based on 2004, the poverty rate at that time.

You know, Dr. Sawhill, would you agree that we should include additional benefits, as well as those additional costs as part of determining poverty, as the National Academy of Sciences has recommended, as Congressman Stark has recommended, as the Joint Economic Committee analyzed?

Dr. SAWHILL. You know, I think we could debate for many years what's the right way to define poverty, and it wouldn't probably make a huge difference, in terms of what we would decide to do or not to do.

You are certainly right, that because non-cash benefits tend to be left out of the measure, and because non-cash benefits have grown more rapidly than cash benefits, we are missing some improvements that we might otherwise pick up.

On the other hand, people who have looked at the poverty trends with and without the inclusion of some of these additional items you have mentioned, haven't seen any big differences.

I would also point out that we haven't adjusted the poverty standard, the amount that we think people need, compared to what they actually get. So, the standard, the poverty line, is much lower, relative to the average person's income than it was in the past, when we first developed the official measure of poverty.

So, my basic conclusion would be any definition and measure that you come up with is, in the end, going to be arbitrary, it's just a convenient benchmark. We don't—as Larry has emphasized, we don't think that differently about someone who has $1,000 more a year, or $1,000 less a year than the actual line, as making that much a big difference in their lives.

Mr. WELLER. You know——

Dr. SAWHILL. So, I do not think that that is going to make that big a difference.

Mr. WELLER. Dr. Mead, if we're going to reduce poverty by half, as Chairman Rangel has indicated, obviously we have to start a bench line somewhere. So, a definition does matter.

By the way, Mr. Chairman, may I ask unanimous consent to include in the record the Joint Economic Committee analysis? I think it is very useful in looking at options, but, Dr. Mead, if we're establishing a benchmark, a starting point to reduce poverty further than we did with welfare reform——

[The requested analysis by the Joint Economic Committee follows:]

JOINT ECONOMIC COMMITTEE DEMOCRATS

REPRESENTATIVE PETE STARK (D-CA) – SENIOR DEMOCRAT

ECONOMIC POLICY BRIEF AUGUST 2004

REDUCTIONS IN POVERTY SIGNIFICANTLY GREATER IN THE 1990s THAN OFFICIAL ESTIMATES SUGGEST

Introduction

Since it was first developed in the early 1960s, the official poverty measure has been used by policymakers to assess the impact of anti-poverty programs, by program administrators to allocate resources, and by researchers to analyze trends. Over its near 40-year history, the measure has been revised only slightly, raising concerns about its ability to reflect important economic, policy, and societal changes that have affected the material well-being of low-income families.

In 1995, in response to such concerns, the National Academy of Sciences issued recommendations to improve the official poverty measure. The methodology used in this analysis incorporates as many of these recommendations as possible to examine the change in poverty from 1979 to 2000. Compared to this methodology, the official poverty measure understates the reduction in poverty over time. While the official measure suggests a modest reduction in the overall poverty rate of 0.4 percentage points, the estimates presented here suggest that poverty actually fell by 4.4 percentage points. Over 90 percent of the poverty reduction occurred during the decade of the 1990s. This paper examines why the official poverty measure understates poverty and argues for a closer examination by the U.S. Census Bureau of the change in poverty over time.

Future papers will examine the effectiveness of anti-poverty programs over time and their ability to counteract the impact of recessions on economic well-being.

Background

Each year, the U.S. Census Bureau issues the official poverty rate. Defined as the percent of individuals whose family resources fall below a given threshold for that family size and type, the poverty rate is an important gauge of the material well-being of low-income Americans. However, using a deficient poverty measure that fails to accurately reflect the impact of important economic, policy, and societal changes may create misperceptions about the effectiveness of public policy and ultimately lead to misguided policymaking.

Since the 1960s, major policy changes have altered the social safety net, increasing the resources available to low-income individuals. In particular, the value of non-cash government benefits and tax-based cash transfers have increased substantially, both in absolute terms and as a percentage of total income, while the relative value of cash benefits has decreased. Similarly, significant changes in family formation patterns—rising levels of non-marital childbearing and increases in cohabitation—have changed how resources are shared among household members. As employment among women and mothers in particular has increased, so, too, has the cost of earning income. And the prices of food, shelter, and other necessities have not always tracked with the overall index of inflation, by which the poverty thresholds are adjusted each year. The official poverty measure does not reflect these and other important changes that affect the material well-being of low-income Americans.

In 1992, in response to increasing concerns about deficiencies in the official poverty measure, Congress requested the National Academy of Sciences (NAS) to develop recommendations for its improvement. In its final report, issued in 1995, the NAS Panel on Poverty and Family Assistance identified various flaws in the current poverty measure and recommended a new measure that would more accurately reflect material well-being in today's society. While the U.S. Census Bureau has not incorporated any of the panel's recommendations into the official poverty rate measures, researchers both within and outside of Census have explored alternative methods for measuring poverty based on the panel's recommendations.

Much of the research on experimental poverty measures has focused on the decade of the 1990s. This analysis builds on that research, with a particular focus on how the poverty rate has changed over the past two decades. Specifically, it examines the poverty rate in three years: 1979, 1989, and 2000. Each of these years represents the peak of the economic cycle.

JEC Democratic Staff Measure

The measure used in this analysis incorporates as many of the recommendations of the NAS panel as possible given data limitations. However, while the panel recommended introducing a relative measure of poverty, which adjusts poverty thresholds to reflect changes in household expenditures over time, this analysis instead uses an absolute measure of poverty, which, like the official measure, simply updates thresholds by an inflation index—that is, by the change in the price of a fixed household budget.

The JEC measure differs from the official Census measure in five key areas: how income is defined, whose income is counted, the poverty thresholds, the equivalence scale used to adjust the thresholds for household size, and the inflation index. In key respects, it is similar to the methodology used by the Congressional Budget Office in its analysis of income

Table 1

Brief Description of Major Differences in Measuring Poverty Between Census and JEC

Feature	Official Census	JEC
Definition of Income	Pre-tax money income.	Money income PLUS food stamps, school meal benefits, housing subsidies, home energy assistance, and the EITC, MINUS payroll and federal income taxes and work-related expenses.
Whose Income is Counted	Related family members.	Related and unrelated household members. Same unit of analysis used by CBO.
Poverty Thresholds	Original thresholds were derived for each family size and type.	Based on official threshold for reference household of two adults and two children, scaled to yield same overall poverty rate as official rate in 2000, and adjusted for size by a uniform equivalence scale.
Equivalence Scale	Implicit scale is not uniform and assumes that elderly adults require fewer resources than non-elderly adults.	Uniformly adjusts for household size and assumes all individuals have equal resource needs. Same scale used by CBO.
Inflation Index	Consumer Price Index (CPI).	Research series of the CPI for urban consumers (CPI-U). Same index used by CBO.

Source: Census Bureau; C.F. Citro and R.T. Michael, eds., Measuring Poverty: A New Approach (Washington, DC: National Academy Press, 1995); and Joint Economic Committee Democratic staff.

and tax trends. Table 1 summarizes the differences between the official Census measure and the JEC measure, which is described in more detail in the appendix.

Results

Distribution of Poverty is Changed

As discussed in more detail in the appendix, in order to compare the change in poverty over time, the JEC measure adjusts the poverty thresholds to yield the same overall poverty rate as the official rate for 2000, the most recent year of analysis. However, while the overall poverty rate for 2000 is the same under both measures, the poverty rates among subgroups are different. Table 2 compares the JEC poverty estimates to the official Census measure for different age groups. As shown, the overall poverty rate in 2000 is 11.3 percent under both measures. However, the JEC estimate of child poverty in 2000 is 14.5 percent, 1.7 percentage points lower than the official child poverty rate of 16.2 percent. Conversely, the JEC estimate of poverty among the elderly is 5.3 percentage points higher than the official poverty rate for that group, 15.2 percent compared to 9.9 percent.

Table 2

Comparison of 2000 Poverty Rates by Age Under JEC and Official Census Measures

Age Group	Official Census	JEC
All	11.3%	11.3%
Children	16.2%	14.5%
Non-Elderly Adults	9.6%	9.3%
Elderly	9.9%	15.2%

The differences in the poverty rates for different age groups demonstrate the impact of various adjustments to the official Census measure. In particular, as discussed further below, including the Earned Income Tax Credit (EITC), food stamps, and housing subsidies in the definition of household income has a significant effect on the poverty rate for households with children. The difference in poverty rates among the elderly is largely attributable to using higher poverty thresholds for elderly households, as discussed in more detail in the appendix.

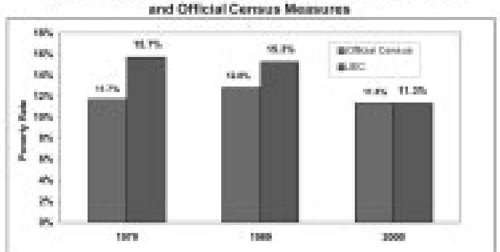
The Official Poverty Measure Understates Poverty Reduction

Chart 1 compares the official Census estimates to the JEC estimates for all three years of the analysis. According to the official measure, in 1979, 11.7 percent of all Americans were poor. Poverty increased during the 1980s, to 12.8 percent in 1989, and then fell during the 1990s, to 11.3 percent in 2000. Thus, between 1979 and 2000, the official poverty rate fell by a modest 0.4 percentage points.

By contrast, the JEC measure suggests that poverty actually fell by 4.4 percentage points over that time period, from 15.7 percent in 1979 to 15.3 percent in 1989 to 11.3 percent in 2000. Compared to these estimates, the official Census measure significantly understates the level of poverty reduction over the last

Chart 1

Comparison of Poverty Rates for Selected Years Under JEC and Official Census Measures



two decades. The difference is especially pronounced over the 1990s. While the official rate fell by 1.5 percentage points from 1989 to 2000, the JEC measure suggests that poverty actually declined by 4 percentage points, over two and a half times the level of poverty reduction indicated by the official measure.

Chart 2

Comparison of Poverty Rates by Age Under JEC and Official Census Measures

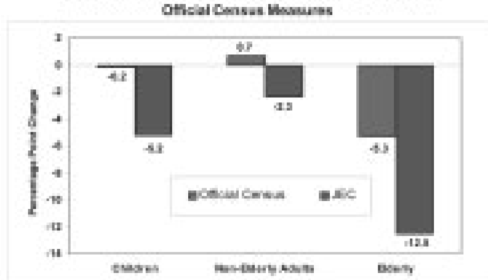


Chart 2 shows the change in poverty rates over the two decades for different age groups. As indicated above, the JEC measure yields a higher poverty rate among the elderly in 2000 compared to the official Census rate. However, it also suggests a significantly higher *reduction* in poverty among the elderly from 1979 to 2000. While the official poverty rate among the elderly fell by 5.3 percentage points, under the JEC measure the elderly poverty rate fell by 12.5 percentage points. The differences for child poverty are also significant. Under the official measure, child poverty declined by only 0.2 percentage points, while under the JEC measure it fell by 5.2 percentage points. Poverty among non-elderly adults actually increased under the official measure, by 0.7 percentage points, while under the JEC measure it decreased, by 2.3 percentage points. Appendix Table 2 provides a more detailed comparison of the official Census estimates to the JEC estimates for various demographic groups for each year of analysis, as well as for the change in poverty over time.

Dramatic Reductions in Poverty over the 1990s

The JEC measure estimates a reduction in the overall poverty rate of 4.4 percentage points from 1979 to 2000. About 90 percent of the decline occurred during the 1990s, over which the poverty rate fell by 4 percentage points. By contrast, the poverty rate declined by only 0.4 percentage points over the 1980s. During that decade, the elderly were the only group that experienced significant poverty reduction.

In contrast to the 1980s, nearly every demographic group experienced significant reductions in poverty over the 1990s. Chart 3 highlights the most significant reductions for various demographic groups. Compared to other age groups, children experienced the greatest decline in poverty. As shown, child poverty fell by 6.9 percentage points under the JEC measure.

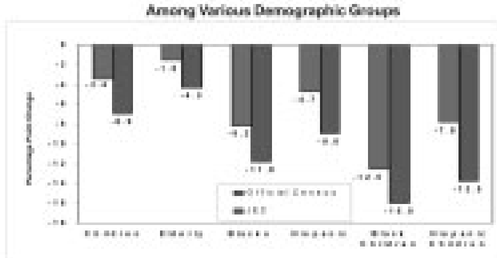
Poverty among elderly households declined by 4.3 percentage points. Compared to other racial groups, blacks experienced the most dramatic decline (11.8 percentage points), followed by Hispanics (9 percentage points). The pattern was similar for child poverty. Black child poverty dropped by 16 percentage points over the 1990s, compared to a decline of 13.8 percentage points for Hispanic children. See Appendix Table 2 for the poverty rates for various demographic groups under both the JEC and the official Census measures.

What Explains the Differences?

Differences between the Official Census Estimates and the JEC Estimates. Due to the

Chart 3

Change in Poverty, 1989-2000,
Among Various Demographic Groups



interactive effects of the various adjustments to the official poverty measure, it is difficult to isolate the individual impact of each adjustment. For example, the combined effect of using the household rather than the family as the unit of analysis and applying a different equivalence scale to adjust the poverty thresholds is not necessarily equivalent to the sum of the isolated effects of each factor. Nevertheless, it is possible to examine the relative importance of various factors that help explain why the official poverty measure understates the level of poverty reduction over the last two decades.

Over 90 percent of the difference between the change in poverty over the 1980s under the JEC measure and the official Census measure is attributable to using a different price index to adjust the poverty thresholds for inflation (explained in more detail in the appendix.)

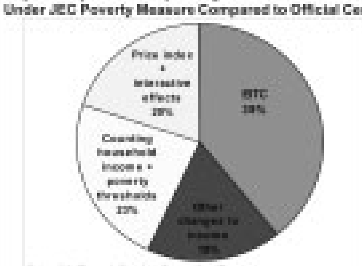
More factors come into play over the 1990s. Chart 4 illustrates the relative importance of each adjustment to the poverty measure in explaining the difference in the level of poverty reduction over the 1990s between the two measures. As shown, including the EITC in the definition of income explains about 39 percent of the difference between the JEC measure and the official Census measure. During this decade, the EITC was significantly expanded. Not surprisingly, the impact of the EITC is most significant in explaining differences in the level of poverty reduction for children, a group that as a whole is most likely to benefit from this program.[1] Specifically, including the EITC explains 56 percent of the difference in the reduction of child poverty under the two measures. For adults, including the EITC explains about 33 percent of the difference, while it explains only 2 percent of the difference for the elderly—the group least likely to receive EITC benefits.

The net impact of other changes to the income definition—that is, including such resources as food stamps and housing subsidies and subtracting taxes and work-related expenses—explains an additional 18 percent of the difference between the official poverty figures and the JEC estimates.

The combined effect of using the household as the unit of analysis and applying a uniform equivalence scale to adjust poverty thresholds explains about 23 percent of the difference in the level of poverty reduction

Chart 4

Why Poverty Declined by a Larger Amount Over the 1990s Under JEC Poverty Measure Compared to Official Census



between the official Census figures and the JEC estimates. Finally, the net effect of using a different price index and the interactive effects of the various adjustments explains 20 percent of the difference.

Why Poverty Declined More in the 1990s versus the 1980s. As indicated above, the level of poverty reduction over the 1990s was ten times the level of poverty reduction over the 1980s. A combination of strong economic conditions, favorable demographic trends, and expansions in important safety net programs all contributed to the dramatic reduction over the 1990s. In particular, greater labor force participation among low-income households and real wage gains at the bottom of the wage distribution in the late 1990s resulted in higher earnings among these households. At the same time, declining teen birth rates, increases in the rate of cohabitation, and a corresponding drop in the proportion of households headed by single mothers meant that proportionately fewer children lived in households with the greatest risk of experiencing poverty. Finally, during the 1990s, significant expansions to the EITC, housing assistance, and school meal programs boosted household income among families living near the poverty line.

Conclusion

The results presented in this paper suggest much greater progress in poverty reduction over the last two decades than the official poverty measure would indicate. Anti-poverty programs such as the Earned Income Tax Credit, combined with changing family formation patterns, including declining teen birth rates and increases in cohabitation, resulted in significant decreases in poverty among all demographic groups. The level of poverty reduction was particularly dramatic during the decade of the 1990s.

Given the important role of the poverty measure in shaping public perception and public policy, a measure that accurately captures the change in poverty over time is essential. The JEC Democratic staff measure is just one approach. Other experimental measures incorporating the NAS panel's recommendations are also instructive. Regardless of which measure is ultimately used, the sizeable differences between the official poverty measure and the results shown here make a strong case for the Census Bureau to more closely examine changes in poverty over time by incorporating recommended adjustments to the official poverty measure.

Endnotes

[1] Until 1993, the EITC was only available to workers with children.

Appendix

Table 1 of the paper presents the five principal differences between the official Census measure and the JEC Democratic staff measure. This appendix describes the differences in more detail.

Definition of Income. The official Census measure uses gross money income to determine poverty status. This means that it excludes near-cash benefits, such as food stamps and housing subsidies. It also excludes taxes, including payroll, income, and sales taxes and the Earned Income Tax Credit (EITC).[1] Finally, the current measure does not account for work-related expenses, such as transportation and child care.

To more accurately account for the disposable income available to low-income individuals, the JEC definition of income includes the value of near-cash benefits, including food stamps, school meal benefits, home energy assistance, and housing subsidies.[1] It also includes the EITC. It subtracts payroll and federal income taxes as well as Census estimates of work-related expenses. Due to data limitations, however, this definition does not account for child care subsidies or expenses, a principal component of work-related expenses.

The JEC definition of disposable income is imperfect in other ways as well. In particular, it does not account for subsidized medical insurance or medical out-of-pocket expenses. Analysts have produced important research exploring various methods of accounting for medical benefits and expenses. However, because this analysis focuses on the change in poverty since 1979, it requires a consistent definition of income over the entire time period. Like child care data, data on medical costs and benefits do not exist that far back.

Data restrictions also prevent an accounting for tax payments other than the federal income and payroll taxes (for example, state taxes), as well as the costs to non-resident parents of child support payments made to custodial parents (these payments *are* accounted for as income to the custodial parents). Finally, the JEC income definition does not adjust for geographical differences in the cost of living.

Whose Income is Counted. The official Census measure uses the family unit as the basis for analysis. That approach is based on the assumption that unrelated household members do not share resources to the same extent as family members. However, over the past two decades the number of cohabiting couples has increased significantly. While cohabitors may not always share finances to the same extent as married couples, research suggests that on the whole their financial contribution to household income has become increasingly significant. Accounting for such contributions thus is likely to provide a more accurate picture of the poverty status of individual household members. For that reason, the JEC measure uses the household as the unit of analysis. Specifically, it compares total household income to the threshold for the given household size. This is the same unit of analysis used by the Congressional Budget Office (CBO) in its analysis of income and tax trends.

Poverty Thresholds. To compare poverty trends over time, the JEC overall poverty rate estimate for the most recent year of analysis, 2000, is standardized to the official Census poverty rate for that year. Specifically, the poverty thresholds for that year are adjusted by a factor of 1.15. Using the same starting point in 2000 allows a comparison of differences in the change in poverty from 1979 and from 1989.

Following the NAS panel's recommendation, the JEC measure uses a household of two adults and two children as the reference household. It uses the official poverty threshold for that family type and size, and then applies the CBO equivalence scale to derive the poverty thresholds for all other household sizes.

Adjusting for Inflation. Each year, the Census Bureau adjusts the poverty thresholds for inflation using the Consumer Price Index (CPI). This overall index does not reflect changes in consumer spending patterns as relative prices change. To adjust for such changes, the Bureau of Labor Statistics uses a CPI for urban consumers, called the CPI-U. Since 1977, the Bureau has improved its calculation of the CPI-U by introducing a number of methodological shifts.[7] To eliminate the historical inconsistencies that result from such changes, the "CPI-U research series" recalculates the CPI-U as if all the methodological shifts had been used all along. The result is an inflation index that is likely to more accurately reflect changes in the real value of resources over time. Both the Census Bureau and CBO use the CPI-U research series to adjust income for inflation. For consistency, the JEC measure also uses the CPI-U research series to adjust the poverty thresholds over time.

Appendix Table 1

Comparison of Poverty Thresholds for Selected Households Under JEC versus Official Census Poverty Measures, 1979, 1989 and 2000

	Household Size and Type					
	Childless Household of One		Childless Household of Two		Non-Elderly Households with Children	
	Elderly	Non-Elderly	Elderly	Non-Elderly	Two adults, two children	Two adults, four children
2000						
Official Census	8,259	8,959	10,409	11,531	17,463	23,009
JEC Measure	10,042	10,042	14,200	14,200	20,082	24,596
Difference	22%	12%	36%	23%	15%	7%
1989						
Official Census	5,947	6,451	7,495	8,303	12,575	16,569
JEC Measure	7,487	7,487	10,588	10,588	14,974	18,339
Difference	26%	16%	41%	28%	19%	11%
1979						
Official Census	3,557	3,858	4,483	4,988	7,521	9,910
JEC Measure	4,568	4,568	6,461	6,461	9,137	11,190
Difference	28%	18%	44%	30%	21%	13%

[illegible]

Appendix Table 2

Comparison of Poverty Rates for Selected Demographic Groups Under JEC versus Official Census Poverty Measures, 1979, 1989 and 2000

	Year			Change Over Time	
Demographic Group	1979	1989	2000	1989-2000	1979-2000
Overall					
Official Census	11.7%	12.8%	11.3%	-1.5	-0.4
JEC Measure	15.7%	15.3%	11.3%	-4.0	-4.4
By Race and Hispanic Origin					
White, Non-Hispanic					
Official Census	8.1%	8.3%	7.4%	-0.9	-0.7
JEC Measure	11.9%	10.8%	7.8%	-2.9	-4.1
Black, Non-Hispanic					
Official Census	31.0%	30.7%	22.5%	-8.2	-8.5
JEC Measure	35.2%	33.5%	21.7%	-11.8	-13.4
Hispanic					
Official Census	21.6%	26.2%	21.5%	-4.7	-0.3
JEC Measure	27.0%	29.3%	20.3%	-9.0	-6.7
By Age, Race and Hispanic Origin					
Children, All					
Official Census	16.4%	19.6%	16.2%	-3.4	-0.2
JEC Measure	19.7%	21.4%	14.5%	-6.9	-5.2
White, Non-Hispanic					
Official Census	10.1%	11.5%	9.1%	-2.4	-1.0
JEC Measure	13.3%	13.4%	7.9%	-5.5	-5.3
Black, Non-Hispanic					
Official Census	41.2%	43.7%	31.2%	-12.5	-10.0
JEC Measure	43.5%	44.4%	28.4%	-16.0	-15.2
Hispanic					
Official Census	28.0%	36.2%	28.4%	-7.8	0.4
JEC Measure	32.6%	39.3%	25.6%	-13.8	-7.2
Non-Elderly Adults, All					
Official Census	8.9%	10.2%	9.6%	-0.6	0.7
JEC Measure	11.6%	11.9%	9.3%	-2.6	-2.3
White, Non-Hispanic					
Official Census	6.3%	7.0%	6.7%	-0.3	0.4
JEC Measure	8.8%	8.4%	6.6%	-1.8	-2.2
Black, Non-Hispanic					
Official Census	23.6%	23.3%	17.9%	-5.4	-5.8
JEC Measure	27.3%	26.1%	17.4%	-8.7	-10.0
Hispanic					
Official Census	16.8%	20.9%	17.7%	-3.2	0.9
JEC Measure	21.7%	23.4%	16.5%	-6.9	-5.2
Elderly, All					
Official Census	15.2%	11.4%	9.9%	-1.5	-5.3
JEC Measure	27.7%	19.4%	15.2%	-4.3	-12.5
White, Non-Hispanic					
Official Census	12.9%	9.2%	7.9%	-1.3	-5.0
JEC Measure	25.1%	16.8%	13.0%	-3.8	-12.1
Black, Non-Hispanic					
Official Census	36.2%	30.7%	21.8%	-8.9	-14.4
JEC Measure	51.1%	42.9%	27.0%	-15.9	-24.1
Hispanic					
Official Census	26.8%	20.6%	20.9%	0.3	-5.9
JEC Measure	39.2%	30.7%	29.2%	-1.5	-10.0

Source: [illegible]

Endnotes

[1]While many low-income families with children do not pay income taxes, many individuals without children do; their tax liabilities often exceed the EITC offset.

[2] This analysis uses the Census Bureau's imputations of housing subsidies, which are based on inflation-adjusted survey results from 1985. Given changes in housing subsidy policy and family and household composition patterns, the survey data, even updated for inflation, likely do not reflect today's reality. Specifically, research exploring alternative valuation methods suggests that the Census imputations may underestimate the actual value of housing subsidies. At the same time, although housing subsidies free up income, "leftover" subsidies cannot be used to buy food and other necessities. See Kathleen Short, *Experimental Poverty Measures: 1999*, Census Bureau, Current Population Reports, October 2001.

[3]The official thresholds for each family type were developed separately, without the use of an explicit equivalence scale applied to a designated reference family.

[4]Such changes include making the CPI-U sensitive to changes in the quality of many consumer goods (for example, because a dollar spent on a new computer provides more "computing" capability than a dollar spent on an older model, the price of computing has gone down), reducing substitution bias (which stems from the likelihood that rather than consuming a fixed market basket of goods, consumers will purchase less of a good whose price is rising relative to other goods), and improving estimates of the costs of home ownership. For a detailed list of the methodological adjustments included in the CPI-U research series, see Kenneth J. Stewart and Stephen B. Reed, "Consumer Price Index Research Series Using Current Methods, 1978-98," *Monthly Labor Review*, June 1999, pp. 29-38.

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Dr. MEAD. Yes.

Mr. WELLER. We have made some progress, we have more work to do in reducing poverty, particularly child poverty. Do you believe that we should count these other sources of income and take the approach recommended?

Dr. MEAD. Yes, I agree with Isabel that this wouldn't actually change our policies very much. In fact, I would go further. One could argue that there really are almost no really destitute people in America. This is not like Africa, parts of which are totally destitute.

It's not only that the measure doesn't include all income, but a lot of income is often not reported. We know from consumption studies that the poor consume a great deal more than they claim to have in income. So, they are probably better off than we think. It could be that there is no economic poverty in America, or virtually none.

Even if we decided that, would that reassure us about poverty in America? I would say no. Poverty really has to do with separation from the mainstream society. Overcoming poverty is really overcoming these problems of separation. It's really about integration.

That's what we're trying to do here. We're trying to get people to feel that they are part of mainstream America, and to command the respect and attention of their fellow citizens. That's what is missing now. It isn't really due to money. It's due to the way people live, and their sense of hope about things. That is why we have to worry about these lifestyle dimensions that are not directly captured by the poverty measure.

Mr. WELLER. Dr. Sawhill, that's why you emphasize work and two-parent households?

Dr. SAWHILL. Absolutely.

Mr. WELLER. Thank you, Mr. Chairman. You have been very generous with my time.

Chairman MCDERMOTT. Mr. Porter will inquire.

Mr. PORTER. Thank you, Mr. Chairman, and I thank all of you for being here today. I am sorry I missed part of the testimony, so I have been trying to catch up real quick in reading some of the testimony that's before me. I appreciate that you are all experts.

I certainly applaud Catholic Charities, a big part of our community in Nevada. They play such a major role, and I'm not sure what we would do without you and Catholic Charities. So, thank you very much.

In looking at some of your testimony, is it Father, or Reverend? Or what would you prefer?

Rev. SNYDER. "Father" is usually—whatever you're comfortable with.

Mr. PORTER. Going to Catholic school, I want to make sure I say it right. The nuns used to pull my ears when I would mess up, so thank you.

You had mentioned improving the child tax credit. I have some bad news. Just about 2 weeks ago, the House and the Senate both completely eliminated the child tax credit in the budget that was passed. I concur with you. It's such an important thing, and I appreciate what you have pointed out, which is some key substantive changes we can do to help make a difference. I would like to follow up with some of you at some later date.

I would like to ask you all—and it's not really a test question—it's a very serious question. If the Federal Government gave you $600 billion, could you help fix this poverty problem? Let me start here, with Mr. Podesta, maybe.

Mr. PODESTA. I think that—Congressman, that we put forward a series of proposals, some of which cost money, some of which don't. For example, the proposal to raise the minimum wage to 50 percent of the average hourly wage, which it's been in the past. Throughout the fifties and sixties, it sat at that level. It would cost the Federal Government no money, in essence, and it would actually probably raise a little bit of money, because it increases payroll taxes.

There are other things in our proposal that don't cost money, as well. We think that there are some targeted efforts, and that they should, again, support work and responsibility: the expansion of the child tax credit; the expansion of the EITC. Some, I think, require—one other that I would mention, because I think we have been talking about lifestyle, and that's getting people a stake by accumulating assets.

So, expanding and simplifying the saver's credit, which is already in existence, would, I think, help people accumulate, even if it's in a small way, some assets to give them, again, a stake in their own well-being, and also give them a little bit of a safety net.

Other proposals we have made require, I think, some greater direct intervention, particularly connecting youth—and, again, there has been some—amongst the other panelists, some focus on young men, particularly, getting them into the workforce, keeping them into the workforce, what we do about people who have been incarcerated, who are going back home, we don't want them to sink back into a life of crime and drugs and addiction, but that takes, I think, a little bit more direct intervention.

I think you can do a lot of this without building any kind of bureaucracy, but just simply supporting good, sound public policy that supports work, family building, and good social behavior.

Mr. PORTER. Again, I would reiterate, you are all experts, and I applaud you for what you are doing.

I serve on the Budget Committee, and I am not sure how many zeroes are behind the $600 billion, but it is a lot. What we try not to do is lose sight that every person in America has a face, has a family, has serious individual challenges.

Right now, we are spending $600 billion out of the Federal budget, just for welfare. I e-mailed my staff 1 day, and I said, "Can you divide that into 20-some million kids," which varies, based upon the time. Let's say it's 20 million kids. We're spending, right now, about $30,000 per poor child. It troubles me that it's not getting to the child.

This may not help today, but in the future, we may be better off to give them a check for $30,000. Of course, I'm being facetious, but we are spending money, and there is a lot of duplication. I want to make sure it goes to the kid, and to the family. I would like to give—again, it's impossible—to Father Snyder, that $600 billion, and see what Catholic Charities could do for our kids and our families.

I'm not disagreeing with anything you're saying today. I think there is a serious problem. I would say it could be closer to $60,000 a year, just to break even. These figures are wrong, there is no question. We can debate what the poverty level is.

What we really need your help with is how we can make sure you get the funds to go where they belong. $20,000 or $30,000 per child—and if there are 37 million families, which is probably underestimating—there has got to be a way for these State, local, and Federal programs to be more efficient, and not hurt the child, but help the family. That's where we really need your help.

So, if you have any thoughts in my, I guess, 10 seconds left, I would appreciate——

Dr. MEAD. Let me offer this reaction. Welfare reforms succeeded for, basically, two reasons. One was that we set up these basic policies that I talked about. Another was, however, that we focused on the adults. It's true, the ultimate concern is children, but the focus was really on the mothers, getting them to work. We assumed there would be pay-offs to the children, and there were.

Getting the mothers to work required a rather elaborate administrative set-up. The unsung heroes of welfare reform are not the Federal policy-makers, but State politicians and the administrators, who put this thing together at the local level. Although there is a lot of variation on how well they did it, overall it's an amazing success story.

Now, if we want to continue with success in this area, we have to keep doing those things. We have to focus on the adults. They are the ones who create the problems for children, or the opportunities for the children. They have such influence on the children that there is really no way to get to the children, except through the parents. We have to get them working and functioning in the various ways we're talking about. That is going to require an administrative structure.

So, I wish I could tell you that we're about to save money on bureaucracy. I don't believe that's true. I think we're going to have to spend more money in bureaucracy in order to solve the poverty question. We have to create the structure in which lives can be supported, and also, to a certain extent, overseen, to make sure that people do, in fact, work and go to school, and do the other things needed. That's what, in fact, gets results.

Mr. PODESTA. Mr. Porter, I guess I would just question your number, though, too. Unless you guys are spending a lot more money than when I left the government, I think $600 billion on those kinds of figures, I don't know what you're including in that, but it sounds like maybe the entire——

Mr. PORTER. Well, there is medical care of——

Mr. PODESTA. But you're including Medicare, and——

Mr. PORTER. Cash aid, $112 billion, food benefits, $50 billion, housing aids, $40 billion, job training, energy aid, all up to $583 billion a year.

Mr. PODESTA. Medicare money is not flowing to children, and that's 50 percent of what you're talking about, with respect to the——

Mr. PORTER. Medical care going to children is $322 billion. Again, I am not here to argue, I'm just saying we have got to find a way to deliver it better, and we need to find a model—and you're the experts. I know we can talk about tax credits and all that, and we need to do that, or however else we need to help the bottom line, because we may need to spend twice this. I don't know.

Right now, what I need your help with is to find a way to make it better and easier for families to receive the benefits. You're the experts. You see, firsthand, the struggle of a family that's in poverty if they can't get assistance. So, that's where I would need your help. So, thank you.

Mr. Podesta, your point is well taken, but we need to find a way to get it to the kids.

Chairman MCDERMOTT. I would just say that the reason I asked the question about health care was the fact that the biggest growth since 1978 has been in health care. It was $71 billion in 1978, and it's $322 billion, and that's the largest increase, by far and away.

It seems to me that if you're going to use work as the way, you're going to get out of poverty by going to work, you have to get health insurance. Lots of places, they cut you off Medicaid when you get your job. Once you have done that, you have thrown a cost on to people that I think really has to be factored in here in a very direct way. Mr. Herger will inquire.

Mr. HERGER. Thank you very much, Mr. Chairman. Dr. Mead, you have mentioned several times in your testimony the importance of work. I just would like to refer to that, just looking at the Census Bureau data, how absolutely correct that is, and the difference it makes.

The Census Bureau's data indicates for 1995, and then comparing it to 2005, the share of those who did not work at all during the year in poverty in 1995 was 22.3 percent. That's dropped down to 21.8 percent in 2005. The share of people working part-time in poverty in 1995 was 13.7 percent, and dropped down to 12.8 percent in 2005. Then, the share of full-time, year-round workers in poverty in 1995 was 2.7 percent, compared to 2.8 percent, basically the same.

What is most striking about this data is that it confirms what would appear to be the obvious, that 97 percent of all those over age 16 who worked full time are not in poverty in 2005, or any other year. Clearly, full-time work is the path out of poverty, and our policies should promote work, and especially full-time work. Would you like to comment?

Dr. MEAD. I totally agree with that. Some of the statistics you hear about the working poor are inflated by including as workers anyone with any earnings at all in the year. It is, obviously, somewhat significant, if a person works a little.

The thing that really gets a family out of poverty is steady work. If you work full-time full year, the poverty rate is about 3 percent for individuals, family heads 4 percent, female heads 10 percent. Even female heads with children under 18, 13 percent. These are very low figures. Obviously, that's not sufficient, we would like to totally abolish poverty, but it is difficult, indeed, to be poor, by the current definition, if you work full-time, full year.

Again, I wouldn't really focus so much on the income/outcome, but rather, on the fact that people are working serious hours. That's the thing that really takes you out of the poverty class.

Now, it may be necessary to subsidize work. Certainly the EITC is a good idea. The other benefits that we're giving are a good idea.

I don't think the implication of this argument is that government does less. government may actually do more, but it's more constructive because you are supporting people who are employed, and therefore doing something to help themselves. The negative effects that subsidies can have are mitigated very considerably by this.

So, we should see this as a joint operation. This is what Isabel has said, and I strongly support this. We need government action. We also need individual action. We have to take steps in our policies to make sure that people actually do work. We can't just promote it and incentivize it, and so on. We actually have to require it. It's necessary to go beyond mere encouragement, and we have to do that for men as well as for women.

Mr. HERGER. Dr. Sawhill, would you like to comment?

Dr. SAWHILL. Well, I certainly agree with what Larry has just said. I would point out that there is an interesting supply side effect here, if you will. We have done some work at Brookings that has shown that, and I think that it's relevant to many of the other testimonies this morning.

By that, I mean that if you do reward work by encouraging people, and increasing the EITC, or child care assistance, or making sure that people in low-wage jobs without health insurance have it, you will get—you will draw people into employment who were either working fewer hours or not working at all before.

We shouldn't forget about that labor supply effect, because with that labor supply effect comes a reduction in what the government has to spend, and an increase in the revenues that that group that's now working, or working more, can provide.

So, the net costs of any program that you might initiate in this arena will be less than the book cost, or the gross cost. That's worth keeping in mind, and looking at some of the analysis, to see how that works.

I talked earlier about early childhood education. We have, in the last year, created a very sophisticated economic growth model at Brookings that shows that because investments in high-quality early education eventually increase both high school graduation rates and college-going rates, you get a better educated workforce.

Granted, you have to wait a while for it, and I realize that people in Congress may not want to wait that long, but if you did wait that long, you would have a big increase in economic growth, and you would have a revenue reflow as a result of that, that would more than pay for the program, even on a discounted basis.

So, it is just unfortunate that we don't look at these long-term benefits at the same time that we look at the up-front costs.

When Congressman Porter was talking about the $600 billion, I was thinking to myself I agree that that money is rather diffusely spent right now, and also that we have too many funding streams and not enough responsibility at the local level, to deliver those programs in a way that makes sense to them.

I am in favor of a little more flexibility for States to spend that money better. I am also in favor of doing the kind of prioritizing that I think he was alluding to. I made my priorities clear this morning, but that's not an argument for not doing anything.

Mr. HERGER. Good point. Thank you very much. Thank you, Mr. Chairman.

Chairman MCDERMOTT. Thank you very much. I have a question that really comes off of what you just talked about, and that's investment in the future.

It seems to me that the American economy operates on the Wall Street model. That is, the bottom line, quarter by quarter by quarter. We go year by year by year. Long-term investments are very hard to make in the congress. It seems to me, child care is one of them, and early childhood education are the two most difficult ones to make, although there are some others that we are talking about here that come out of the study from the Center for American Progress, where you're talking about Pell grants, allowing Pell grants to be used more flexibly. If you don't work, if you don't go to school full-time, you can't use a Pell grant. We have a lot of ways in which we limit workers who get laid off from returning to the work place.

I would like to hear you talk about long-term investment, because I look at India. Everybody wonders how India got where they are in the telecommunication industry. They got it from investing, 30 years ago, in technical schools that they filled and pumped kids through at very direct government expense. It was done by the government, it wasn't done by the individuals.

Tell me about this country. How do we change the attitude about this long-term development? I will just add one more thing. One of the things that happened in the last congress was in the Deficit Reduction Act, where they cut the money for child enforcement, child support enforcement, knowing, from the CBO, that it was going to lose them $11 billion in child support enforcement payments for families with children.

It's those kinds of short-term things that are very troubling, and I would like to hear you talk about how you deal with long-term investments at the city level, or in any of your situations. The table is open.

Ms. GIBBS. The poverty rate for a high school drop-out is twice that of a high school graduate. The poverty rate of a high school graduate is twice that of a college graduate. So, every year you can invest in a person's education is a downpayment in reducing their chances of living in poverty.

So, strategies that help to graduate young people from high school, keep them in school, create environments that will help to retain them, create special environments for those that are very high-risk. We know a lot now about when those behaviors begin, and we have a growing body of evidence around what is successful in keeping them in high school——

Chairman MCDERMOTT. What do you do in New York? What do you actually do to deal with these issues?

Ms. GIBBS. Well, the papers today in New York reported the increase in the high school graduation rate, the four-year high school graduation rate of this past year, of an increase. Another 3 percent on top of the 6 percent growth that's happened thus far during this Mayor's term.

The investments have been at the same time that—they are across the board within the educational system, improving accountability, improving the principal and teacher discretion, and how they manage their school, at the same time.

It also is in building specialized environments for those young people who are at highest risk of dropping out, and creating educational settings that keep them engaged, and help them to graduate. So, and now it's still abysmally low, at 50 percent, but it's above the 42 percent that was the 4-year graduation rate that occurred. It was investment.

Chairman MCDERMOTT. Do you do anything to deal with the young men, the disproportionate number of black men who are in the correctional system who come back out?

Ms. GIBBS. Absolutely.

Chairman MCDERMOTT. How do you try and get them back into the system?

Ms. GIBBS. There are a number of strategies. I mentioned earlier that when looking at those with histories of incarceration, many of the strategies now in place are about how do we get them into work. The assumption is that education isn't really the option.

We have increasingly been looking at alternative educational settings for over-age, under-credited young adults, including those with histories of incarceration, having systems in place while they're incarcerated, bringing the re-engagement into education, into the jails and prisons themselves, and creating assisted support to re-enroll them in the schools.

There is a history of schools not—making it, quite frankly, very difficult for these young people to re-enroll, creating environments where their history, their experience, is explicitly understood, and they are given assistance to re-enroll.

At the same time, working with the community college level and the college level, absolutely, there are many supports, financial assistance, that is critically necessary for young people who have to work in order to pay for their cost of living. So, they can't afford to pay for a college education.

Also, it is a tremendous challenge, even if you have the resources, because the way the class system is structured, the classes are really all over the place. One of the things we're experimenting with in New York, through our community college system, is creating special tracks so that a student can be guaranteed that every class that they need for their degree is offered in a clearly defined timeframe, so that they can commit to their full-time employment, that they can go to the job, they can say to an employer, "Yes, I can take that job, I can show up during those hours," because they know, then, that they can get all of the classes that they need during a supported track of learning.

So, there really needs to be an understanding that for the young adults that are from low-income backgrounds, that they don't have the discretion of being a full-time student. They really need that income to support themselves, and often, to support their own family.

Dr. SAWHILL. May I, Mr. Chairman, say something more about your question? We have had a lot of debate about the value of dynamic scoring with respect to tax cuts. We now have an office, as you know, in the Treasury Department that does analysis that looks at that.

There is no reason why we couldn't have a similar office that looks at that, looks at the dynamics of investments in kids, let's say in the Department of Education. I would not be in favor of saying to CBO, "You need to do dynamic scoring," because I think there are too many uncertainties there, but it might at least change the discussion, and help all of you up here, if there was a little more focus on the effects of—the long-term effects of investments in children that was being done in a systematic way somewhere in the government.

Chairman MCDERMOTT. Yes?

Mr. BERLIN. I just wanted to add to that that I think it's really important to think in a two generation way about this set of issues. It matters that kids are growing up in poverty. If we do something about household poverty, primarily by supplementing earnings so that we make up for this long-term decline that has really hurt our ability to lift families out of poverty at the same time that we make these investments for children, I think it's possible that we can get the kind of quantum leaps that are necessary to really make advancements in this area.

Dr. MEAD. I just want to express a little skepticism about this on two scores. One is that the investments will pay off only if you make assumptions about the quality of the programs that the money will go into. The experimental programs that show these long-term, impressive pay-offs involve much higher institutional quality, staff, teachers, than you're likely to get in the typical Head Start program, or pre-school program.

So, there is a serious danger to just throw money at institutions that are really not able to generate the results that we are assuming when we make the projections.

The second concern I have is that all these programs, in effect, are replacing the family. When we say we're going to invest in children, we're treating them as some kind of impersonal economic object that we're going to inflate by a certain percent over time.

Well, the reality is, these kids are living in families. It's because the families are unable to support them effectively that we talk about creating what are really alternative families, through Head Start programs and otherwise.

I am disturbed by that, because, first of all, most Americans don't think of themselves as taking over the job of the family. Second, I doubt that we can really do it. Even the best Head Start program, in my opinion, is probably worth less than having your father in the household. So, we should worry about getting the father in the household.

We should worry about the more fundamental problems that these families face. Again, I think we have some potential to go forward, based on welfare reform and other experiments. So, let's see if we can address the lifestyle questions directly, rather than trying to work around them, which is what is really involved when you talk about these long-term approaches.

Chairman MCDERMOTT. Well——

Mr. PODESTA. Can I add just one word on that? Both in—kind of a little bit in response to the last comment.

I think that there is no question that a more effective K through 12 strategy and a pre-school strategy are critical to the economic future of this country. New York City has kind of paved the way. We see important educational reforms going on across the country that do pay results in the short term, and in the long term, and aligning Federal policy to make sure that we both test—I agree with the last comment, that we need to test and see what works, but also then to try to model and implement that is important.

Just one statistic. Of 2,000 high schools in this country with 15 percent of the students account for 50 percent of the drop-outs. You know, there are 2,000 drop-out factors in the country. New York tackled that problem, they broke up their big drop-out factories and those smaller academies are starting to graduate two and three times the number of kids that were coming out of the old schools. That is why you see the overall high school improvement rate.

I think you could apply the same methodology in the health care work that you do, Mr. Chairman. We have very little data, because of the complexity of our system, of what the most cost effective use of our health care dollars are. We are spending 16 percent of GDP on health care. We are producing a return that—in which we are 24th in the world, in terms of health outcomes.

Now, clearly, something is wrong in that system. In order to have the data and the strategy, that has to end up being moved and pushed, I think, by smart congressional policy, and some independent research that looks back at those kinds of things. I think with this question as well, we know now that the EITC has worked. We know that raising the minimum wage will help people.

We have seen it, both—there are a lot of complaints about raising the minimum wage, but if you look at the States that have a minimum wage that is higher than the National average, what you see is more small business development, not only higher wages, but higher employment growth in those States, as compared to the ones with the Federal wage.

So, I think looking at the hard data, assessing it, and then building for the long term is exactly the right strategy.

Chairman MCDERMOTT. Mr. Weller?

Mr. WELLER. Thank you, Mr. Chairman. I have a question for Mr. Berlin. Before I do, from the standpoint of Catholic Charities, Father Snyder I just want to recognize the role that Catholic Charities plays in my home State, and my community.

I was one of those who has taken an interest in foster care, unfortunately, as a result of lawsuit abuse, and what I believe certainly is that it's unfortunate that Catholic Charities has withdrawn from providing foster care in Illinois, as a consequence of a lawsuit. There are 700 children now that need to be taken care of and attended to by another organization.

We are going to miss Catholic Charities, and the role that you played in Illinois, and I want to acknowledge you, and thank you for the role that Catholic Charities has performed.

Now, Mr. Berlin, Dr. Sawhill and others have talked about the importance of work requirements. Your organization conducted a study on work requirements for housing benefits. Can you share with us some of your findings?

Mr. BERLIN. I think you're referring to the Jobs-Plus project. The idea here was to change the norm in public housing, so that a majority of the residents worked, rather than having most of the people not work.

In a very rigorous study in five public housing communities around the country, we offered a range of employment opportunities for people, and we also said that if they went to work, we would hold their rents flat, so that they would not have the typical disincentives to work that are built into the way public housing financing operates.

We got very large increases in employment and earnings, as a result of that experiment. These results raised the question of how to transform public housing from places that are predominantly about housing, to places that are also about promoting self-sufficiency and stability, both in work and in housing.

Mr. WELLER. Dr. Sawhill, you have repeatedly come back to work requirements as a key component, as we look at how to reduce poverty. Are you familiar with these studies? Do you have some comments that you want to share?

Dr. SAWHILL. I am familiar with the Jobs-Plus program that Gordon Berlin just described. I think it has had some of the most astounding effects that we have seen. I think it does underscore just what he said, which is that if you can add incentives, or remove disincentives, and change expectations, and provide the kind of counseling that is needed for people who have not had a lot of experience navigating the labor market, you can accomplish a lot.

We should, therefore, always think about what the expectations are in a program, as well as what the benefits are that we are going to provide to people. Any time that you are talking to people in low-income communities who have been in assisted housing, they will tell you that one of the biggest disincentives for going to work is losing this housing assistance, if they have it. They also worry about losing health care.

So, those are two huge barriers to get over. Anything we could do to ensure people that if they went to work and played by the rules they wouldn't lose those key benefits, could be enormously useful. However, it's challenging, because not everybody gets housing assistance. Housing assistance has always been a kind of lottery in this country.

I think the proportion of the poor who get it is something like 20 percent. Anyway, it's a small proportion. Those people who are fortunate enough to have it have a lot of those non-cash benefits that we were talking about earlier. Those who don't have much less. I would prefer to move a lot more of that money into providing rent assistance through section 8, or some kind of a voucher program, giving people more choice, and spreading the program perhaps across more people.

Dr. MEAD. I just want to add two points that complement what Gordon had said. Jobs-Plus was a substantial achievement, but I want to emphasize that it was an administrative achievement.

What made the program tick was this organization in the housing projects, which beat the drum for these new benefits, made everybody aware of them, created a sort of wave of enthusiasm for them. That was part of the treatment. It wasn't just the incentives, it was this pressure and encouragement coming from these other activities.

That was also true in welfare reform. Much of the effect comes from diversion, where people get a message about work from the overall process, and they went to work, often without going on welfare at all.

So, ultimately, the solutions lie in building up that organization. Policy-makers generate changes in policy, but then those generate administrative changes, in terms of organization at the local level. That, in turn, generates the change in the culture. The culture finally does the work.

We see a microcosm of that in Jobs-Plus. We have to think this way about poverty reduction, in general. It's really an institutional problem. It's creating a structure where people will get a message about what's expected, and then act on it.

The other thing I want to add is that, encouraging though this project was, it didn't address, predominantly, the problems of men that we're talking about. Most of the men who we are worried about here—ex-offenders, people not paying child support—are not living in housing projects. They are elsewhere, they are detached, they are not part of the kind of family that lives in a housing project.

So, we have to create an institution. We need to create a work program that will be a home for them, where there will be structure, where they have to work, but also they get help in working, and they get these benefits. We need a structure that will somehow produce for them the work level increases that we saw in these Jobs-Plus evaluations.

Mr. WELLER. Thank you, Dr. Mead. I just want to request of our witnesses here, Mr. Podesta and Father Snyder, you list poverty rates from many different groups in your testimonies. I wanted to ask you if you could provide for the record what those current poverty rates would be if we applied the methodology used in the Center for American Progress report, and counted current spending on the EITC, food stamps, and housing benefits as income, before we consider some of the ideas that have been suggested for increasing benefits.

I think it would be useful to know what is the current benefit, when it comes to the benefits that are currently provided for reducing poverty. So, if you could submit that for the record, I would appreciate it.

Mr. PODESTA. I would at least be happy to try to do that, Mr. Weller.

Mr. WELLER. Thank you, Mr. Podesta. Thank you very much.

Chairman MCDERMOTT. We want to thank you all for taking your time to come here, and give us the benefit of your thinking.

We hope that you have made an investment in the common good by giving us your best thinking, and we will try and implement it for the people. Thank you all.

[Whereupon, at 2:44 p.m., the hearing was adjourned.]

[Questions submitted by the Ranking Member to Mr. Podesta follows:]

Question from Ranking Member Weller to Mr. Podesta

Question: I wanted to ask you if you could provide for the record what those current poverty rates would be if we applied the methodology used in the Center for American Progress report, and counted current spending on the EITC, food stamps, and housing benefits as income, before we consider some of the ideas that have been suggested for increasing benefits.

Answer: At the Subcommittee's hearing on solutions to poverty, you asked if we could provide for the record what poverty rates would be if, per the Center for American Progress Task Force report, **From Poverty to Prosperity,** the Federal Government counted spending on the Earned Income Tax Credit, food stamps, and housing benefits as income in calculating poverty rates.

I am attaching, for the record, the Urban Institute's report, **Estimating the Anti-Poverty Effects of Changes in Taxes and Benefits with TRIM3,** which provides a detailed explanation of the methodology used by Urban Institute in estimating the antipoverty effects of a set of proposals to reduce poverty. In the following paragraphs, I will briefly summarize their approach, but you may wish to refer to their full report for a more extensive discussion.

When seeking to estimate the antipoverty effects of our recommendations, we contracted with the Urban Institute. To conduct its modeling, the Urban Institute used the Transfer Income Model. TRIM is a microsimulation model that uses survey data from the Census Bureau and detailed information about program rules to simulate tax, benefit, and health programs. It is often used to estimate impacts of proposed policy changes and is widely respected.

In our view, the current definition of poverty is deficient. Two principal concerns are that it does not effectively measure the resources actually available to households since it does not fully consider income and expenses; and it uses a threshold for measuring poverty that is essentially arbitrary, obsolete, and set too low. In our task force report, we highlighted a number of deficiencies of the current measure, and recognized that there were significant virtues in the approach proposed by the National Academy of Sciences (NAS) in Citro and Michael, ed., **Measuring Poverty: A New Approach** (National Research Council 1995).

In modeling the effects of proposed approaches, we concluded that because the problems with the current measure are so significant, it was important to use a better yardstick to evaluate the impact of our proposals. Accordingly, we opted to follow a set of recommendations from the NAS report. Specifically, the Urban Institute began by calculating income and poverty rates under the official poverty measures, and then, consistent with NAS recommendations:

- subtracted tax liabilities and added tax credits, such as the EITC, to income;
- included Food Stamp benefits and housing subsidies as income;
- subtracted out-of-pocket child care costs from income.

In addition to these adjustments to resources, the NAS also recommended adjustments that would increase the poverty thresholds. Had we used these thresholds, along with the above adjustments to income, the result would have been an increase in the number of individuals counted as poor. We thought it was important to begin with the same number of poor individuals as occurs under the official measures. So, the Urban Institute adjusted the NAS thresholds to the extent needed so that the number of individuals in poverty under our measure was the same as the number in poverty under the official measure. For example, the adjusted threshold for two adults and two children was $21,361, as compared with $18,660 under the official measure in 2003. See Table 1 of Urban Institute report for thresholds by household composition.

In its calculations, the Urban Institute used 2003 data, adjusted to reflect subsequent changes in state minimum wage laws and relevant Federal tax law changes. Using its adjusted thresholds, the number who were poor under this modeling, before making any adjustments for near-cash benefits, tax, or child care expenses was 42,753,000 (14.8 percent). After adjusting for food and housing benefits, the total would fall to 37,263,000 (12.9 percent). After making adjustments for Federal taxes and the Earned Income tax credit, the total poor would be 34,114,000 (11.8 percent). After adjusting for child care expenses, the total poor would be 35,338,000 (12.3 percent), a number approximating the number poor under the "official" measures using 2003 data with adjustments for subsequent minimum wage and tax changes. The details are available in Table E1 of the Urban Institute Report.

These are, of course, the baseline numbers before estimating the effects of proposed policy changes. As we discuss in our full report, a set of recommended policy proposals—raising the minimum wage, expanding the earned income tax credit, expanding the child tax credit, and increasing child care assistance— would reduce the numbers in poverty by 26 percent, and reduce the number of children in poverty by 41 percent.

In a separate analysis, the Urban Institute calculated the effects of applying the changes in counting of income and expenses to a "baseline" number of 35,394,000 poor, intended to reflect the number poor in 2003 under official measures, with adjustments for subsequent minimum wage increases and tax law changes. In doing so, the results were 35,372,000 poor at baseline (for a poverty rate of 12.3 percent); 28,716,000 after adjusting for food and housing benefits (10.0 percent); 25,846,000 after adjusting for taxes and the earned income tax credit (9.0 percent); and 26,748,000 after adjusting for child care expenses (9.3 percent).

We fully appreciate that if there is no change to the poverty threshold, but one simply counts additional items as income, it necessarily reduces the number of people in poverty. At the same time, we want to emphasize that had we used the full set of NAS recommendations, as to thresholds, income adjustments, and expense adjustments, the effect would have been to *increase* the number of people in poverty. For our purposes, the goal was to neither increase or decrease the number of people in poverty at the beginning of the analysis, and so we followed the approach above. For a more comprehensive approach to poverty measurement, we think it is essential to address both the counting of income and expenses and the setting of thresholds in a way that is internally consistent and that measures what it purports to measure. We hope that the Subcommittee will consider such a comprehensive approach in the future as it explores more effective ways to measure poverty.

Thank you for your continued attention to these issues, and please let us know if you need additional information.

[The report from the Urban Institute follows:]

URBAN INSTITUTE
TECHNICAL REPORT

ESTIMATING THE ANTI-POVERTY EFFECTS OF CHANGES IN TAXES AND BENEFITS WITH THE TRIM3 MICROSIMULATION MODEL

Linda Giannarelli
with Joyce Morton and Laura Wheaton

The Urban Institute

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The Urban Institute is a nonprofit, nonpartisan policy research and educational organization that examines the social, economic, and governance challenges facing the nation. Views expressed in this report are those of the authors and do not necessarily reflect the views of the Institute, its trustees, or its funders.

This work was performed under contract with the Center for American Progress, in support of the Center's Task Force on Poverty. The project used the public version of the TRIM3 microsimulation model. Because TRIM3 simulations require users to input assumptions and/or interpretations about economic behavior and the rules governing federal programs, the estimates produced under this project are attributable only to the authors of this report.

Many individuals contributed to this work. Sheila Zedlewski, director of the Urban Institute's Income and Benefits Policy Center, helped to conceptualize the approach and provided comments on this report. Austin Nichols researched the likely employment impacts of the minimum wage and EITC policies, and Seth Zimmerman contributed to that literature review and to the tabulation of results. Paul Johnson performed programming related to the housing simulation. Kathleen Short at the Bureau of the Census provided guidance in the use of the NAS poverty thresholds. We also acknowledge the long-standing support of HHS/ASPE for the annual updating and maintenance of the TRIM3 microsimulation system, without which this type of analysis would not be possible.

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OVERVIEW

This report describes the methods used to simulate the potential poverty impacts and costs of a set of policies recommended by the Center for American Progress (CAP) Task Force on Poverty (Center for American Progress 2007). The key policy options include increasing the minimum wage, expanding the EITC and other tax credits, and expanding the system for child care subsidies for working parents. These policies were simulated separately and in combination, with and without indirect employment effects. We also simulated the impacts of increasing the participation rate in the Food Stamp Program, rescinding restrictions on legal aliens' eligibility for transfer programs, and increasing the number of housing vouchers. The results were tabulated to determine the changes in the number of people in poverty and the changes in the poverty gap, using a broad definition of income—after taxes and child care expenses and including the value of food and housing aid. All the simulations used the TRIM3 model—the Transfer Income Model, version 3.[1] TRIM3 captures the detailed rules of government programs and the interactions among programs.

The simulations used data from the 2004 Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS), which captures the income and employment characteristics of the civilian non-institutionalized population during calendar year 2003. The ASEC data are augmented with additional data on hourly wages from the April through July 2004 CPS files, and the annual earnings data are adjusted to capture the impact of recent state minimum wage increases. We compared the policy options to a "baseline" reflecting the population, economic circumstances, and government policies in place in 2003, with the exception that some recent changes in federal income tax law are incorporated. We simulated the proposed policies as if they had been fully implemented (in real terms) in CY 2003.

The remainder of this report describes the methods used for the analyses and presents the results. The first section briefly describes the TRIM3 microsimulation model, the input data, and the baseline simulations. The second section discusses the alternative simulations and presents key results. We present more detailed information on the methods and additional results in appendices.

[1] TRIM3 is maintained and developed at the Urban Institute under primary funding from the Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation (HHS/ASPE).

THE MODEL AND THE BASELINE SIMULATIONS

TRIM3 is a comprehensive microsimulation model of the tax, transfer, and health programs affecting U.S. households. For each household in the input database, TRIM3 determines the amounts of transfer benefits a household could receive and the amounts of tax a household would owe, under either the actual rules of government programs or hypothetical/proposed rules.

Key features of TRIM3 include detailed, state-specific modeling of the rules of tax and transfer programs, monthly simulation of transfer programs, and the modeling of cross-program interactions. More information on TRIM3 is provided in Appendix A, and detailed documentation of the model is available at http://trim.urban.org/.

THE INPUT DATA

The simulations used the TRIM input dataset based on the 2004 ASEC data[2]—the same file used by the Census Bureau to compute the official poverty statistics for calendar year 2003. The 2004 ASEC captures the demographic characteristics and family relationships of civilian noninstitutionalized households as of March 2004, together with detailed income and employment data for the individuals in those households during 2003. While more recent ASEC data are available, we used the data for CY 2003 because they represent the most recent calendar year for which a full set of TRIM3 simulations are available for general use.

As part of the standard annual update of the TRIM3 model, we created an input dataset for the model based on the ASEC data, with several imputations required to allow modeling of the tax and transfer programs. The standard modifications include:

- Allocating respondent-reported annual incomes into monthly amounts to allow monthly modeling of transfer programs.
- Imputing the legal status of each non-citizen in the survey data.
- Imputing child care expenses (in coordination with the modeling of child care subsidies).
- Estimating housing expenses for low-income families.

Because the simulations involve increases to the minimum wage, this project required additional modifications to the standard TRIM input data for CY 2003. We incorporated additional data on hourly wages and modified the earnings of some individuals to capture

[2] The ASEC was formerly referred to as the March CPS income supplement. The ASEC still consists primarily of the March CPS sample, but the sample is expanded by using some households from other months. The ASEC includes all the variables asked in regular monthly CPS interviews, as well as the questions on income and employment during the preceding calendar year.

the impact of state legislation that occurred after 2003 to set state minimum wages higher than the federal minimum wage. We describe these changes briefly below and in more detail in Appendix B.

Current Hourly Wages

Simulations of the impact of an increase in the minimum wage require knowing each worker's current wage in hourly terms. There are two potential sources of information for determining the hourly wage of a person captured in the ASEC data—the person's report of his/her total wages, weeks of work, and usual hours of work during the calendar year (which can be combined to estimate an hourly wage), and the "earnings sample" (ES) data—a set of questions including an explicit question on hourly wage asked of approximately one-quarter of each monthly CPS sample. In general, most analyses of wage rates in the US use the ES data.[3] When hourly wages are computed from the annual data, an unreasonably high number of wages fall below the minimum wage, probably due to inaccuracies in the reporting of either weeks of work or hours per week. Therefore, this project uses the ES data to the greatest extent possible.

To obtain ES data for more workers, we used identification codes to match individuals in the ASEC data without ES data with their data records in the April through July CPS files. After the matching, the ES variables provided a usable hourly wage for 55 percent of CY 2003 wage and salary workers. For the remaining 45 percent, we calculated the hourly wage using the annual variables.

Recent State Minimum Wages

Between 2003 and 2007, many states enacted minimum wages higher than the federal minimum wage. Higher state minimums mean that an increase in the national minimum wage will have smaller effects on poverty and incomes than it would have had in the absence of the state legislation. To avoid overestimating the impacts of national-level minimum wage increases, we modified the earnings of individuals living in states with higher minimum wages who appeared to be covered by the minimum wage law but working at a wage below the state's minimum. The resulting data capture the population in 2003 as if state minimum wage increases effective by January 2007 were in effect in 2003.

THE BASELINE SIMULATIONS

The baseline simulations form the starting point for simulating the policy options. The results of the policy simulations—persons in poverty, tax units receiving a particular tax credit, costs of a transfer program—can be compared against the results of the baseline simulation to estimate the impact of the policy change. This analysis requires baseline simulations of two cash-assistance programs—SSI and TANF, three in-kind

[3] See, for example, CBO (2006) and EPI (2007).

benefit programs—food stamps, housing subsidies, and child care subsidies, and two types of taxes—payroll taxes and federal income taxes.[4]

For this project we used the standard baseline simulations for CY 2003 produced and validated as part of annual updates to the TRIM3 model, with two exceptions. First, the baseline simulations for this project used the ASEC data modified to calculate hourly wage rates as described above and the adjustments to earnings to capture the recent increases in state minimum wages. Second, the baseline captured some post-2003 modifications to tax law particularly relevant to this project. Specifically, the baseline simulation incorporates the current rules for the child tax credit, the EITC, and the child and dependent credit (with dollar amounts deflated to 2003 levels). Using the most recent federal tax code allows us to show the effects of the tax provisions suggested by the CAP Poverty Task Force relative to current law. More details are provided in Appendix A.

ALTERNATIVE POVERTY MEASUREMENT

This analysis focuses on the anti-poverty impact of policies proposed by the CAP Poverty Task Force—both changes in the number of poor individuals and in the poverty gap. In assessing poverty, we used an expanded definition of income and a non-standard set of poverty thresholds.

We used a broader definition of family income than is used in standard poverty measurement.[5] Specifically, the definition of income for determining poverty for this project equals:

- Cash income (earned and unearned income), *plus*
- The value of food stamps, *plus*
- The value of a household's housing subsidy, if any, *minus*
- Federal income tax liability prior to the EITC, *plus*
- The value of the EITC, *minus*
- A family's out-of-pocket child care expenses (either a subsidized family's copayment or a non-subsidized family's payment)

On average, this definition of income results in a higher amount of income than the standard definition, which consists of only cash income.

The poverty thresholds used for this analysis differ from the standard thresholds in two ways. First, we used the ratios among thresholds for different types of families developed as part of work on experimental poverty thresholds described in Short, 2001.

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[4] The TRIM3 system can also simulate state income tax liabilities. However, because of the many changes in states' income tax rules since 2003—including many new state-level EITCs—it would have been inappropriate to use the 2003 state income tax rules as part of an analysis involving changes to the EITC. Project resources did not allow an update of the state income tax model.

[5] This broader definition approximates the definition described by the panel on Poverty and Family Assistance of the National Research Council (1996).

One aspect of that set of ratios is that, unlike in the standard set of thresholds, the thresholds for one-person and two-person families do not vary by elderly status. Second, we find the set of thresholds that, when applied to the expanded income definitions, produces a number of poor individuals that is very similar to the number obtained when the standard thresholds do when applied to only the cash income component of income. (See Appendix C for more details.)

Table 1 compares the resulting thresholds with the standard thresholds for several types of families. Overall, the thresholds are higher, in order to retain the same number in poverty as the standard thresholds despite the use of the broader income measure. Like the standard thresholds, the thresholds for this analysis increase with family size. However, the percentage increases in the threshold due to additional children are smaller than in the standard thresholds.

TABLE 1: ALTERNATIVE POVERTY THRESHOLDS

	Standard 2003 poverty thresholds	Thresholds for this analysis [1]: Threshold	Thresholds for this analysis [1]: As percent of standard threshold
Selected thresholds:			
One adult, non-elderly	9,573	9,900	103.4%
One adult, elderly	8,825	9,900	112.2%
Two adults, family head non-elderly	12,321	13,948	113.2%
Two adults, family head is elderly	11,122	13,948	125.4%
One adult and one child	12,682	14,939	117.8%
One adult and two children	14,824	17,735	119.6%
One adult and three children	18,725	20,354	108.7%
Two adults and one child	14,810	18,801	126.9%
Two adults and two children	18,660	21,361	114.5%
Two adults and three children	21,959	23,794	108.4%
Selected ratios:			
One elderly adult vs. one non-elderly adult	92.2%	100.0%	
Adult with 1 child vs. non-eld adult living alone	132.5%	150.9%	
Single parent with 3 children vs. with 1 child	147.7%	136.2%	
Married couple with 3 children vs. 1 child	148.3%	126.6%	

Notes:

[1] Ratios between thresholds for different family sizes/compositions are taken from the three-parameter scale described in Short, 2001. The levels are set such that, when applied to the expanded definition of income used in this analysis, the number of persons in poverty is approximately the same as with the standard thresholds and cash income.

POLICY SIMULATIONS

We simulated seven of the proposals of the CAP Task Force on Poverty:

(1) Increasing the minimum wage: We simulated an increase to the $7.25 level that has been proposed in Congress and an increase to a higher level proposed by CAP. We simulated these increases with and without employment effects

(2) Expanding the EITC: The expansions increase the EITC for childless workers, make the EITC available to younger childless workers, address the "marriage penalty" in the EITC, and increase the EITC for large families. We simulated the EITC expansions with and without employment effects.

(3) Making the existing child tax credit (CTC) fully refundable.

(4) Expanding child care help: The expansions include higher eligibility thresholds for federally-funded subsidies and greater funding for subsidies, as well as an expanded child and dependent care tax credit (CDCTC). These expansions were simulated with and without employment effects.

(5) Increasing the participation rate in the food stamp program to 85 percent.

(6) Rescinding restrictions on the eligibility of legal immigrants for public aid.

(7) Increasing the number of available housing vouchers by 2 million.

We simulated each option independently for comparison against the baseline. We also simulated the first four policies in combination, with and without employment impacts. We simulated all new policies as fully phased-in, with dollar amounts deflated from the year of full implementation to 2003 dollars.

For all the policy simulations, the TRIM3 model captured interactions between the direct policy change and the tax and transfer programs included in the analysis. For example, a higher wage means that some families will be eligible for lower TANF or food stamp benefits, and may have to pay a higher amount for subsidized child care and/or housing. A household that becomes newly-eligible for a child care subsidy and that takes that subsidy may have lower child care expenses than in the baseline simulation, which could affect a family's child care deduction for purposes of transfer program computations, and which could also affect the family's CDCTC in the computation of federal income tax liability.

However, some factors are held constant between the baselines and the policy simulations. Unsubsidized housing expenses and unsubsidized child care expenses remain at their baseline levels, even if a family now has a different level of cash income.

Also, a family's decision to participate in a particular program does not change even if the family becomes eligible for a somewhat lower or higher benefit. For example, if a higher minimum wage results in a lower food stamp benefit than the family received in the baseline, we assume that the family receives the reduced food stamps in the policy simulation.

Below, we describe each of the simulations and the key results. The results are summarized in table 2.

RAISING THE MINIMUM WAGE

Methods and Assumptions

We simulated two minimum wage increases—to $7.25 per hour, and to the level proposed by CAP—50 percent of the average national wage. Each increase was simulated with and without indirect effects—job loss and indirect wage increases—for a total of four minimum wage simulations.

The hypothetical minimum wages were applied to the 2003 data in 2003 dollars. Because the most recent Congressional proposals would increase the minimum wage to $7.25 by 2010, we deflated the final wage of $7.25 from 2010 to 2003 dollars, giving a wage of $6.21. The minimum wage proposed by the CAP Task Force on Poverty would be $8.40 in 2006[6], which deflates to $7.67 in 2003 dollars. The use of 2003 dollars avoids overstating the value of the minimum wage relative to other dollar amounts in the 2003 data.

There may be two types of indirect effects from a minimum wage increase. First, most economists predict some level of job loss. Second, research shows that there would be "spillover" effects. That is, many employers would likely increase wages for individuals slightly below or above the range directly affected by the new minimum wage. In the simulations that incorporate indirect effects, we modeled both of these types of effects. We assumed that a minimum wage worker's probability of losing his or her job would equal 0.06 times the percentage increase in the wage. We based this estimate on the best-available literature on the effects of prior increases in minimum wages. We also assume that an employer would provide some wage increases for the workers up to $1 below the current minimum wage and up to $1 above the new minimum wage. (We provide details on the methods and assumptions for the indirect employment and wage effects in Appendix D.)

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[6] The CAP Task Force on Poverty suggests setting the minimum wage to half of the average wage for non-farm private sector nonsupervisory employees. The Bureau of Labor Statistics provides those data at http://www.bls.gov/webapps/legacy/cesbtab3.htm. The mean of the January 2006 and December 2006 figures is $16.80, half of which is $8.40.

TABLE 2: EFFECTS OF THE POLICY CHANGES ON POVERTY, TRANSFER BENEFITS, AND TAX LIABILITIES

	Baseline, including state minimum wages	DIFFERENCE BETWEEN THE BASELINE AND EACH POLICY SIMULATION [1]													
		Fed. min wage deflated to $6.21		CAP Task Force min wage deflated to $7.67		EITC: increased for childless workers and larger families and marriage penalty relief		Fully refund-able child tax credit if >=21	CCDF expansion and CDCTC expansion		CAP Task Force min wage, EITC and CTC, CCDF and CDCTC		Increase Food Stamp Program partic. rate to 85%	Remove PRWORA rules for LPRs and refugees	Add 2 million housing vouchers
		Direct Effects Only	With job loss + indirect wage gain	Direct Effects Only	With job loss + indirect wage gain	No work effects	With new workers		No work effects	With new workers	Direct Effects Only	With all employ-ment effects			
Baseline poverty count and change in poverty count (millions)															
Total number poor	35,338	-205	-475	-1,318	-1,691	-1,988	-2,155	-3,258	-999	-2,724	-6,751	-9,128	-1,393	-170	-1,777
By age group															
Children	10,524	-70	-141	-485	-595	-361	-385	-2,095	-597	-1,530	-3,106	-4,324	-627	-74	-74
Non-elderly adults	20,486	-135	-333	-821	-1,080	-1,595	-1,723	-1,129	-395	-1,176	-3,558	-4,690	-688	-79	-1,244
Elderly	4,328	0	-1	-12	-16	-32	-47	-34	-7	-18	-87	-114	-78	-17	-459
By race/ethnicity															
White non-Hispanic	16,948	-81	-206	-446	-531	-942	-985	-1,031	-407	-872	-2,640	-3,254	-480	-18	-868
Black non-Hispanic	7,488	-50	-91	-242	-285	-303	-377	-972	-214	-438	-1,537	-2,047	-161	-7	-285
Hispanic	8,607	-73	-159	-594	-836	-648	-679	-1,118	-331	-1,302	-2,277	-3,385	-644	-117	-560
Other race	2,296	0	-21	-35	-39	-96	-115	-138	-49	-115	-298	-443	-109	-28	-66
Baseline poverty gap and change in poverty gap (billions of 2003 dollars)															
All poor families	$95.082	-0.325	-$0.640	-$2.066	-$2.118	-$3.460	-$5.239	-$7.143	-$2.053	-$6.510	-$13.529	-$19.532	-$5.776	-$0.946	-$5.477
Baseline transfer costs and tax liabilities and changes due to policies (billions of 2003 dollars)															
Transfer Programs															
SSI annual benefits	$34.593	-$0.012	-$0.026	-$0.094	-$0.136	$0.000	$0.000	$0.000	$0.000	-$0.018	-$0.094	-$0.169	$0.000	$1.350	$0.000
TANF annual benefits	$9.295	-$0.004	-$0.008	-$0.078	-$0.048	$0.000	$0.000	$0.000	-$0.023	-$0.853	-$0.103	-$1.038	$0.000	$0.130	$0.000
Food Stamps	$20.793	-$0.079	-$0.150	-$0.529	-$0.685	$0.000	-$0.060	$0.000	-$0.394	-$1.149	-$0.907	-$2.126	$8.673	$0.357	-$0.428
Public/subsidized housing, annual subsidy costs	$22.874	-$0.028	-$0.071	-$0.260	-$0.356	$0.000	-$0.037	$0.000	-$0.175	-$0.477	-$0.435	-$0.965	$0.000	-$0.038	$9.721
CCDF child care subsidies, annual	$5.415	-$0.009	-$0.047	-$0.117	-$0.199	$0.000	$0.001	$0.000	$10.327	$18.025	$10.056	$16.460	$0.000	$0.000	$0.000
Taxes paid by families and individuals															
OASDHI taxes paid by workers	$340.785	$0.245	$0.622	$2.345	$3.407	$0.000	$0.296	$0.000	$0.000	$0.974	$2.345	$5.062	$0.000	$0.000	$0.000
Federal tax liability less credits	$704.982	$0.361	$1.133	$4.366	$7.206	-$22.118	-$22.593	-$13.648	-$1.283	-$2.584	-$31.675	-$30.106	$0.000	$0.000	$0.000
Change in transfer costs minus change in tax liabilities		-$0.739	-$2.057	-$7.789	-$12.038	$22.118	$22.201	$13.648	$11.018	$17.137	$37.847	$37.207	$8.673	$1.799	$9.293

Source: The TRIM3 microsimulation model

Notes:

[1] See text and appendixes for detailed description of each policy option.

Results

Assuming no employment or wage effects, the increase in the minimum wage to the level currently being debated in Congress ($7.25 by 2010) lifts approximately 200,000 people out of poverty. The increase to the CAP-proposed minimum wage ($8.40 in 2006 dollars) reduces poverty by an additional 1.1 million people, for a total reduction of 1.3 million. (See the top half of table 2.) Poverty declines for both children and non-elderly adults, with very minimal impacts on the elderly.

While employers would pay higher wages, the government would benefit from increased tax collections on the increased wages (bottom portion of table 2). With the minimum wage proposed by the CAP Task Force, workers' OASDHI taxes would rise by $2.3 billion and federal income taxes would increase by $4.4 billion.[7] Also, government spending for benefit programs would decline by about $1 billion.

Assuming the expected job loss and indirect wage gains, the minimum wage increases would produce larger reductions in poverty and also larger impacts on government spending and revenue. When the lower minimum wage increase (to $7.25 in 2010) is simulated with the indirect effects, poverty falls by 475,000 people, and the net increase in government revenues (higher taxes paid by individuals plus reduced benefits) is $2.1 billion.[8] When the minimum wage proposed by the CAP Poverty Task Force is combined with the indirect effects, poverty falls by 1.7 million individuals, and the reductions in benefits and increases in tax revenues from individuals sum to over $12 billion.

EXTENDING THE EITC

Methods and Assumptions

We simulated three types of EITC expansions:

- *Childless-worker EITC*: The childless-worker EITC is increased to 20 percent (from the current rate of 7.65 percent) of the first $10,000 in earnings (in 2007 dollars). The credit phases out at a rate of 16 percent, beginning at $12,500 for single childless workers and $14,500 for married childless workers. (In the 2003 dollars of the simulation, the credit applies to the first $8,957 of earnings, and the phaseout begins at $11,196 for singles and $12,987 for couples). Further, this proposal extends the childless-worker EITC to workers age 18–24 without children who are not full-time students.

[7] Employers' OASDHI taxes would also increase due to the higher wages.
[8] The Congressional Budget Office analysis of a minimum wage of $7.25 (H.R. 2, the Fair Minimum Wage Act of 2007, estimate dated January 11, 2007) estimates no significant effect on the federal government's spending or revenues, due to an assumption that any revenue effects of higher minimum wages would be offset by the effects of lost jobs or reduced hours of employment. One difference between the CBO analysis and this analysis is that this analysis assumes indirect wages gains as well as some job loss.

- *Reducing marriage penalties:* This provision excludes one-half of the earnings of a lower-earning spouse if it would result in a larger EITC.
- *EITC for larger families:* This provision increases the EITC for families with three or more children to a phase-in rate of 45 percent and a phase-out rate of 23.69 percent.

We modeled these policies with and without employment impacts. The simulations of the EITC expansions that capture the indirect effects on employment also include indirect effects on other taxes and government benefits.

Expansion of the EITC for childless workers could cause some non-workers to enter the labor force. Based on the best-available research we assumed a 1.4 percentage point increase in employment among childless adults due to the increases in the childless-worker EITC. This results in 574,000 new workers, raising the employment rate among single childless non-disabled adults age 25-64 from 88.8 percent to 90.2 percent. We assume that new workers work at the applicable minimum wage (either federal or state) for 38 weeks and 30 hours per week. Although other aspects of the EITC expansions—the childless-worker EITC for 18-24 year olds, the marriage penalty provisions, and the expansion for larger families—could also have some employment impacts, we do not model any employment changes to those provisions because of a lack of supporting research. (See Appendix D for more details on the employment assumptions.)

Results

Assuming no employment effects, the package of EITC changes proposed by the CAP Task Force reduces poverty by approximately 2.0 million individuals. Of course, poverty declines primarily among non-elderly adults (1.6 fewer poor in this age group), the targeted group. This option reduces the total poverty gap by $3.5 billion, and would cost approximately $22 billion (2003 dollars).[9] A significant share of the benefits would go to individuals with income just above poverty (see Appendix E for more detailed results).

Assuming higher employment among childless workers in response to the higher EITC, poverty would decline by 2.2 million individuals and the poverty gap would fall by $5.2 billion.

MAKING THE CTC FULLY REFUNDABLE

Methods and Assumptions

We simulated the impact of making the child tax credit (CTC) in the federal income tax system fully refundable for all tax units with a head or spouse age 21 or older. Currently, the credit—worth $896 per child in the 2003 simulation—is only partially

[9] TRIM3 estimates of the costs of expanded tax credits do not include any increased administrative costs, and assume that all taxpayers immediately take advantage of new features.

refundable, minimizing its benefit to low-income families. We simulated the refundability assuming that any tax unit that would benefit from the refund will file a tax return to obtain the credit, even if the tax unit does not currently file taxes. This assumption produces a maximum effect since some individuals probably would not file for the refund. Although the ability to receive a CTC refund (or a larger refund) could theoretically cause some small change in employment, we did not model any employment impacts from the refundable CTC due to uncertainty about the presence or possible magnitude of such impacts.

Results

TRIM3 estimated that a fully-refundable child tax credit would cost $13.6 billion in 2003 dollars.[10] However, more than half of that total—$7.1 billion—would reduce the poverty gap. The fully-refundable child tax credit would reduce poverty by 3.3 million people, including, 2.1 million children.

EXPANDING CHILD CARE ASSISTANCE

This simulation included expansions of the child care subsidy system and the Child and Dependent Care Tax Credit (CDCTC). We modeled these expansions with and without assumptions about effects on parents' employment.

Expanded Child Care Subsidies. This option included higher eligibility thresholds, a national-level minimum-work requirement, nationally-established copayments, and subsidies available to any eligible family wanting to receive them. The subsidy system that is simulated here is consistent with—but not necessarily identical to—the system proposed by the CAP Task Force on Poverty.

Many aspects of the expanded subsidy system would remain the same as the current CCDF subsidy system. Family eligibility would require: (a) at least one child under age 13 or a disabled teenager; (b) employment of the family head and the spouse in a married-couple families, and (c) income under the eligibility thresholds. However, the system simulated in this analysis alters several aspects of the eligibility rules, creates a national copayment formula, and increases the number of subsidies. Changes to eligibility and copayment rules are the following:

- *Income Thresholds:* Families are eligible with monthly income up to 200 percent of the poverty guideline for their family size (with higher guidelines in Alaska and Hawaii).[11] These limits are higher than the current-law limits in most states.

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[10] To the extent that some families would *not* begin to file tax returns even if they could benefit from the policy change, the poverty and cost impacts would be lower.

[11] The CAP Poverty Task Force proposal would apply the higher thresholds only to working parents, not students. (States would be able to continue providing child care subsidies to students, but the higher thresholds would not be required.) However, that aspect of the proposal is not captured in the simulation; the simulation applies the higher threshold to both working and student families.

In the cases in which states' current thresholds for either initial or continuing eligibility exceed these amounts, the higher amounts are used.[12]

- *Definition of working:* a national-level definition of work would replace the current variability in definitions across states: the head of the family (and also the spouse in a married-couple family) must be working at least 20 hours per week to be eligible.[13] This is more stringent than the current rules in the states that currently have no minimum hours requirement, but less stringent than the minimums imposed in other states.

- *Age limit for disabled teens:* Instead of having each state establish the maximum age for a disabled teenager, disabled teens would be eligible up to age 18 in all states.

- *Income definitions:* In all states, income would be defined as gross cash income, without any deductions or exclusions.

- *Copayments:* A national-level system of copayments would be imposed. In every state, a family's copayment is equal to 3 percent of income below the poverty guideline and 10 percent of income above the poverty guideline. Under the proposed system, no families would be exempted from copayments.

Perhaps the most significant change in the proposed subsidy system is to allow all eligible families that want subsidized child care to receive such care. However, even with full funding and no impediments to receiving subsidies, some eligible families might not feel that they need subsidies. For instance, a parent in a two-earner couple with school-age children might prefer to restrict her employment to school hours, eliminating the need for any type of child care. Other families that require some sort of non-parental care might prefer to have children cared for by relatives outside the subsidy system.

The simulation assumes that, in the absence of any new employment due to the increased subsidies, half of the eligible families would want to receive subsidies through this program. The assumption is based on the fact that approximately half of families who are not low-income use paid non-parental care (Giannarelli 2003). We used the following three steps to select participating families. First, we assumed that all families eligible in the baseline who are still eligible for subsidies continue to receive subsidies. Second, we assumed that newly-eligible families who had unsubsidized child care expenses in the baseline simulation would begin to participate. Third, we chose from among the remaining eligible families to reach a 50 percent participation rate. We used the same

[12] According to the October 2003 CCDF State Plans, there were 14 states in which the initial eligibility threshold for a family of 3 was higher than 200 percent of the poverty guideline. There were an additional 4 states in which a limit higher than 200 percent of poverty was used to determine if a family already receiving subsidies could remain eligible.

[13] CAP's full proposal for an expanded subsidy system would allow a family to remain eligible for one month without meeting this requirement, to allow a parent who becomes unemployed or unemployed one month of continued child care to facilitate regaining employment. However, this aspect of the proposal was not incorporated into the simulation.

relative probabilities of participation across different types of families (by ages of children, marital status, and lower vs. higher income) incorporated in the baseline simulation, increased proportionately to achieve the desired overall participation level.

Expanded CDCTC. This simulation also expands the child and dependent care credit (CDCTC) in the federal income system. The credit helps families pay for child care by allowing them to take a credit equal to a percentage of their allowable child care expenses. Under current law, the percentage falls from 30 percent for the lowest-income tax units to 20 percent for the highest-income tax units. The CAP Poverty Task Force proposal increases the maximum credit percentage to 50 percent and makes the credit fully refundable. The credit begins phasing out starting at AGI of $30,000, reaching the lowest level of 20 percent at AGI of $60,000. The maximum allowable expenses remain unchanged at $3,000 per child for up to 2 children. (These 2007 dollar amounts were deflated to 2003 dollars for purposes of the simulation.)

Note that copayments paid by families enrolled in the CCDF subsidy system (or the proposed expanded subsidy system) may count as allowable expenses. Thus, the lowest-income families could receive half of the amount of their copayment as a tax refund under the proposal.

Employment Effects

Expanded child care help could increase parents' work effort. Based on our review of the available literature, we assume that employment would increase by 8 percentage points for unmarried parents and by 3 percentage points for married parents with employed spouses. (We do not model any effect on hours of work for parents already in the labor market.) The simulation estimated 1.2 million new married workers and 0.7 million new unmarried workers. As in the simulation of increased employment due to an expanded childless-worker EITC, we assumed that new workers work for 38 weeks and for 30 hours per week, at the prevailing minimum wage (federal or state). All of the new workers are simulated to participate in the subsidy program, raising the participation rate from 50 percent (in the simulation without employment impacts) to 59 percent of families eligible for the subsidy in the average month of the year. More details on the employment effects are provided in Appendix D.

Results

Assuming no employment effect, the expansions to child care subsidies and child care tax credits reduce poverty by a total of 1.0 million people, including 600,000 fewer children in poverty. Poverty declines due to reduced out-of-pocket child care expenses for some families and due to higher child care tax credits. This option reduces the poverty gap by $2.1 billion. Government expenditures increase by approximately $11.0 billion, due primarily to the estimated $10.3 billion cost of the child care subsidies.[14] The cost of the higher CDCTC is $1.3 billion. The higher subsidy and tax credit costs are somewhat

[14] This estimated cost does not include any increase in administrative costs.

offset by lower government payments for food stamps, housing subsidies, and TANF benefits.

When we assume that employment would increase due to the increased availability of subsidies, the number of people raised above the poverty level increases to 2.7 million and the poverty gap declines by $6.5 billion. Non-child care benefit program costs would decline with increases in employment and taxes would increase. However, since all of the new workers are assumed to participate in the subsidy program, net government costs would increase by $17.1 billion relative to the baseline.

COMBINED SIMULATION OF MINIMUM WAGE, TAX CREDIT, AND CHILD CARE PROPOSALS

We tested the combined impacts of the CAP Task Force on Poverty proposals for a higher minimum wage, expanded tax credits (EITC, CTC, and CDCTC) and the increased child care subsidies. The combined policies were imposed with and without the indirect employment and wage assumptions.

Without the indirect effects, poverty falls by 6.8 million individuals—a 19 percent reduction from the baseline level of 35.3 million. The reduction in poverty is less than the sum the impacts of the individual proposals, since an individual raised out of poverty by more than one proposal counts only once in the combined simulation.

With the indirect effects all in place—including job loss due to the minimum wage increase, indirect wage increases due to the minimum wage increase, and increased employment due to the EITC and child care subsidy expansions—poverty falls by a total of 9.1 million individuals—a 26 percent reduction from the baseline. Estimated government costs would increase by $37.2 billion primarily due to the child care subsidy costs and the increased tax credits, offset somewhat by higher OASDHI taxes and lower transfer payments. The poverty gap declines by $19.5 billion (in 2003 dollars). Thus, slightly more than half of the increase in government costs goes to reduce the poverty gap. Of course, significant benefits derive for families with incomes just above poverty (see Appendix E).

INCREASING THE FSP PARTICIPATION RATE

The simulation of increased participation in the Food Stamp raised the overall participation rate—the percentage of households eligible to receive food stamps in the average month of the year who actually do receive that benefit—from approximately 55 percent to 85 percent. The simulation retained the current relative differences across different types of households in their likelihoods of receiving food stamps for which they are eligible.

The higher FSP participation level would reduce poverty by 1.4 million individuals and would cost an estimated $8.7 billion (in 2003 dollars). The higher food stamp participation rate would lower the poverty gap by $5.8 billion.

REMOVING RESTRICTIONS ON LEGAL ALIENS' ELIGIBILITY FOR AID

The PRWORA legislation of 1996 placed new restrictions on the eligibility of legally-resident non-citizens for public benefits. We simulated the impacts of removing those restrictions, treating legal non-citizens (legal permanent residents and refugees/asylees) the same as citizens for purposes of eligibility for SSI, TANF, and food stamps. (TRIM3 does not model immigrant restrictions for purposes of housing and child care subsidies.) We assumed that immigrants newly-eligible for a benefit would have the same likelihood of receiving the benefit as immigrant of similar characteristics who are eligible under current law. The simulation retained the rules that prohibit temporary and undocumented aliens from receiving public benefits.

The removal of restrictions on legal aliens' eligibility for public benefits would reduce poverty by an estimated 0.2 million people. Most of the individuals who become newly-eligible for benefits remain poor. However, the poverty gap would decline by $0.9 billion—accounting for approximately one-half of the $1.8 billion in increased benefit costs.

INCREASING THE NUMBER OF HOUSING VOUCHERS

Methods

This simulation assumed that 2 million new housing assistance vouchers would become available. We simulated the proposal as fully phased-in in 2003, and increased the number of households with housing assistance from the 4.5 million in the CY 2003 ASEC data to 6.5 million. Because housing expenses affect the computation of the excess shelter deduction in the Food Stamp Program, we re-simulated FSP eligibility and benefits.

We chose the households to receive the new vouchers from among households with at least one elderly person, disabled person, or child, since virtually all currently-subsidized households have at least one person of those types. We also restricted the new households to those in which the primary family has cash income under 125 percent of the poverty threshold. That limit is below the actual maximum income threshold for housing vouchers. (Public housing authorities may provide vouchers to households with income up to 80 percent of the area's median income.) However, in practice, most voucher recipients have lower income. When we restricted the new voucher recipients to households with income under 125 percent of poverty, the average tenant payments and average subsidy amounts for the newly-subsidized households were very close to those for the currently-subsidized households.

Among households that met the demographic requirements and were under 125 percent of poverty, we randomly selected 18 percent to receive the 2 million new subsidies. By randomly selecting the new recipients, we implicitly assumed that families with children, the elderly, and disabled individuals would all be equally likely to receive the new vouchers; different assumptions would yield different impacts on poverty. We estimated subsidy amounts and tenant payments in the same manner for the newly-subsidized households as for the currently-subsidized households. (See the discussion of TRIM3's simulation of public and subsidized housing in Appendix A.)

Results

The simulation reduces poverty by 1.8 million people, due to the value of the new housing subsidies. The new subsidies would cost an estimated $9.7 billion[15], which would be offset somewhat by savings in the Food Stamp Program (since lower housing expenses would result in lower food stamp benefits for some families), resulting in a total estimated government cost increase of $9.3 billion. The poverty gap falls by an estimated $5.5 billion.

[15] The estimated cost of the increased housing vouchers does not include any increase in administrative costs.

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Appendix A: The TRIM3 Model and the Baseline Simulations

THE TRIM3 MICROSIMULATION MODEL

TRIM3 is a comprehensive microsimulation model of the tax, transfer, and health programs affecting U.S. households. The model's input database is based on each year's Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS). For each household in the input database, TRIM3 determines the amounts of transfer benefits a household could receive and the amounts of tax a household would owe, under either the actual rules of government programs or hypothetical/proposed rules. This project made use of TRIM3 simulations of the following taxes and transfers:

Supplemental Security Income (SSI)
Temporary Assistance for Needy Families (TANF)
The Food Stamp Program
Public and subsidized housing
Child Care and Development Fund (CCDF) child care subsidies
Payroll taxes
Federal income taxes

At the point this project was conducted, the most recent year for which baseline simulations of all these programs were available was 2003. Those simulations were used as the starting point for this project.

Key features of TRIM3 include the following:

- Detailed modeling of the rules of tax and transfer programs: For both tax and transfer programs, rules are modeled in as much detail as the input data will support. For example, in modeling CCDF subsidies, the state-level variations in eligibility thresholds are captured, as well as the state-specific details of the rules governing the amount of the total child care cost the family must pay from its own income.

- Monthly simulation of transfer programs: Since most transfer programs provide benefits on a monthly basis, the model simulates eligibility, benefits, and participation on a monthly basis. To enable monthly simulations, an individual's CPS-reported annual income amounts are allocated across the months of the calendar year in a manner that is consistent with the individual's other reported employment data, such as the number of weeks of work vs. weeks of unemployment. Monthly simulations allow more accurate modeling of current law, and also allow more accurate estimation of the potential impacts of new employment, when new workers might work less than full-year.

- Modeling of interactions across programs: The results of one simulation can be passed to a subsequent simulation to capture interactions across programs. For example, a change in a family's CCDF copayment may affect benefits from the transfer programs that subtract child care expenses from earnings in defining net income, and may affect the amount of a family's child and dependent care tax credit.

Detailed documentation of TRIM3 is available at http://trim.urban.org/.

THE INPUT DATA

The simulations for this project used the TRIM input dataset based on the 2004 ASEC data. The 2004 ASEC captures the demographic characteristics and family relationships of civilian noninstitutionalized households as of the point of the survey (for most households, March 2004), together with detailed income and employment data for the individuals in those households for calendar year 2003. The detailed annual income data are needed to compute the poverty rate; in fact, the ASEC is the file used by the Census Bureau to produce each year's official poverty statistics. As part of each year's annual update of the TRIM3 model, an input dataset is created for the model that is based on the ASEC data, with several imputations required to allow modeling of the tax and transfer programs. Note that while TRIM is updated annually, the most recent calendar year for which a full set of simulations were available for public use was 2003.

During each year's annual update of the TRIM3 model, the ASEC data are augmented in several ways to allow more exact modeling of the tax and transfer programs. The modifications include the following:

- *Monthly incomes*: Monthly income amounts are needed to simulate the transfer programs, which generally determine eligibility and benefits on a monthly basis. However, the ASEC collects annual rather than monthly amounts. TRIM3 allocates the annual amounts across the months of the year, with different methods used for different types of income. Earnings are allocated in manner consistent with the information reported by the respondent on the number of weeks s/he worked during the year and his/her number of spells of unemployment. Specific weeks of employment are chosen in such a way that the overall trend in the unemployment rate in the resulting data matches the trend according to Bureau of Labor Statistics data.
- *Immigrant legal status:* An immigrant's legal status helps determine if s/he is eligible for public aid. The ASEC data indicate if an individual is a citizen, but do not report a non-citizen's legal status. As part of the standard TRIM3 annual update, a legal status—legal permanent resident, refugee/asylee, temporary alien, or undocumented alien—is imputed to each non-citizen in the ASEC data.
- *Information needed to model income taxes:* Several pieces of information needed to simulate federal income tax liability are not available in the ASEC data. These variables—itemized deduction amounts, capital gains income, and IRA deductions—are imputed as part of the standard TRIM3 annual update.

- *Corrections for under-reporting of child support income by TANF recipients:* TANF recipients may under-report the child support income paid on their behalf since they do not generally receive that income directly. TRIM3 procedures correct for this under-reporting.
- *Child care expenses:* Child care expenses are imputed in coordination with the modeling of child care subsidies, discussed below.
- *Housing expenses for low-income families:* Housing expenses are needed for low-income families who might be eligible for food stamps, in order to compute the appropriate excess shelter deduction. Housing expenses are assigned in coordination with the modeling of public and subsidized housing, discussed below.

Information on the methods for these procedures is available at the TRIM3 website, http://trim.urban.org/.

THE BASELINE SIMULATIONS

The baseline simulations form the starting point for simulating the policy options. The results of the policy simulations—persons in poverty, tax units receiving a particular tax credit, costs of a transfer program—can be compared against the results of the baseline simulation to estimate the impact of the policy change. This analysis requires baseline simulations of two cash-assistance programs—SSI and TANF, three in-kind benefit programs—food stamps, housing subsidies, and child care subsidies, and two types of taxes—payroll taxes and federal income taxes.[16]

The baseline simulations for this project are the same as the standard baseline simulations for CY 2003 produced and validated as part of annual updates to the TRIM3 model, with two exceptions. First, the baseline simulations for this project use the modified version of the ASEC data described above, with the adjustments to earnings to capture the recent increases in state minimum wages. Second, in the case of the simulation of federal income taxes, some recent changes in tax law that are particularly relevant to this project are modeled even though they were not in place in 2003.

Transfer Programs: Simulation Methods

The transfer programs simulated as part of this analysis are SSI, TANF, food stamps, housing subsidies, and federal child care subsidies through the Child Care and Development Fund (CCDF). All these transfer program simulations operate on a monthly basis; for example, a family or individual might be eligible for a program in one month but not the next if income has risen. The simulations follow the real-world rules for

[16] The TRIM3 system can also simulate state income tax liabilities. However, because of the many changes in states' income tax rules since 2003—including many new state-level EITCs—it would have been inappropriate to use the 2003 state income tax rules as part of an analysis involving changes to the EITC. Project resources did not allow an update of the state income tax model.

eligibility and benefits to the greatest extent possible, including each program's definition of gross and net income, the group of people who comprise the family or household for purposes of that program, variations in rules across states, and so on.

Since not all families and individuals eligible for a benefit receive that benefit, the simulations must determine which of those eligible for a benefit will receive it. In the simulations of SSI, TANF, the Food Stamp Program, and CCDF child care subsidies produced as part of each year's updating of the TRIM3 model, a simulated caseload is selected from among those individuals, families, or households simulated to be eligible for the benefit. Exact methods vary, but the general approach is the same across these four simulations. First, participation is assigned to all those who are simulated to be eligible who reported receipt of the benefit in the ASEC interview. Then, a portion of the eligible families or individuals who did not report the benefit are chosen as recipients. Non-reporting eligible units are selected in such a way that the size and characteristics of the simulated caseload come acceptably close to targets from administrative data. Thus, the simulations correct for the under-reporting of transfer program benefits in the ASEC data, providing a better starting point for the simulation of alternative policies.

Other key points about the simulations of the transfer programs are as follows:

- *SSI*: TRIM3 simulates whether adults are eligible for SSI based on age or disability, the amount of potential benefit, and whether the benefit is received. TRIM3 also simulates the children's SSI caseload and benefits. The model simulates federal SSI payments and the supplemental payments provided in some states.

- *Child care subsidies (and child care expenses)*: TRIM3 simulates only one type of child care subsidy—those funded through CCDF. For CCDF, TRIM3 models whether a family is eligible for subsidies, the amount of copayment a family would have to pay, and whether the subsidies are received. State-specific rules for eligibility, including income thresholds, income definitions, and minimum-hours requirements, as well as detailed state rules for copayments, are taken from the biennial State Plan documents (in this case, the state plans submitted in October 2003). For families that are simulated to receive CCDF-funded subsidies, the family's out-of-pocket child care expense equals the copayment required of the family. For families not subsidized through CCDF, equations are applied to impute the probability that the family has some expenses, and if so, the amount of expense. The results of the imputations are aligned such that the percentage of families with expenses and the average expense amount, overall and for families of different income levels, matches data from the National Survey of America's Families.

- *TANF*: TRIM simulates the cash benefits provided with TANF funds as well as the cash payments provided to certain categories of families—generally two-parent families and/or immigrant families—through separate state programs in some states. The model simulates eligibility for TANF, potential benefits, and whether benefits are received.

- *Public and subsidized housing (and housing expenses)*: For households that report in the ASEC that they live in public or subsidized housing, TRIM3 simulates the amount the family would be required to pay towards the rent and imputes the amount of subsidy the household receives. Subsidy is estimated as the fair market rent (FMR) for an apartment of the needed size (based on household composition) in the state of residence[17], minus the household's required payment. Because detailed data on the size and characteristics of subsidized households has not generally been available, TRIM3 does not assign housing subsidies to any additional households in baseline simulations. For non-subsidized low-income households, the model assumes that the household's rent equals the lesser of (a) the FMR for the required number of bedrooms and state of residence, and (b) 60 percent of household income.

- *Food Stamp Program*: TRIM3 simulates whether each household is eligible for food stamps, the amount of potential benefit, and whether each eligible household participates in the program.

TRIM3 also captures the interactions across the transfer programs. Cash income from SSI and TANF affects the food stamp benefit, and affects the rental payment required from a household in subsidized housing. The copayment required of a family with subsidized child care affects the child care expense deductions used in determining housing payments, food stamp benefits, and TANF benefits in some states. The housing payment required of a family with a housing subsidy affects the amount of excess shelter deduction that household can claim in determining its food stamp benefit.

<u>*Baselines used in this Analysis*</u>

For this project, we created a set of baseline simulations identical to the standard CY 2003 simulations publicly available, with the exception that we incorporated the modification to earnings to capture post-2003 state-level minimum wage legislation. Because of the slightly higher incomes, TRIM3 simulates slightly fewer individuals and families eligible for various benefits than in the standard 2003 simulations, and slightly lower government benefits than in those standard simulations.

<u>Federal Taxes: Simulation Methods</u>

Payroll taxes and federal income taxes were simulated for this analysis. TRIM3 captures the different payroll tax rates for the self-employed vs. non self-employed, and

[17] Fair market rents (FMRs) vary by locality. We compute an average fair market rent for each apartment size for each state, weighting the local FMRs according to population.

for certain federal workers. The federal income tax simulation is very detailed, following the real-world tax rules to the greatest extent possible. TRIM3 divides each household into potential tax units based on family relationships and incomes, computes gross income, subtracts deductions and exemptions, and computes and applies tax credits. The simulation of the child and dependent care tax credit (CDCTC) uses the child care expenses simulated by TRIM3's Child Care module—including both the expenses imputed for families without child care subsidies and the copayments calculated for subsidized families.

TRIM3 assumes full compliance with tax rules. That is, the model assumes that all families that must file a tax return do so and all families eligible for tax credits receive them. CDCTC provides one exception to this assumption. TRIM3 finds more tax units eligible for this tax credit than actually receive it. As part of the standard baseline modeling procedures, a subset of eligible tax units is randomly selected to not take the credit, such that the simulated use of the credit in each AGI category matches administrative data.

Baselines for this Analysis

For this project, we produced identical to the standard, public-use CY 2003 simulations, with two exceptions. First, the baselines incorporate the modification to earnings to capture post-2003 state-level minimum wage legislation, producing slightly higher payroll and federal income taxes

Second, the baseline federal income tax simulation incorporates post-2003 changes to the child tax credit (CTC), earned income tax credit (EITC), and CDCTC, to provide a more appropriate baseline for modeling expansions of those credits. Specifically, the following rules were modeled.

- Child Tax Credit: We included the current $1,000 value of the credit (deflated to $896 to reflect 2003 dollars) and the current phase-out points (2007 values of $75,000 single and head of household, $110,000 joint) deflated to 2003 dollars. We modeled the credit as 15 percent refundable for earned income above $10,500. (The tax law indexes the 2003 value of $10,500 for inflation.) Families with three or more children have the option of receiving a refundable credit calculated under a different formula, if this results in a higher refundable credit. (The refundable credit is capped by the amount by which the tax unit's social security and Medicare payroll taxes—including one half of the self-employment tax—exceed the unit's EITC.)

- EITC: EGTRRA increased the starting point and ending point of the phaseout point for joint filers by $2,000, effective 2005. (In 2008, this increased to $3,000). These points are indexed for inflation. We obtain the starting point of the phaseout for joint filers from the 2005 1040 instructions, and deflate to 2003. (TRIM3 calculates the end-point as a function of the starting point, maximum credit, and phase-out rate).

- Child and Dependent Care Credit: The child and dependent care credit maximum qualifying expense and phase-out brackets are not indexed for inflation. We take the 2007 values and deflate to 2003 dollars.

Other tax law changes since 2003 that would have limited impact on low-income filers—such as deductibility limits for IRA contributions—are left at their 2003 levels.

Appendix B: Identifying Minimum Wage Workers and Modifying Wages

Because the simulations involve increases to the minimum wage, this project required that the standard TRIM input data for CY 2003 be modified in two ways: by obtaining additional data on hourly wages, and by modifying the earnings of some individuals to capture the impact of state legislation that occurred after 2003 to set state minimum wages higher than the federal minimum wage.

IDENTIFYING THE CURRENT HOURLY WAGE

To simulate the impact of an increase in the minimum wage, it is necessary to know each worker's current wage in hourly terms. There are two potential sources of information for determining the hourly wage of a person captured in the ASEC data.

- The CY 2003 annual data. The ASEC includes extensive information about each person's employment during the calendar year. Four pieces of information—annual wage/salary income, annual weeks worked, annual weeks worked part-time (if different from full-time), and usual hours worked—can be combined to estimate each worker's hourly wage, as follows:
    - When all weeks of work are either part-time or full-time:
      Hourly wage = Annual wages and salary / Weeks worked / Usual hours per week
    - When there are both part-time and full-time weeks:
      If the usual hours of work is 35 or more, treat that as the hours worked in the full-time weeks, and assume 20 hours for the part-time weeks.
      If the usual hours of work is <35, treat that as the hours worked in the part-time weeks, and assume 40 hours for the full-time weeks.
      Hourly wage = Annual wages and salary / [(Part-time weeks * part-time hours) + (Full-time weeks * full-time hours)]

- The "earnings sample" (ES) data. In every month of the CPS, the approximately one-quarter of the CPS sample who are in the outgoing rotation group[18] are asked a series of detailed questions related to their current earnings that include the following:
    - whether a person is an hourly worker
    - the person's hourly wage (for hourly workers)
    - weekly earnings and hours worked per week (for non-hourly workers); in this case, the hourly wage can be inferred as weekly earnings divided by hours worked per week

[18] A household is in the CPS sample for 4 months, then is out of the sample for 8 months, then returns for another 8 months. Households in their 4th or 8th month are considered the "outgoing rotation groups".

An implied hourly wage can be computed for every worker with CY 2003 earnings in the ASEC data, but the ASEC includes ES data for less than a quarter of those workers. The other individuals who worked during 2003 either were not in the outgoing rotation group in that month, or were not working in that month.

For workers with both types of data in the ASEC data, the two hourly wages are often different, for at least three reasons. First, the ES questions refer to the point in time at which they are asked—some time between March and July of the year following the year for which annual income is collected. By that point, a person may be in a different job than s/he had during the calendar year, or s/he may be in the same job but may have obtained a raise. Second, when questions are not answered by the respondent they are filled in by the Census Bureau through "allocation" (imputation) procedures. For workers with ES data in the ASEC data, there are more discrepancies between the two sources when one or both is based on imputed data.[19] Third, even when information is reported by the respondent, there may be reporting errors; in particular, individuals who did not work the entire year may not remember exactly how many weeks they worked, and those who worked different numbers of hours in different weeks probably do not report the exact mean hours.

In general, the ES data are what is used for most analyses involving wages. When hourly wages are computed from the annual data, an unreasonably high number of wages fall below the minimum wage, probably due to inaccuracies in the reporting of either weeks of work or hours per week. For this project, the ES data could not be used exclusively, because the focus on poverty requires the use of the entire ASEC sample. However, the ES data are used to the greatest extent possible.

To obtain ES data for more workers, we used identification codes to match individuals in the ASEC data without ES data with their data records in the April through July CPS files. In theory, all of the workers in the ASEC data should have been in the outgoing rotation group in one of those subsequent months. However, due to attrition from the sample or matching problems (such as errors in household identification codes) not everyone can be matched. Further, for some of those whose records can be found in a subsequent month, the ES data do not provide an hourly wage because the person was not working in the month in which s/he was in the outgoing rotation group. Finally, even when a person was working in the outgoing rotation group, the ES data do not always provide an hourly wage; when a non-hourly worker reports that his/her weekly hours are "variable," a wage cannot be computed.

After the matching, the ES variables were available and provided a usable hourly wage for 55 percent of CY 2003 wage and salary workers. For the remaining 45 percent, the hourly wage was obtained through use of the annual variables as described above.

[19] We tested the possibility of not using the ES hourly wage when it was imputed by the Census Bureau if the annual employment variables were actually reported. However, this approach resulted in a distribution of hourly wages with too many workers below the minimum wage compared with published data from the Bureau of Labor Statistics.

Table B1 shows the resulting distribution of hourly wages for the workers who are the focus of this analysis—those in families with incomes below poverty.

RECENT STATE MINIMUM WAGES

Between 2003 and 2007, many states have enacted minimum wages that are above the federal minimum wage. Due to those increases, any national-level increase in the minimum wage will have a smaller effect on incomes than it would have had in the absence of the state legislation. To avoid overestimating the impacts of national-level minimum wage increases, we modified the earnings of individuals living in states with minimum wages above the current federal minimum who appeared to be covered by the minimum wage law but working at a wage below the state's minimum. Table B2 shows the state minimum wages as of January 2007, in actual dollars and deflated to 2003 dollars.

The steps were as follows:

- *Exclude from any adjustment individuals who would not be covered by the minimum wage law*: Some individuals—farmers, waiters, and some others—are not covered by the minimum wage law, and may legally be paid an hourly rate below the minimum wage. Further, individuals who are self-employed are not affected by minimum wages. We therefore exclude from the adjustments any workers who were self-employed (farm or non-farm)[20], and any workers with an hourly wage under $5.00 per hour. (Although the actual minimum wage is $5.15, the use of the $5.00 cutoff allows for some tolerance due to reporting errors.)

- *Identify affected individuals:* For non-excluded individuals, earnings are increased for those in states with a minimum wage law and with hourly earnings below the January 2007 level in 2003 terms. Note that the adjustment was performed regardless of whether an individual reported being an hourly worker or a non-hourly worker in the ES data; the ES data are not available for all individuals, and even a worker who does not report being paid on an hourly basis may be affected by a minimum wage increase. (If a worker earns a salary equivalent to $6.00/hour in a company that also has workers earning $5.15/hour, a state minimum wage increase to a level above $6.00/hour will likely cause a raise for the non-hourly worker.)

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[20] For individuals with both self-employment and wage and salary earnings, a minimum wage increase could affect the wage and salary portion of earnings. However, for individuals with both types of earnings for whom ES data were not available, an hourly wage could be estimated only by assuming the same hourly earnings from both self-employment and non-self-employment. Because that assumption would be unlikely to be true, and since there were very few low-wage individuals with self-employment earnings in the input data, we excluded all individuals with any self-employment income from any wage adjustments.

TABLE B1: WORKERS IN POVERTY BY HOURS PER WEEK AND HOURLY WAGE *

Any Number of Weeks Worked during CY 2003

Hours Per Week [2]	Hourly Wage Rate [1]						
	SE	<5.00	5.00-6.20 [4]	6.21-7.66 [4]	7.67-9.99	10.00+	Total
1-19	101,116	146,238	142,030	230,182	180,276	328,614	1,128,456
(row %)	9.0%	13.0%	12.6%	20.4%	16.0%	29.1%	100.0%
(col. %)	14.6%	9.5%	14.3%	15.5%	11.9%	17.2%	13.9%
20-34	156,829	441,777	346,187	425,518	389,910	528,666	2,288,887
(row %)	6.9%	19.3%	15.1%	18.6%	17.0%	23.1%	100.0%
(col. %)	22.6%	28.8%	34.9%	28.7%	25.8%	27.7%	28.2%
35+	435,882	948,254	502,938	829,229	938,633	1,052,165	4,707,101
(row %)	9.3%	20.1%	10.7%	17.6%	19.9%	22.4%	100.0%
(col. %)	62.8%	61.7%	50.7%	55.8%	62.2%	55.1%	57.9%
Total	693,827	1,536,269	991,155	1,484,929	1,508,819	1,909,445	8,124,444
	8.5%	18.9%	12.2%	18.3%	18.6%	23.5%	100.0%

Source: Urban Institute tabulations of CY 2003 CPS data with April-July outgoing rotation group data and TRIM3

Notes:

* Workers are defined as people with earnings of at least $100 during CY 2003, who are not members of the military. Poverty is defined using the cash income of the broadly-defined family and standard poverty thresholds for 2003. Income is CPS-reported cash income with 2 exceptions: TRIM-simulated TANF and SSI income amounts are used, and wages are adjusted to reflect state-specific minimum wage increases that occurred after CY 2003.

[1] Hourly wage is from the earnings-sample (ES) data when available; if there is no ES data for a worker, the wage is computed as annual earings divided by weeks worked divided by usual hours worked. Wage rates are adjusted to reflect state-specific minimum wage increases that occurred after CY 2003.

[2] Hours-per-week is the number reported as the "usual" hours worked, during the weeks of the calendar year when this person was working.

[3] Workers with hourly wage under $5/hour are assumed to not be covered by minimum wage rules.

[4] The workers from $5.00 to $6.20 benefit from the increase to $7.25 ($6.21 in 2003 $), and also benefit from minimum wage proposed by the CAP Task Force on Poverty. The workers from $6.21 to $7.66 benefit from the Task Force minimum wage ($7.67 in 2003 $).

TABLE B2: STATE MINIMUM WAGES IN EFFECT IN JANUARY 2007

	Jan. 2007 level	Deflated to 2003 dollars [1]
Alaska	7.15	6.40
Arizona	6.75	6.05
Arkansas	6.25	5.60
California	7.50	6.72
Colorado	6.85	6.14
Connecticut	7.65	6.85
Delaware	6.65	5.96
District of Columbia	7.00	6.27
Florida	6.67	5.97
Hawaii	7.25	6.49
Illinois	6.50	5.82
Maine	6.75	6.05
Maryland	6.15	5.51
Massachusetts	7.50	6.72
Michigan	6.95	6.22
Minnesota	6.15	5.51
Missouri	6.50	5.82
Montana	6.15	5.51
Nevada	6.15	5.51
New Jersey	7.15	6.40
New Mexico	6.75	6.05
New York	7.15	6.40
North Carolina	6.15	5.51
Ohio	6.85	6.14
Oregon	7.80	6.99
Pennsylvania	6.25	5.60
Rhode Island	7.40	6.63
Vermont	7.53	6.74
Washington state	7.93	7.10
Wisconsin	6.50	5.82

Notes:

[1] The 2007 values are deflated to 2003 using the actual CPI figures through 2006 and the projection for 2007 in the Congressional Budget Office's Budget and Economic Outlook released on 1/24/07. See Appendix D, Table D-1, "CBO's Year by Year Forecasts and Projections for Calendar Years 2007 to 2017". On the web at http://www.cbo.gov/ftpdocs/77xx/doc7731/01-24-BudgetOutlook.pdf

- *Make the adjustment:* An affected worker's annual earnings are increased by the ratio of the new minimum wage to the current hourly wage (except that if the current hourly wage is from $5.00 to $5.14, the ratio of the new minimum wage to $5.15 is used). Because the TRIM3 model uses monthly earnings to compute transfer program eligibility and benefits, each month's earnings were increased by the same ratio.

The resulting data capture the population in 2003, but as if state minimum wage increases were already in effect.

IMPOSING HIGHER FEDERAL MINIMUM WAGES

In the simulations of higher federal minimum wages, we followed the same steps as described above. For all wage and salary workers with an hourly wage of $5.00 or higher (including those who do not report being paid hourly), if that wage is less than the new national-level minimum wage the model increased worker's earnings by the ratio of the new minimum wage to the current hourly wage (except for workers currently earning from $5.00 to $5.14, we used the ratio of the new minimum wage to $5.15). Note that the "current hourly wage" incorporates any adjustment already made to capture higher state minimum wages. The model adjusted each month's earnings by the same ratio.

Appendix C: Poverty Status And Poverty Gap

The main interest of the CAP Task Force on Poverty is on the anti-poverty impact of the various policy proposals—both changes in the number of poor individuals and in the poverty gap. The CAP Task Force requested that the analysis use an expanded definition of income and also use a non-standard set of poverty thresholds. The non-standard thresholds are adjusted such that the total number of people in poverty in 2003 remains the same as with the standard thresholds and standard income definition.

INCOME DEFINITION

In order to assess poverty in a manner that captures the impacts of the proposals on families' economic well-being, we use a broader definition of family income than is used in standard poverty measurement. Specifically, the definition of income for determining poverty for this project equals:

- Cash income (earned and unearned income), *plus*
- The value of food stamps, *plus*
- The value of a household's housing subsidy, if any, *minus*
- Federal income tax liability prior to the EITC, *plus*
- The value of the EITC, *minus*
- A family's out-of-pocket child care expenses (either a subsidized family's copayment or a non-subsidized family's payment)

On average, this definition of income results in a higher amount of income than the standard definition, which consists of only cash income. In all cases, we used TRIM3 simulated values that correct for underreporting of income and assign values to in-kind benefits as described in Appendix A.

POVERTY THRESHOLDS

The poverty thresholds used for this analysis differ from the standard thresholds in two ways. First, we use the ratios among thresholds for different types of families (by family size and by number of related children) developed by David Betson and described in Short, 2001. Second, we find the set of thresholds that, when applied to the expanded income definitions, produces a number of poor individuals that is very similar to the number obtained when the standard thresholds are applied to only the cash income component of income. The resulting poverty thresholds are shown in table C1.

Both the standard poverty thresholds applied to cash income and the revised poverty thresholds applied to expanded income produce approximately 35.3 million individuals in poverty in the adjusted-2003 data. Note that this figure is lower than the Census Bureau's figure of 35.9 million people in poverty because the TRIM3 figures

TABLE C1: POVERTY THRESHOLDS FOR THIS ANALYSIS VS. STANDARD 2003 THRESHOLDS

THRESHOLDS USED FOR THIS ANALYSIS (APPLIED TO AN EXPANDED INCOME DEFINITION)

	Number of related children under 18 years								
Size of family unit	None	One	Two	Three	Four	Five	Six	Seven	>= Eight
One person (unrelated individual), <65	9,900								
One person (unrelated individual), 65+	9,900								
Two persons, family head <65	13,948	14,939							
Two persons, family head 65+	13,948	14,939							
Three persons	21,361	18,801	17,735						
Four persons	26,126	23,794	21,361	20,354					
Five persons	30,543	28,371	26,126	23,794	22,834				
Six persons	34,700	32,650	30,543	28,371	26,126	25,204			
Seven persons	38,654	36,700	34,700	32,650	30,543	28,371	27,483		
Eight persons	42,442	40,567	38,654	36,700	34,700	32,650	30,543	29,682	
Nine persons or more	46,089	44,281	42,442	40,567	38,654	36,700	34,700	32,650	31,814

STANDARD 2003 POVERTY THRESHOLDS (APPLIED TO CASH INCOME)

	Number of related children under 18 years								
Size of family unit	None	One	Two	Three	Four	Five	Six	Seven	>= Eight
One person (unrelated individual), <65	9,573								
One person (unrelated individual), 65+	8,825								
Two persons, family head <65	12,321	12,682							
Two persons, family head 65+	11,122	12,634							
Three persons	14,393	14,810	14,824						
Four persons	18,979	19,289	18,660	18,725					
Five persons	22,887	23,220	22,509	21,959	21,623				
Six persons	26,324	26,429	25,884	25,362	24,586	24,126			
Seven persons	30,289	30,479	29,827	29,372	28,526	27,538	26,454		
Eight persons	33,876	34,175	33,560	33,021	32,256	31,286	30,275	30,019	
Nine persons or more	40,751	40,948	40,404	39,947	39,196	38,163	37,229	36,998	35,572

incorporate the state minimum wage increases and also use TRIM-simulated SSI and TANF income in place of the under-reported figures in the ASEC data.

Appendix D: Indirect Employment and Wage Effects

Three of the CAP Poverty Task Force policies—higher minimum wages, expanded EITCs, and expanded child care subsidies—potentially could have indirect effects on workers as well the direct effects. Higher minimum wages might cause some job loss and likely will result in some "spillover" effects where workers with wages slightly below the old minimum wage or slightly above the new minimum wage receive wage increases. The expanded childless-worker EITC and expanded child care subsidies could each prompt additional individuals to enter the labor force. This appendix describes our methods for modeling these indirect effects.

INDIRECT EFFECTS OF A MINIMUM WAGE INCREASE

Job Loss

While debate still continues, recent literature seems to indicate that a minimum wage increase would lead to a small, negative effect on employment. Neumark and Wascher (2006) document the evidence from over 100 recent studies. In the studies that they review that apply most generally to the low-wage population, the elasticities range from 0 (Yelowitz 2005), to -0.06 to -0.15 (Neumark et al 2004), -0.11 (Keil et al 2001), and -0.19 to -0.24. Effects for teens alone are generally estimated to be higher. Other economists question whether an increase in the minimum wage leads to a decline in employment. For example, Bernstein and Schmitt (1998) failed to find any systematic, significant job loss associated with the 1996-97 minimum wage increase, and Card and Krueger (1995) also found no measurable negative impact on employment.

Given this uncertainty, and the fact that the minimum wage increase would occur in the future when fewer workers would be earning the minimum than reflected in the 2003 adjusted data, we assumed a relatively conservative employment estimate of -0.06. Specifically, for a worker who would receive a wage increase due to the new minimum wage, the probability of losing his/her job equals 0.06 times the percentage increase in the wage. For example, a worker earning exactly $5.15 would have a wage increase of $6.21, (20.6 percent), and the probability of job loss for this worker would be 1.2 percent. Given the uncertainties of the exact job loss impacts, the same elasticity was used for both teenagers and adults. We did not model any reductions in hours-of-employment, since the literature fails to find any consistent effects.

Indirect Wage Increases, "Spillover" Effects

We assumed that employers would maintain some consistency in relative wage rates for workers earning just below or above the new minimum wage rates. While there is general agreement that these types of adjustments occur in the labor market, there is little research evidence detailing the exact range of adjustment.

We assumed that some adjustment would occur for workers with hourly wages within $1.00 of the new minimum wage, but this adjustment would be proportional and phase out to zero at the ends of the range. Specifically, we assumed that the higher minimum wages would affect workers with hourly wages between $4.15 and $5.15, and workers earning up to $1.00 higher than the new minimum wage. Chart D1 displays the assumed new wages when we modeled indirect wage increases.

Implementing the Indirect Effects

When TRIM3 randomly selects a worker to lose his/her job, the model changes all his/her monthly earnings to $0, and the model sets other ASEC variables related to employment in a manner consistent with being a non-worker. The model also increases earnings in each month by the ratio of the new wage to the current wage for workers that receive indirect wage increases (in the same manner described in Appendix B for simulating new state minimum wages).

EMPLOYMENT INCREASE DUE TO EITC EXPANSION

Assumptions

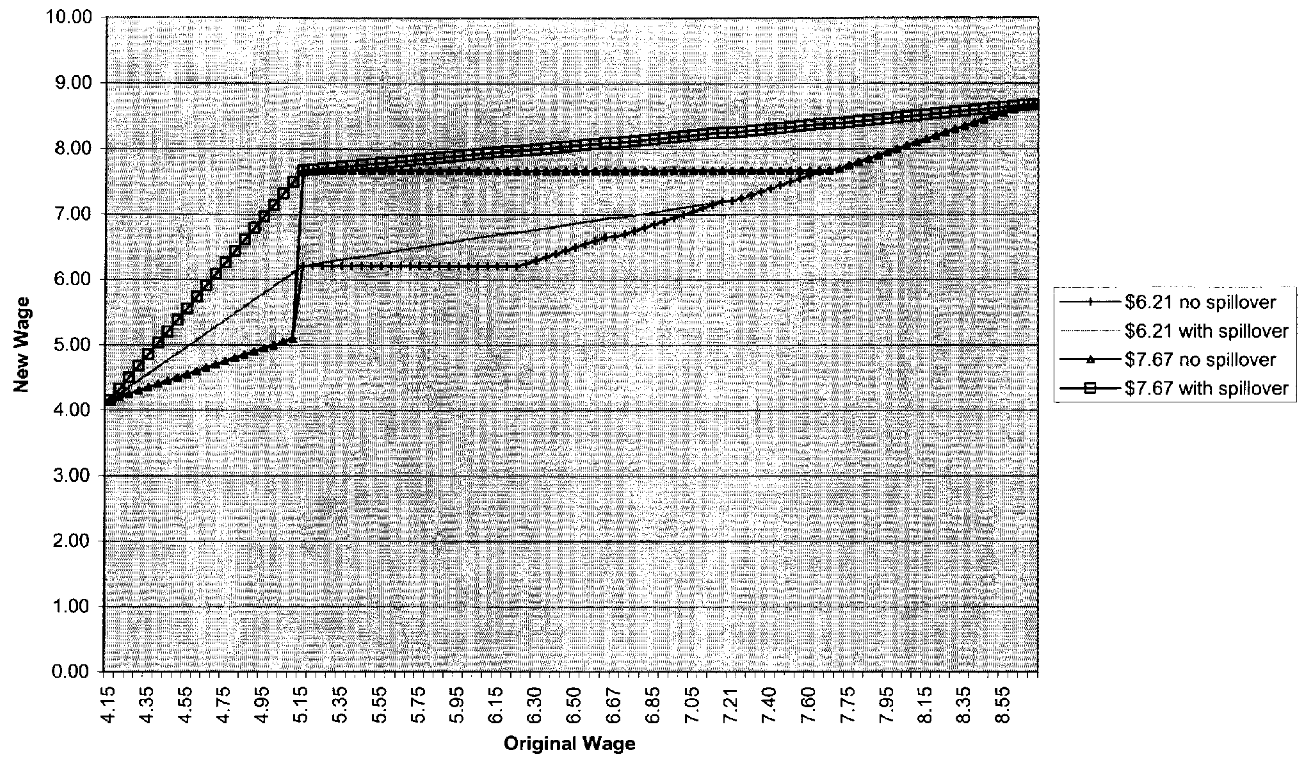
Numerous analysts have considered the impact of a higher EITC on parent's employment. Grogger's analysis (2003) produces results fairly consistent with Meyer and Rosenbaum (2001) and others, and provides elasticities. Grogger estimates that a $1,000 increase in the maximum EITC credit leads to a 3.6 percent increase in employment for female-headed families. Very little (negative) effect has been found on employment for secondary earners in two-parent couples (Eissa and Leibman 1996), and the literature finds very little positive effect on work for primary earners in two-parent couples. Some found effects in larger families (Hotz, Mullin and Scholz 2005). The literature does not document a consistent effect on hours of work.

We assumed that the effect of an increase in the EITC for childless unmarried adults would not be as large as for female-headed families, since effects for singles likely would be on the intensive rather than the extensive margin. We assume that the employment effect for single, childless adults would be approximately one-half that found for female-headed families. We assume a 1.8 percentage point increase in employment (one-half of 3.6) due to a $1,000 increase in credit for childless adults. We do not model an employment effect for two-earner childless couples. We also do not assume employment effects from the marriage penalty reduction, the extension of EITC eligibility to 18 to 24 year olds, or the expansion for larger families, due to the lack or research on which to base these estimates.

Implementation

Because the maximum credit for a childless worker would be somewhat less than $1,000, the estimates above suggest an increase in the employment rate of approximately 1.4 percentage points among childless unmarried adults. We assumed that the effect

Chart D1:
New Hourly wages with and w/out spillover



applies only to non-disabled adults and that a non-working individual currently receiving more in Unemployment Insurance (UI) or Workers Compensation (WC) than s/he would receive from working would not take a job. Given these restrictions to the group of potential new workers, we selected 14 percent of the group to achieve the desired increase in employment among unmarried childless non-elderly non-disabled adults. This resulted in 574,000 new workers, raising the employment rate among single childless non-disabled adults age 25-64 from 88.8 percent to 90.2 percent.

We assumed that new workers receive the minimum wage (either federal or state) for 38 weeks and 30 hours per week for a total of 1140 hours of work during the calendar year. This is consistent with the fact that most workers in poverty do not work full-time, full-year. (For all workers in the CY 2003 ASEC data in families in poverty, the mean hours of work during the year was 1172, with a median of 1040.) The model changed all ASEC variables related to employment to reflect the new employment status. Also, the model sets UI and WC to $0 for new workers receiving these benefits in the baseline.

EMPLOYMENT EFFECTS OF INCREASED CHILD CARE SUBSIDIES

Assumptions

Increased availability of child care subsidies could induce more parents of young children to enter the labor force. For instance, a non-working single mother currently relying on a combination of child support and public assistance or a married mother with a working spouse might each decide to enter the labor force if low-cost child care were available.

Unfortunately, the evidence of these effects is relatively new and thin (mostly because of data limitations). A summary of recent literature by Schaefer, Kreader, NCCP, Ann Collins and Abt Associates (2006) provides a wide range of estimates often with varying study groups. One study estimated that a $1,000 annual increase in subsidies resulted in an 11 percent increase in the probability of employment for low-income families (not on welfare), (Bainbridge, Meyers and Waldfogel, 2003). Another study estimated that a 50 cent per hour subsidy would increase employment for unmarried women by 8–9 percent and for married women by 5 percent. The 50 cent per hour subsidy would amount to about a $1000 per year increase in subsidies for a full time minimum wage worker. (Han and Waldfogel 2001). Houser and Dickert-Conlin (1998) estimated a very modest effect of child care subsidies on labor force participation – a subsidy equal to 50 percent of the price of care would increase labor force participation of single parents by 4.2 percent and secondary earners by 4.1 percent.

For this analysis, we used the lower end of the range of the estimated elasticities—8 percent if unmarried and 3 percent if married. The elasticities apply only to parents with children under age 13. Ideally we would be able to model variations in the probability of employment by the age of the youngest child (e.g. under 6 and 7 to 13), but the available studies do not easily lend themselves to an age breakout.[21]

Implementation

To impose the assumed changes, employment must increase from 81 percent to 89 percent of unmarried adults with a child under age 13, and from 82 to 85 percent of married adults with a child under age 13. (We did not estimate any increased employment for adults with special-needs teenagers.) To choose the new workers, we assumed that the only adults who might begin working would be those who would gain eligibility for subsidies by doing so. Thus, we did not assume any increased employment for parents in families whose income (with the new wages) would exceed the eligibility thresholds; and we did not assume any increased employment for married individuals whose spouses were neither working at least 20 hours per week nor students.

The simulation produces 1.2 million new workers among married persons and 0.7 million new workers among unmarried persons. Similar to other simulations with positive employment effects, new workers work for 38 weeks, 30 hours per week, at the prevailing minimum wage (federal or state). (See the discussion of increased employment due to the EITC, above, for more details.) In the simulation with employment effects, all of the families with new workers (who by definition qualify for a subsidy) take the subsidy, increasing the number of families ever receiving the subsidy during the calendar year by 1.9 million relative to the simulation of expanded child care help without the additional employment.

[21] Baum (2002) estimates the effects of a 30 percent subsidy at one and two years after childbirth, but estimates apply to women with incomes at or below poverty in the year preceding childbirth. The percentage increase in employment was higher one year after childbirth, but not dramatically different from the estimate two years after childbirth.

Appendix E: Additional Simulation Results

This appendix provides additional detail on the effects of the simulated policies on poverty. Table E1 shows how each policy option changes the distribution of individuals by their family's income relative to the poverty threshold, using the thresholds described in Appendix C. The tables shows results when the thresholds are applied to four different definitions of family income—(a) cash income, (b) cash plus the value of food and housing benefits, (c) cash plus food and housing aid minus payroll and income taxes, plus refundable tax credits, (d) all of the above less out-of-pocket child care expenses. The last income definition is the primary definition used for this project; however, the other income definitions allow closer analysis of how each policy option affects families' economic well-being. Each column of the table shows how each policy option changes the number of families in a particular percent-of-poverty category with each income definition. Note that all changes are relative to the baseline (not to a prior policy option).

Tables E2, E3, and E4 are structured in an identical manner to table E1, but each of these tables focuses on a different age group. Table E2 shows the impacts of each policy option on the distribution of children by family income as a percentage of poverty, E3 shows results for non-elderly adults, and E4 shows TRIM3's estimates for persons age 65 and older.

Table E5 shows the impacts of each simulation on the poverty gap. Results are shown for the four definitions of income, for all families, and for three subsets of families: families with related children, families with elderly heads, and families without either related children or elderly heads.

Table E1: Change in people in poverty in 2003, in thousands [1]

ALL COLUMNS SHOW CHANGE FROM THE BASELINE

	Baseline, including state minimum wages	Fed. min wage deflated to $6.21		CAP Task Force min wage deflated to $7.67		EITC Expansions		Fully refundable child tax credit if >=21	CCDF expansion and CDCTC expansion		CAP Task Force min wage, EITC and CTC, CCDF and CDCTC		Increase Food Stamp Program partic. rate to 85%	Remove special rules for LPRs and refugees	Add 2 million housing vouchers
		Direct Effects Only	With job loss + indirect wage gain	Direct Effects Only	With job loss + indirect wage gain	No work effects	With new workers		No work effects	With new workers	Direct Effects Only	With all employment effects			
Population	288,281														
Total Cash Income															
<50%	15,246	-83	-124	-336	-301	0	-274	0	8	-1,203	-328	-2,114	0	-123	0
50<100	27,507	-77	-241	-821	-1,231	0	145	0	-3	-361	-824	-1,662	0	24	0
Total Poor	42,753	*-160*	*-365*	*-1,157*	*-1,532*	*0*	*-129*	*0*	*5*	*-1,564*	*-1,152*	*-3,776*	*0*	*-99*	*0*
100<150	32,557	18	32	-345	-460	0	71	0	-6	401	-350	-135	0	63	0
150<200	30,791	2	-9	265	150	0	-22	0	0	873	265	1,507	0	-8	0
200<300	53,590	81	97	353	472	0	-1	0	2	292	353	940	0	0	0
300+	128,590	59	245	884	1,370	0	81	0	-1	-2	884	1,464	0	44	0
Plus Food and Housing Benefits															
<50%	9,656	-58	-55	-205	-143	0	-213	0	2	-872	-199	-1,272	-780	-143	-771
50<100	27,607	-129	-347	-977	-1,365	0	75	0	117	-856	-864	-2,520	-331	-5	-1,036
Total Poor	37,263	*-187*	*-402*	*-1,182*	*-1,508*	*0*	*-138*	*0*	*119*	*-1,728*	*-1,063*	*-3,792*	*-1,111*	*-148*	*-1,807*
100<150	36,629	51	88	-317	-521	0	70	0	-93	565	-420	-210	930	98	1,612
150<200	31,949	-7	-17	251	158	0	-12	0	-27	886	234	1,581	88	-6	190
200<300	53,762	82	84	357	524	0	3	0	2	279	357	985	79	12	5
300+	128,678	61	247	891	1,347	0	77	0	-1	-2	892	1,436	14	44	0
Less Federal Tax Plus EITC															
<50%	9,182	-28	-24	-179	-116	-278	-488	-1,041	0	-793	-1,401	-2,089	-687	-134	-705
50<100	24,932	-166	-391	-1,059	-1,536	-1,620	-1,564	-2,129	-28	-1,103	-4,321	-6,088	-688	-50	-1,036
Total Poor	34,114	*-194*	*-415*	*-1,238*	*-1,652*	*-1,898*	*-2,052*	*-3,170*	*-28*	*-1,896*	*-5,722*	*-8,177*	*-1,375*	*-184*	*-1,741*
100<150	42,805	61	134	-153	-498	-122	-61	2,348	-36	701	1,220	627	1,136	118	1,468
150<200	40,408	33	-22	206	426	1,249	1,257	675	-104	902	2,181	4,232	183	-17	270
200<300	62,732	51	184	622	764	449	495	94	159	283	1,346	1,984	52	71	13
300+	108,222	49	119	563	960	322	361	53	9	10	975	1,334	4	12	-10
Less Child Care Expenses															
<50%	9,429	-29	-9	-188	-116	-285	-497	-1,089	-236	-1,017	-1,635	-2,315	-709	-139	-734
50<100	25,909	-176	-466	-1,130	-1,575	-1,703	-1,658	-2,169	-763	-1,707	-5,116	-6,813	-684	-31	-1,043
Total Poor	35,338	*-205*	*-475*	*-1,318*	*-1,691*	*-1,988*	*-2,155*	*-3,258*	*-999*	*-2,724*	*-6,751*	*-9,128*	*-1,393*	*-170*	*-1,777*
100<150	43,615	68	214	87	-312	96	166	2,610	243	1,172	1,534	1,519	1,178	109	1,545
150<200	40,251	35	0	48	307	1,145	1,159	487	615	1,316	2,949	4,445	162	-23	229
200<300	62,724	42	95	567	712	463	507	121	109	205	1,258	1,810	41	71	12
300+	106,353	60	166	616	984	284	323	40	32	31	1,010	1,354	12	13	-9

Source: The TRIM3 microsimulation model

Notes:

Table E2: Change in children in poverty in 2003, in thousands [1]

ALL COLUMNS SHOW CHANGE FROM THE BASELINE

	Baseline, including state minimum wages	Fed. min wage deflated to $6.21		CAP Task Force min wage deflated to $7.67		EITC Expansions		Fully refundable child tax credit if >=21	CCDF expansion and CDCTC expansion		CAP Task Force min wage, EITC and CTC, CCDF and CDCTC		Increase Food Stamp Program partic. rate to 85%	Remove special rules for LPRs and refugees	Add 2 million housing vouchers
		Direct Effects Only	With job loss + indirect wage gain	Direct Effects Only	With job loss + indirect wage gain	No work effects	With new workers		No work effects	With new workers	Direct Effects Only	With all employ-ment effects			
Population	73,139														
Total Cash Income															
<50%	5,438	-41	-65	-140	-147	0	-28	0	5	-742	-134	-1,121	0	-23	-23
50<100	9,043	-15	-50	-265	-418	0	15	0	-2	-51	-267	-553	0	-13	-13
Total Poor	*14,481*	*-56*	*-115*	*-405*	*-565*	*0*	*-13*	*0*	*3*	*-793*	*-401*	*-1,674*	*0*	*-36*	*-36*
100<150	9,364	26	29	51	45	0	12	0	-4	210	47	246	0	32	32
150<200	8,686	-6	16	50	43	0	-6	0	0	461	50	739	0	-12	-12
200<300	14,012	30	29	138	240	0	-1	0	1	122	138	439	0	-3	-3
300+	26,596	6	41	166	237	0	8	0	0	0	166	250	0	19	19
Plus Food and Housing Benefits															
<50%	2,315	-29	-27	-82	-69	0	-6	0	0	-530	-78	-625	-241	-33	-33
50<100	9,829	-34	-99	-353	-529	0	-6	0	72	-372	-276	-1,107	-268	-22	-22
Total Poor	*12,144*	*-63*	*-126*	*-435*	*-598*	*0*	*-12*	*0*	*72*	*-902*	*-354*	*-1,732*	*-509*	*-55*	*-55*
100<150	11,466	31	44	64	47	0	9	0	-55	320	-5	247	444	48	48
150<200	8,858	-4	15	64	59	0	-4	0	-18	468	53	785	27	-15	-15
200<300	14,046	29	25	136	262	0	0	0	1	115	136	459	33	4	4
300+	26,625	7	42	171	230	0	7	0	0	-1	170	241	5	18	18
Less Federal Tax Plus EITC															
<50%	1,992	-9	2	-52	-25	-27	-30	-625	-1	-486	-673	-996	-190	-29	-29
50<100	7,802	-54	-108	-389	-551	-278	-292	-1,395	-10	-539	-1,816	-2,759	-424	-52	-52
Total Poor	*9,794*	*-63*	*-106*	*-441*	*-576*	*-305*	*-322*	*-2,020*	*-11*	*-1,025*	*-2,489*	*-3,755*	*-614*	*-81*	*-81*
100<150	13,747	25	16	22	-32	-100	-93	1,520	-10	427	1,204	988	534	64	64
150<200	11,728	16	14	134	222	312	317	426	-80	434	708	1,896	68	-5	-5
200<300	16,076	12	56	190	186	62	66	43	94	157	410	609	10	21	21
300+	21,794	10	20	95	200	31	32	31	7	7	167	262	2	1	1
Less Child Care Expenses															
<50%	2,136	-9	8	-54	-24	-30	-33	-654	-140	-619	-809	-1,129	-201	-32	-32
50<100	8,388	-61	-149	-431	-571	-331	-352	-1,441	-457	-911	-2,297	-3,195	-426	-42	-42
Total Poor	*10,524*	*-70*	*-141*	*-485*	*-595*	*-361*	*-385*	*-2,095*	*-597*	*-1,530*	*-3,106*	*-4,324*	*-627*	*-74*	*-74*
100<150	14,155	28	56	151	68	25	39	1,711	152	682	1,423	1,522	553	60	60
150<200	11,583	21	35	45	147	247	254	299	376	734	1,144	2,021	64	-7	-7
200<300	15,992	7	6	167	166	66	70	60	58	104	354	512	3	20	20
300+	20,885	14	44	122	214	23	22	25	11	10	185	269	7	1	1

Source: The TRIM3 microsimulation model

Notes:

Table E3: Change in persons 18-64 in poverty in 2003, in thousands [1]

ALL COLUMNS SHOW CHANGE FROM THE BASELINE

	Baseline, including state minimum wages	Fed. min wage deflated to $6.21		CAP Task Force min wage deflated to $7.67		EITC Expansions		Fully refundable child tax credit if >=21	CCDF expansion and CDCTC expansion		CAP Task Force min wage, EITC and CTC, CCDF and CDCTC		Increase Food Stamp Program partic. rate to 85%	Remove special rules for LPRs and refugees	Add 2 million housing vouchers
		Direct Effects Only	With job loss + indirect wage gain	Direct Effects Only	With job loss + indirect wage gain	No work effects	With new workers		No work effects	With new workers	Direct Effects Only	With all employ-ment effects			
Population	180,483														
Total Cash Income															
<50%	9,000	-42	-59	-193	-150	0	-244	0	3	-455	-191	-979	0	-72	23
50<100	14,217	-60	-194	-541	-804	0	142	0	-1	-305	-542	-1,084	0	24	13
Total Poor	*23,217*	*-102*	*-253*	*-734*	*-954*	*0*	*-102*	*0*	*2*	*-760*	*-733*	*-2,063*	*0*	*-48*	*36*
100<150	16,656	0	28	-351	-442	0	58	0	-2	198	-352	-308	0	26	-32
150<200	17,161	6	-42	208	120	0	-23	0	0	397	208	758	0	0	12
200<300	33,009	48	71	199	231	0	-1	0	1	166	199	492	0	3	3
300+	90,440	48	196	678	1,045	0	68	0	-1	-1	678	1,121	0	19	-19
Plus Food and Housing Benefits															
<50%	6,653	-29	-28	-120	-71	0	-207	0	2	-335	-118	-637	-425	-90	-640
50<100	14,149	-92	-245	-605	-823	0	96	0	45	-482	-569	-1,376	-98	16	-657
Total Poor	*20,802*	*-121*	*-273*	*-725*	*-894*	*0*	*-111*	*0*	*47*	*-817*	*-687*	*-2,013*	*-523*	*-74*	*-1,297*
100<150	18,442	27	60	-343	-514	0	60	0	-38	254	-377	-399	412	47	1,223
150<200	17,639	-6	-45	188	121	0	-16	0	-9	403	182	796	60	1	91
200<300	33,109	50	61	201	258	0	2	0	1	161	201	514	42	8	1
300+	90,491	50	197	679	1,029	0	65	0	-1	-1	681	1,102	9	18	-18
Less Federal Tax Plus EITC															
<50%	6,501	-19	-26	-125	-88	-246	-453	-413	1	-300	-720	-1,079	-381	-84	-578
50<100	13,498	-112	-282	-659	-974	-1,316	-1,230	-699	-16	-557	-2,432	-3,235	-305	-2	-623
Total Poor	*19,999*	*-131*	*-308*	*-784*	*-1,062*	*-1,562*	*-1,683*	*-1,112*	*-15*	*-857*	*-3,152*	*-4,314*	*-686*	*-86*	*-1,201*
100<150	22,205	42	125	-139	-411	-1	51	807	-27	277	50	-293	539	52	1,058
150<200	22,998	15	-37	80	222	934	929	234	-23	455	1,460	2,306	108	-11	162
200<300	39,609	40	132	421	562	361	404	50	64	123	909	1,325	38	38	-13
300+	75,672	34	88	422	689	268	299	21	1	2	733	976	1	7	-6
Less Child Care Expenses															
<50%	6,604	-20	-17	-132	-89	-250	-459	-432	-96	-391	-818	-1,172	-392	-86	-604
50<100	13,882	-115	-316	-689	-991	-1,345	-1,264	-697	-299	-785	-2,740	-3,518	-296	7	-640
Total Poor	*20,486*	*-135*	*-333*	*-821*	*-1,080*	*-1,595*	*-1,723*	*-1,129*	*-395*	*-1,176*	*-3,558*	*-4,690*	*-688*	*-79*	*-1,244*
100<150	22,600	46	165	-29	-327	92	147	881	89	489	145	62	558	47	1,139
150<200	22,979	11	-37	6	170	886	885	173	234	566	1,778	2,385	90	-15	123
200<300	39,694	36	95	398	540	377	418	60	52	101	887	1,255	34	39	-13
300+	74,724	42	110	446	697	240	273	15	20	20	748	988	6	8	-5

Source: The TRIM3 microsimulation model

Notes:

Table E4: Change in people age 65+ in poverty in 2003, in thousands [1]

ALL COLUMNS SHOW CHANGE FROM THE BASELINE

	Baseline, including state minimum wages	Fed. min wage deflated to $6.21		CAP Task Force min wage deflated to $7.67		EITC Expansions		Fully refundable child tax credit if >=21	CCDF expansion and CDCTC expansion		CAP Task Force min wage, EITC and CTC, CCDF and CDCTC		Increase Food Stamp Program partic. rate to 85%	Remove special rules for LPRs and refugees	Add 2 million housing vouchers
		Direct Effects Only	With job loss + indirect wage gain	Direct Effects Only	With job loss + indirect wage gain	No work effects	With new workers		No work effects	With new workers	Direct Effects Only	With all employ-ment effects			
Population	34,659														
Total Cash Income															
<50%	808	0	0	-3	-4	0	-2	0	0	-6	-3	-14	0	-28	0
50<100	4,247	-2	3	-15	-9	0	-12	0	0	-5	-15	-25	0	13	0
Total Poor	*5,055*	*-2*	*3*	*-18*	*-13*	*0*	*-14*	*0*	*0*	*-11*	*-18*	*-39*	*0*	*-15*	*0*
100<150	6,537	-8	-25	-45	-63	0	1	0	0	-7	-45	-73	0	5	0
150<200	4,944	2	17	7	-13	0	7	0	0	15	7	10	0	4	0
200<300	6,569	3	-3	16	1	0	1	0	0	4	16	9	0	0	0
300+	11,554	5	8	40	88	0	5	0	0	-1	40	93	0	6	0
Plus Food and Housing Benefits															
<50%	688	0	0	-3	-3	0	0	0	0	-7	-3	-10	-114	-20	-98
50<100	3,629	-3	-3	-19	-13	0	-15	0	0	-2	-19	-37	35	1	-357
Total Poor	*4,317*	*-3*	*-3*	*-22*	*-16*	*0*	*-15*	*0*	*0*	*-9*	*-22*	*-47*	*-79*	*-19*	*-455*
100<150	6,721	-7	-16	-38	-54	0	1	0	0	-9	-38	-58	74	3	341
150<200	5,452	3	13	-1	-22	0	8	0	0	15	-1	0	1	8	114
200<300	6,607	3	-2	20	4	0	1	0	0	3	20	12	4	0	0
300+	11,562	4	8	41	88	0	5	0	0	0	41	93	0	8	0
Less Federal Tax Plus EITC															
<50%	689	0	0	-2	-3	-5	-5	-3	0	-7	-8	-14	-116	-21	-98
50<100	3,632	0	-1	-11	-11	-26	-42	-35	-2	-7	-73	-94	41	4	-361
Total Poor	*4,321*	*0*	*-1*	*-13*	*-14*	*-31*	*-47*	*-38*	*-2*	*-14*	*-81*	*-108*	*-75*	*-17*	*-459*
100<150	6,853	-6	-7	-36	-55	-21	-19	21	1	-3	-34	-68	63	2	346
150<200	5,682	2	1	-8	-18	3	11	15	-1	13	13	30	7	-1	113
200<300	7,047	-1	-4	11	16	26	25	1	1	3	27	50	4	12	5
300+	10,756	5	11	46	71	23	30	1	1	1	75	96	1	4	-5
Less Child Care Expenses															
<50%	689	0	0	-2	-3	-5	-5	-3	0	-7	-8	-14	-116	-21	-98
50<100	3,639	0	-1	-10	-13	-27	-42	-31	-7	-11	-79	-100	38	4	-361
Total Poor	*4,328*	*0*	*-1*	*-12*	*-16*	*-32*	*-47*	*-34*	*-7*	*-18*	*-87*	*-114*	*-78*	*-17*	*-459*
100<150	6,860	-6	-7	-35	-53	-21	-20	18	2	1	-34	-65	67	2	346
150<200	5,689	3	2	-3	-10	12	20	15	5	16	27	39	8	-1	113
200<300	7,038	-1	-6	2	6	20	19	1	-1	0	17	43	4	12	5
300+	10,744	4	12	48	73	21	28	0	1	1	77	97	-1	4	-5

Source: The TRIM3 microsimulation model

Notes:

Table E5: Change in poverty gap, 2003, by type of family, income definition, and simulation [1] (millions of 2003 $)

ALL COLUMNS SHOW CHANGE FROM THE BASELINE

	Baseline, including state minimum wages	Fed. min wage deflated to $6.21		CAP Task Force min wage deflated to $7.67		EITC Expansions		Fully refundable child tax credit if >=21	CCDF expansion and CDCTC expansion		CAP Task Force min wage, EITC and CTC, CCDF and CDCTC		Increase Food Stamp Program partic. rate to 85%	Remove special rules for LPRs and refugees	Add 2 million housing vouchers
		Direct Effects Only	With job loss + indirect wage gain	Direct Effects Only	With job loss + indirect wage gain	No work effects	With new workers		No work effects	With new workers	Direct Effects Only	With all employ-ment effects			
ALL FAMILIES (incl 1-person)															
Total cash income	127,452	-462	-900	-3,208	-3,640	0	-1,720	0	16	-6,058	-3,188	-12,944	0	-770	0
Plus food & housing	98,015	-351	-642	-2,325	-2,514	0	-1,605	0	207	-4,420	-2,135	-9,593	-6,234	-987	-5,879
Less fed tax + EITC	92,696	-308	-603	-1,950	-1,947	-3,382	-5,160	-6,744	20	-4,603	-11,349	-17,477	-5,623	-928	-5,315
Less child care exp.	95,082	-325	-640	-2,066	-2,118	-3,460	-5,239	-7,143	-2,053	-6,510	-13,529	-19,532	-5,776	946	-5,477
Families with related children															
Total cash income	59,412	-314	-644	-2,287	-2,867	0	-169	0	16	-6,058	-2,268	-10,227	0	-369	0
Plus food & housing	38,187	-222	-417	-1,533	-1,857	0	-126	0	197	-4,441	-1,353	-7,114	-3,334	-549	-3,474
Less fed tax + EITC	31,322	-167	-280	-1,035	-1,076	-551	-687	-6,745	9	-4,625	-7,848	-12,184	-2,649	-488	-2,902
Less child care exp.	33,708	-185	-317	-1,151	-1,247	-628	-766	-7,143	-2,064	-6,532	-10,028	-14,238	-2,802	-506	-3,063
Families with elderly heads															
Total cash income	12,625	-7	-15	-27	-42	0	-42	0	0	0	-27	-89	0	-177	0
Plus food & housing	10,495	-5	-13	-19	-33	0	-38	0	0	0	-19	-77	-1,006	-148	-1,289
Less fed tax + EITC	10,551	-6	-15	-25	-39	-54	-94	0	0	0	-70	-130	-1,009	-149	-1,292
Less child care exp	10,551	-6	-15	-25	-39	-54	-94	0	0	0	-70	-130	-1,009	-149	-1,292
Families/individuals without related children or elderly heads															
Total cash income	55,415	-142	-240	-894	-732	0	-1,509	0	0	0	-894	-2,627	0	-224	0
Plus food & housing	49,332	-122	-211	-772	-623	0	-1,440	0	11	22	-762	-2,401	-1,894	-289	-1,115
Less fed tax + EITC	50,824	-135	-309	-891	-833	-2,778	-4,380	0	10	22	-3,432	-5,164	-1,965	-292	-1,123
Less child care exp	50,824	-135	-309	-891	-833	-2,778	-4,380	0	10	22	-3,432	-5,164	-1,965	-292	-1,123

Source: The TRIM3 microsimulation model

Notes:

[1] See text and appendixes for detailed description of methods and policy options.

[Submissions for the Record follow:]

Statement of Jonathan Barry Forman

I am pleased to submit this statement for the record that you are compiling on Proposals for Reducing Poverty. I am submitting this statement in my individual capacity as the Alfred P. Murrah Professor of Law at the University of Oklahoma. This statement suggests that we replace most of the current welfare system with a system of refundable tax credits and work supports. [1]

The Government's Role in Reducing Poverty and Inequality

Poverty is a major problem in the United States. In 2005, for example, 12.6 percent (37 million people) lived in poverty, up from 11.1 percent (23 million people) in 1973. [2] In 2007, the poverty level for a single individual is $10,210, the poverty level for a single parent with two children is $17,170, and the poverty level for a married couple with two children is $20,650. [3]

Needless to say, policymakers cannot do much about market forces. Adam Smith's laws of supply and demand are every bit as immutable as Newton's laws of thermodynamics. But policymakers can change how governments influence market operations and outcomes.

In that regard, governments influence market outcomes through a combination of regulation, spending, and taxation. Government regulation defines and limits the range of markets and so influences the shape of the initial distribution of economic resources. Taxes and spending also have a significant impact on the distribution of economic resources. Table 1 shows the Federal Government's outlays for the major federal transfer programs.

Table 1. Outlays for the Principal Federal Benefit Programs
(billions of dollars)

	2006 actual	2012 estimate
Social Security	$544	$790
Medicare	325	482
Medicaid	181	270
Unemployment compensation	31	41
Supplemental Security Income	34	42
Earned income tax credit	36	43
Food assistance	48	58
Family support	24	24
Housing assistance	17	13
Retirement and disability programs for civilians, military and veterans	140	185

Source: Executive Office of the President and Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2008* (2007) table 8.5.

Most government operations have only a slight or indirect impact on the distribution of economic resources. Spending on the military and other government operations, for example, probably has relatively little impact on economic inequality. Even among entitlement programs, relatively few programs are means-tested, and only about 10 to 15 percent of the federal budget is spent for such explicit redistribution. All in all, current tax and transfer policies reduce household income inequality by about 20 percent.

There is some dispute over how much the United States tax and transfer system affects poverty levels. As already mention, some 37 million Americans (12.6 percent) were poor in 2005 using the "official" estimate of poverty (based on "money income"). Based on "market income" however, the Census Bureau estimated that 18.9

[1] See generally Jonathan Barry Forman, *Making America Work* (Urban Institute Press 2006).
[2] U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2005* (Census Population Report No. P60–231, August 2006), table B–1.
[3] *Annual Update of the HHS Poverty Guidelines*, 72 Federal Register 8,373 (January 24, 2007).

percent of Americans were poor before taxes and transfers.[4] After taxes and transfers, the Census Bureau estimated that just 10.3 percent of Americans had "disposable income" that left them in poverty.

On the other hand, a recent comparative study found much more modest effects for the U.S. tax and transfer system.[5] That study estimated that our current tax and transfer system reduced the poverty rate of two-parent families by just 0.5 percentage points in 2000, from 13.7 to 13.2 percent. That was a mere 3.6 percent reduction in two-parent poverty rates, compared with an average reduction of 44 percent across all 11 high-income countries studied (including the United States).

Making Welfare Work

The current system of transfer and tax programs for low-income workers is unnecessarily complicated, inequitable, and expensive to administer; and it needs to be reformed. In that regard, the Ways and Means Committee recently identified 85 different anti-poverty programs providing everything from cash aid to energy assistance.[6] Each program has its own eligibility criteria and administrative system. Not surprisingly, many low-income Americans never receive the benefits to which they are entitled. For example, less than 60 percent of those eligible for food stamps actually receive them.[7]

Faced with this much complexity and overlap, we are unlikely to achieve any meaningful reform of the welfare system by simply, in Edgar K. Browning's words, "trying to patch up each one of the innumerable and uncountable programs."[8]

Instead, we should replace most of the current system with a system of refundable tax credits and work supports. The general idea is to "cash out" as many welfare programs as possible and use that money to help pay for refundable tax credits.

These refundable tax credits could replace personal exemptions, standard deductions, and the many other child and family benefits in the current income tax system. And these tax credits could also replace all or a portion of most welfare benefits. Moreover, the money generated as a result of administrative savings from combining these tax breaks and welfare programs into refundable tax credits could also be used for financing.

For example, imagine a simple integrated tax and transfer system with $2,000 per person refundable tax credits, $2,000 per worker refundable earned income credits (computed as 20 percent of the first $10,000 of earned income), and two tax rates: 20 percent of the first $50,000 of income and 35 percent on income above $50,000.

These refundable tax credits should be paid out on a monthly basis. Each individual would present something like the current IRS Form W–4, Employee's Withholding Allowance Certificate, to her employer—or to a bank. Employees would then receive advance payment of their credits from their employers in the form of reduced withholding, while other beneficiaries would have their payments directly deposited into their bank accounts.

This new comprehensive tax and transfer system would be simpler than the current system. It would encourage low-skilled workers to enter and remain in the workforce. It would minimize marriage penalties. And it would help ensure that low-income families actually get their benefits. Temporary Assistance for Needy Families currently reaches just 52 percent of eligible families.[9] On the other hand, the earned income tax credit reaches 86 percent of eligible households, and it does so without any welfare stigma or loss of privacy.

As an initial step, we should cash out food stamps. Like most welfare programs, the Food Stamp Program has arcane eligibility criteria and baffling administrative procedures, and the program has high administrative costs. We should repeal the Food Stamp Program and use its $32 billion-a-year appropriation to help pay for refundable tax credits.[10]

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[4] U.S. Census Bureau, *The Effect of Taxes and Transfers on Income and Poverty in the United States: 2005*, (Current Population Report No. P60–232, March 2007), table A–2.

[5] Timothy M. Smeeding, *Poor People in Rich Nations: The United States in Comparative Perspective*, 20(1) *Journal of Economic Perspectives* 69 (2006).

[6] U.S. House of Representatives, Committee on Ways and Means, *2004 Green Book: Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means* (2004), K–10—K–12.

[7] U.S. Department of Agriculture, *Making America Stronger: A Profile of the Food Stamp Program* (2005).

[8] Edgar K. Browning, *Commentaries (on papers in a section entitled "Where Do We Go from Here?")*, in Colin D. Campbell, ed., *Income Redistribution* 207, 209 (1977).

[9] Leonard E. Burman & Deborah I. Kobes, *EITC Reaches More Families than TANF, Food Stamps, Tax Notes*, March 17, 2003, at 1769.

[10] U.S. Department of Agriculture, *Food Stamp Program Participation and Costs web page* at http://www.fns.usda.gov/pd/fssummar.htm.

Next, we should cash out low-income housing programs. Instead of providing a small fraction of low-income families with rental subsidies or mortgage-interest subsidies, we should give all low-income families $2,000 per person tax credits and let them choose their own housing.

We should also expand the child and dependent tax credit and make it refundable. Under current law, a taxpayer can claim a credit of up to 35 percent of employment-related child care expenses—up to $1,050 a year for one child under the age of 13 or up to $2,100 a year for two or more qualifying children. Because the credit is not refundable, however, it is of little or no value to low-income families with children. To help low-income families with their child care expenses, the credit should reimburse low-income families for 50 percent, or even 80 percent, of their child care expenses, up to, say, $4,000 per child.

Finally, we should use refundable tax credits to help provide universal health care coverage.[11] According to the Census Bureau, 44.8 million people, 15.3 percent of the population, were without health insurance in 2005, including 27.3 million Americans between 18 and 64 years old who worked during the year.[12] We should require everyone to have an adequate but basic level of health care coverage. That coverage could be paid for with a combination of employer and employee contributions and refundable tax credits calculated on a sliding scale based on need.

In a complex society like ours, economic rewards are determined by a combination of market forces and government policies. Markets arise automatically from the economic interactions among people and institutions. Here and there, government policies intervene to influence the operations of those markets and to shape the outcomes that result from market transactions.

To be sure, it will take more than just a system of refundable tax credits to solve the problem of poverty in America. We would also need to provide additional benefits to individuals who are not able to work. For example, many elderly and disabled individuals would need additional cash benefits. Those additional benefits could continue to come in the form of Supplemental Security Income (SSI) payments, or they could be distributed through additional refundable tax credits.

Finally, an effective welfare system would need to provide services to at least some beneficiaries. Education, training, job-search and placement, and counseling services are but a few that come to mind.

All in all, a comprehensive system of $2,000 per person refundable tax credits, $2,000 per worker tax credits, child care tax credits, health care tax credits, and other work supports would lead to dramatic reductions in poverty and inequality in the United States.

Statement of Matthew Melmed, Zero To Three Policy Center

I am pleased to submit the following written testimony on behalf of ZERO TO THREE. My name is Matthew Melmed. For the last 12 years I have been the Executive Director of ZERO TO THREE, a national non-profit organization that has worked to advance the healthy development of America's babies and toddlers for close to 30 years. I would like to start by thanking the Subcommittee for its interest in examining proposals to reduce poverty and for providing me the opportunity to discuss the interaction between poverty and the healthy development of our Nation's infants and toddlers and how federal policy can help break the intergenerational cycle of poverty.

Some may wonder why babies matter in public policy. Surely they are the province of their parents or caregivers. Yet, public policies often affect very young children, policies that are sometimes created with little thought as to their consequences for this age group. In addition, many policies focus on the effects of *ignoring* the needs of infants and toddlers, for example, by having to address the cognitive gaps between low-income preschoolers and their more affluent peers or providing intensive special education services for problems that may have begun as much milder developmental delays left untreated in a young baby. Mr. Chairman, my message to you is that providing supports to families of young children *now* can increase self-sufficiency and promote long-term benefits for both adults and our

[11] See, e.g., Jonathan Barry Forman, *Making Universal Health Care Work*, 19(1) *St. Thomas Law Review* 137–149 (Fall 2006); Michael Calabrese & Lauri Rubiner, *Universal Coverage, Universal Responsibility: A Roadmap to Make Coverage Affordable for All Americans* 6 (Washington, DC: New America Foundation, Working Paper No. 1, 2004).

[12] U.S. Census Bureau, *Census Bureau Revises 2004 and 2005 Health Insurance Coverage Estimates* (Press Release No. CB07–45, 2007).

youngest children. Simply put, babies and their families can't wait—we know that early intervention and prevention work best and we know that living in poverty can increase parental stress and compromise the healthy development of young children. We need policies that support parents and other caregivers in providing young children with the strong foundation they need for healthy development.

The early years create an important foundation for later school and life success. We know from the science of early childhood development that infancy and toddlerhood are times of intense intellectual engagement.[1] During this time—a remarkable 36 months—the brain undergoes its most dramatic development, and children acquire the ability to think, speak, learn, and reason. All babies and toddlers need positive early learning experiences to foster their intellectual, social, and emotional development and to lay the foundation for later school success. Research shows that it is these early experiences and warm, loving relationships that form "both the foundation and scaffold on which cognitive, linguistic, emotional, social, and moral development unfold."[2] These years may be even more critical for young children living in poverty.

One of the most consistent associations in developmental science is between economic hardship and compromised child development.[3] The malleability of young children's development and the overwhelming importance of the family (rather than school or peer) context suggest that economic conditions in early childhood may be far more important for shaping children's ability, behavior, and achievement than conditions later in childhood.[4] Lower-income infants and toddlers are at greater risk than middle to high-income infants and toddlers for a variety of poorer outcomes and vulnerabilities such as later school failure, learning disabilities, behavior problems, mental retardation, developmental delay, and health impairments.[5] Babies and toddlers living in high-risk environments need additional supports to promote their healthy growth and development.

Congress must consider the unique needs of very young children and their families who are living in poverty. Policies should help attack the intergenerational cycle of poverty by laying the foundations for early learning and improving prospects of later school success on the part of the children. We know that intervening early in the life of a child at-risk for poor development can help minimize the impacts of these risks and have the potential to improve outcomes for current *and* future generations. We must ensure that infants and toddlers living in poverty have access to quality, developmentally appropriate early learning programs such as Early Head Start or quality child care to help ensure that they are ready for school. We must also ensure that infants, especially those living in poverty, have time at home with their parents in the first months of life.

Portrait of Infants and Toddlers Living in Poverty

There are more than 12 million infants and toddlers living in the United States. Twenty-one percent—2.6 million—live in poor families.[6] After a decade of decline, the percentage of children under the age of 3 living in low-income families is on the rise again.[7] Between 2000 and 2005, the number of children of all ages who were poor increased by 11 percent.[8] During the same period, the number of infants and toddlers who were poor increased by 15 percent.[9] It is important to note that young children are disproportionately impacted by economic stress. Forty-three percent of children under the age of 3—5.2 million—live in low-income families (defined as below 200 percent of poverty).[10]

The environmental stresses to which these children are more likely to be exposed, such as inadequate nutrition, substance abuse, maternal depression, exposure to environmental toxins, and trauma/abuse can all negatively influence their development.[11] For example, the existence of maternal depression and other adult mental health disorders can negatively affect children if parents are not capable of pro-

[1] Shonkoff, Jack and Phillips, Deborah. 2000. *From neurons to neighborhoods: The science of early childhood development.* Washington, DC: National Academy Press.
[2] Ibid.
[3] Ibid.
[4] Ibid.
[5] Ibid.
[6] Douglas-Hall, Ayona., Chau, Michelle., and Koball, Heather. 2006. *Basic facts about low-income children: Birth to age 3.* September 2006. *http://www.nccp.org/media/ecp06b-text.pdf (* accessed February 5, 2007).
[7] Ibid.
[8] Ibid.
[9] Ibid.
[10] Ibid.
[11] National Center for Children in Poverty. 1999. *Poverty and Brain Development in Early Childhood.* http://www.nccp.org/media/pbd99-text.pdf (accessed February 6, 2007).

viding consistent sensitive care, emotional nurturance, protection and the stimulation that young children need.[12] Maternal depression, anxiety disorders, and other forms of chronic depression affect approximately 10 percent of mothers with young children[13]—this number is even higher for families in poverty. In fact, findings at enrollment from the Early Head Start Research and Evaluation Project indicate that 52 percent of mothers reported enough depressive symptoms to be considered clinically depressed.[14] Early and sustained exposure to the aforementioned risks can influence the physical architecture of the developing brain, preventing babies and toddlers from fully developing the neural pathways and connections that facilitate later learning.

Early Head Start: A Beacon of Hope for Babies Living in Poverty

Comprehensive high quality early learning programs for infants and toddlers, such as Early Head Start, can help to protect against the multiple adverse influences that may hinder their development across all domains. Very young children living in poverty are more at-risk for a variety of poor outcomes than low-income families. Programs like Early Head Start not only set the stage for later school readiness and success, but also for the parent's road to self-sufficiency.

Research from the Early Head Start Research and Evaluation Project, and its companion follow-up results, concluded that the program is making a positive difference in areas associated with children's success in school, family self-sufficiency, and parental support of child development. For example, Early Head Start produced statistically significant, positive impacts on standardized measures of children's cognitive and language development. A smaller percentage of Early Head Start children scored in the "at-risk" range of developmental functioning. Early Head Start children also demonstrated more positive approaches to learning than control group children and were more likely to attend formal preschool programs than control group children.[15]

Early Head Start also had significant impacts for parents, promoting family self-sufficiency and parental support of child development. Early Head Start children had more positive interactions with their parents than control group children. They engaged their parents more and parents rated their children as lower in aggressive behavior than control parents did. Early Head Start parents were also more emotionally supportive and less detached than control group parents and provided significantly more support for language and learning than control group parents. In addition, Early Head Start significantly facilitated parents' progress toward self-sufficiency. Although there were not meaningful increases in income, there was increased parental participation in education and job-training activities. Overall, impacts were particularly large for families that enrolled during pregnancy, African American families, and those with a moderate number of demographic risk factors (lacked a high school education, single parent, teen parent, received public assistance, not employed or in school).[16]

In the Early Head Start Research and Evaluation Project follow-up results, which measured progress as the children entered kindergarten, a new benefit emerged for parents—a reduction in their risk of depression. At enrollment, and at age 3, there had been a high level of maternal depression in both the Early Head Start and control group parents. Early Head Start did not have an immediate impact on depressive symptoms, but did have positive impacts on the parent-child interactions of depressed parents. And two years after the end of the program, former Early Head Start parents reported fewer symptoms of depression, allowing parents to have more

[12] Cohen, Julie, Onunaku, Ngozi, Clothier, Steffanie, and Poppe, Julie. 2005. *Helping young children succeed: Strategies to promote early childhood social and emotional development.* Washington, DC: National Conference of State Legislatures and ZERO TO THREE.

[13] O'Hara, Michael W. 1994. *Postpartum depression: Causes and consequences.* New York, NY: Springer-Verlag Inc.

[14] U.S. Department of Health and Human Services, Administration for Children and Families. 2003. Early Head Start Evaluation and Research Project, *Research to practice: Depression in the lives of Early Head Start families.* Washington, DC. http://www.acf.hhs.gov/programs/opre/ehs/ehs_resrch/reports/dissemination/research_briefs/research_brief_depression.pdf (accessed May 10, 2007).

[15] U.S. Department of Health and Human Services, Administration for Children and Families. 2002. *Making a difference in the lives of infants and toddlers and their families: The impacts of Early Head Start.* http://www.acf.hhs.gov/programs/opre/ehs/ehs-resrch/reports/impacts-exesum/impacts-execsum.pdf (accessed October 23, 2006). U.S. Department of Health and Human Services, Administration for Children and Families. 2006. *Research to practice: Preliminary findings from the Early Head Start prekindergarten followup.* http://www.acf.hhs.gov/programs/opre/ehs/ehs-resrch/reports/prekindergarten-followup/prekindergarten-followup.pdf (accessed October 23, 2006).

[16] Ibid.

positive responses to their children.[17] This new finding is significant given the link between poverty and depression, the association of depression with poorer child outcomes, and the fact that more than half of mothers reported enough depressive symptoms to be considered clinically depressed when they enrolled in Early Head Start.[18]

The experience of Early Head Start suggests that parents of young children can be engaged in activities that are good for their own development as well as that of their children—if resources are available. Although the benefits of Early Head Start are clear, the program is only reaching a small proportion of at-risk children and families. Currently, only 10 percent of the overall Head Start budget is used to serve 61,243 low-income families with infants and toddlers in the Early Head Start program—less than three percent of those eligible.[19] In order to ensure that the program can serve more eligible babies, Congress must increase the Early Head Start set-aside to at least 20 percent over five years and expand funding for Head Start to make those increases a reality. We can't wait until these at-risk children are already behind at age four to intervene. Investing early in the future of at-risk families and their children can have positive long-term benefits in our efforts to break the intergenerational cycle of poverty.

Quality Child Care for At-Risk Infants and Toddlers

Most proposals aimed at reducing poverty look to promoting family self-sufficiency through meaningful employment. Yet, it is particularly difficult for mothers with young children living in poverty to afford child care because of the kinds of jobs they tend to have (i.e. service jobs), the nontraditional hours they are often required to work, and the poor quality child care that is available. Young children living in poverty are much more likely to have a mother who works nontraditional hours compared with young children living above the poverty line.[20] Service jobs, which often entail very low wages, few benefits and nontraditional work hours, are disproportionately filled by less-educated women who now comprise a large group of mothers who are entering the labor force as a result of welfare reform and federal work requirements.[21]

Second only to the immediate family, child care is the context in which early childhood development most frequently unfolds, starting in infancy.[22] According to 2005 data, 42 percent of one-year-olds and 53 percent of one-to-two-year-olds have at least one regular non-parental care arrangement.[23] The increase in the number of working parents with babies and toddlers comes at a time when science has demonstrated the critical importance of supporting the development and learning of children ages birth to three, and makes the need for quality child care even more significant.

The evidence associating the quality of infant and toddler care with early cognitive and language outcomes "is striking in consistency."[24] High quality child care is associated with outcomes that all parents want to see in their children, ranging from cooperation with adults to the ability to initiate and sustain positive exchanges with peers, to early competence in math and reading—all of which are key ingredi-

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[17] U.S. Department of Health and Human Services, Administration for Children and Families. 2006. *Research to practice: Preliminary findings from the Early Head Start prekindergarten followup.*

[18] U.S. Department of Health and Human Services, Administration for Children and Families. 2003. Early Head Start Evaluation and Research Project, *Research to practice: Depression in the lives of Early Head Start families.* U.S. Department of Health and Human Services, Administration for Children and Families. 2006. *Research to practice: Preliminary findings from the Early Head Start prekindergarten followup.*

[19] Note: 61,243 is the exact number of children under three served by Early Head Start in Fiscal Year 2005. Head Start Program Information Report for the 2004–2005 Program Year, Early Head Start Programs Only. Retrieved October 23, 2006. Note: 2,552,000 children under three in the U.S. live below the federal poverty level. U.S. Census Bureau. 2005. *Current population survey, 2006 annual social and economic supplement. POV34: Single year of age—Poverty status: 2005*. http://pubdb3.census.gov/macro/032006/pov/new34-100-01.htm. (accessed October 23, 2006).

[20] Shonkoff, Jack and Phillips, Deborah. 2000. *From neurons to neighborhoods: The science of early childhood development.*

[21] Ibid.

[22] Ibid.

[23] Schumacher, Rachel, Hamm, Katie, Goldstein, Anne, and Lombardi, Joan. 2006. *Starting off right: Promoting child development from birth in state early care and education initiatives.* Washington, DC: Center for Law and Social Policy and ZERO TO THREE.

[24] Shonkoff, Jack and Phillips, Deborah. 2000. *From neurons to neighborhoods: The science of early childhood development.*

ents to later school success. However, more than 40 percent of infants and toddlers are in child care rooms of poor quality.[25]

Research indicates that the strongest effects of quality child care are found with at-risk children—children from families with the fewest resources and under the greatest stress.[26] Yet, at-risk infants and toddlers who may benefit the most from high-quality child care are unlikely to receive it—they receive some of the poorest quality care that exists in communities across the United States.[27] Poor quality child care for at-risk children may diminish inborn potential and lead to poorer developmental outcomes.[28]

Congress should ensure that all babies and toddlers, particularly those living in poverty, have access to quality child care. An increase in federal funding for child care would lead to increased investments in quality and would help to ensure that more low-income infants and toddlers have access to quality child care settings to allow parents to reach and maintain self-sufficiency while being assured that their children are in safe nurturing environments. More funding needs to be directed specifically to improving the quality of care for infants and toddlers, and providing professional development opportunities with infant-toddler content for early childhood staff who work with this age group.

The Importance of Unhurried Time

The need for infants, especially, to spend time with their parents should be balanced against society's goal of moving adults quickly into the workforce. In addition to examining the costs of providing quality child care for at-risk infants and toddlers, we must also examine the importance of unhurried time during the early years.

According to a groundbreaking report released by the National Academies of Science, *From Neurons to Neighborhoods: The Science of Early Childhood Development,* parents structure the experience and shape the environment within which a young child's early development unfolds.[29] Infants and toddlers need unhurried time with their parents to form the critical relationships with them that will serve as the foundation for social, emotional, and cognitive development. The better parents know their children, the more readily they will recognize even the most subtle cues that indicate what their children need to promote their healthy growth and development. For example, early on infants are learning to regulate their eating and sleeping patterns and their emotions. If parents can recognize and respond to their baby's cues, they will be able to soothe the baby, respond to his or her cues, and make the baby feel safe and secure in the world. Trust and emotional security enable a baby to explore with confidence and communicate with others—critical characteristics that impact early learning and later school readiness.

At-risk infants and toddlers in particular need time with their parents because their early attachments can help serve as a buffer against the impact of the multiple risk factors they may face. Early attachments are critical for infants and toddlers because a positive early relationship, especially with a parent, reduces a young child's fear in novel or challenging situations, thereby enabling her to explore with confidence and to manage stress and also strengthen a young child's sense of competence and efficacy.[30] In addition, early attachments set the stage for other relationships, foster the exploratory behavior that is so critical to early learning, and play an important role in shaping a young child's ability to react to stressful situations.[31]

The need for time with infants has direct relevance to welfare to work policies, and Congress should consider the developmental needs of infants and toddlers in shaping these policies as proposals to reduce poverty are examined. Excessive mandatory work requirements for low-income parents who are receiving Temporary Assistance to Needy Families (TANF) make unhurried time difficult. While states have the option of exempting parents with infants from work requirements, many do not take advantage of this option or exempt these parents for only a few months.

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[25] Cost, Quality and Child Outcomes Study Team. 1995. *Cost, quality and child outcomes in child care centers,* Public Report, 2nd edition. Denver, CO: Denver Economics Department, University of Colorado at Denver.

[26] Shonkoff, Jack and Phillips, Deborah. 2000. *From neurons to neighborhoods: The science of early childhood development.*

[27] Ibid.

[28] Ibid.

[29] Ibid

[30] Ibid.

[31] Ibid.

There is evidence to suggest that long hours of maternal employment in the child's first year, can be a negative factor for infant development.[32] Finally, we know almost nothing about how the TANF program with its work requirements has affected infants and toddlers, for good or ill. Some studies have looked at the impact of TANF on older children, but ignore the impacts on the youngest. I urge Congress to require research into the impacts this program has on the well-being of infants and toddlers.

Conclusion

During the first three years of life, children rapidly develop foundational capabilities—cognitive, social and emotional—on which subsequent development builds. These years are even more important for infants and toddlers living in poverty. All young children should be given the opportunity to succeed in school and in life. We know that access to comprehensive, high-quality, developmentally appropriate programs and services—whether Early Head Start or child care—can serve as a protective factor for at-risk infants and toddlers. We also know that all babies, especially those at-risk, need unhurried time in the first months of life with their parents.

Too often, the effect of our overall policy emphasis is to wait until at-risk children are already behind developmentally before significant investments are made to address their needs. I urge the Subcommittee to change this pattern and invest in at-risk infants and toddlers early on, when that investment can have the biggest pay-off—preventing problems or delays that become more costly to address as the children grow older. We know that the early years represent an unparalleled window of opportunity to support very young children. We do not need to accept that vulnerable children will inevitably have already fallen behind at age four and then provide special education and intensive pre-kindergarten services to help them play catch up. We know what at-risk babies need to help them grow up healthy and ready to learn.

Providing supports to low-income at-risk families will have a trickle down effect on our youngest children and thereby have even more positive long-term benefits in our efforts to break the intergenerational cycle of poverty. I urge the Subcommittee to consider the very unique needs of babies living in poverty as you address proposals to reduce poverty.

Thank you for your time and for your commitment to our Nation's at-risk infants, toddlers and families.

Statement of New America Foundation

Thank you for the opportunity to submit written testimony in reference to the subcommittee's hearing on proposals to reduce poverty in the United States. Below we outline an anti-poverty policy agenda that seeks to move beyond traditional income supports in helping families achieve true economic self-sufficiency through personal asset ownership. A comprehensive listing of policy options to promote savings and asset ownership by low- and moderate-income Americans is available in *The Assets Agenda 2007*, available upon request and accessible at www.newamerica.net and www.assetbuilding.org.

American families who subsist at or below the federal poverty line face lives characterized by tremendous volatility. A steady stream of earned income can be instantly disrupted by illness or personal injury, leaving many families at the brink of complete destitution. Savings and asset ownership can provide low-income families with the financial cushion they need to weather unexpected income shocks, especially as they work to move from public assistance to self-sufficiency. Assets and savings can also be leveraged to provide access to quality forms of credit that is otherwise unavailable. While an asset-based approach to poverty alleviation is meant to compliment-and not replace—traditional forms of income support, it is personal asset ownership that has the potential to provide low-income families with a new path out of poverty in 21st century economy.

[32] Ibid.

Ownership of Assets

Mean Wealth Holdings by Wealth Class*

Wealth Class	2004
Top Fifth	$1,822.60
Bottom Four-Fifths	$ 82.50
Fourth	243.6
Middle	81.9
Second	14.4
Lowest	-11.4
Median	$ 77.90
Average	$ 430.50

*in thousands of dollars
Source: Analysis by Ed Wolff in Mishel, Bernstein, and Allegretto (2006), pp. 253.

To understand the inherent challenge in creating an inclusive ownership society, it is useful to consider what ownership in America looks like today. Recent data from the Federal Reserve's Survey of Consumer Finances estimates that the median family net worth in 2004 was $93,100, and the mean value was $448,200. [1] Between 2001 and 2004, the median family net worth rose 1.5 percent, while the mean value grew 6.3 percent, indicating larger increases in net worth for higher-wealth households. [2] Over an extended period of time, there has been a faster increase in average wealth relative to median wealth, indicating that those at the top of the wealth distribution have increased their share. This is reflected in the ratio of median-to-average wealth, which sunk to 0.18 in 2004, down from 0.27 in 1962. [3]

The average wealth of the top 1 percent of wealth holders grew from $13.5 million in 2001 to $14.8 million in 2004, a 3 percent annual increase. [4] During this same period, the average wealth for households between the 40 percent and 60 percent of wealth holders increased by 0.8 percent annually, from $80,000 to $81,900. [5] Meanwhile, the bottom fifth of U.S. households sunk further into debt; the average debt of this cohort increased to $11,400 in 2004. [6]

Aided by policy incentives, Americans build wealth in both financial and non-financial assets. Between 2001 and 2004, financial assets as a share of total assets fell 6.3 percentage points, to 35.7 percent. This is the lowest share recorded by the survey since 1995.

Of the non-financial assets, the primary residence continues to account for the largest share. The median value of the home was estimated to be $246,800 in 2004 for those families that were homeowners; a figure that had increased from 2001 by well over 20 percent. [7] This demonstrates that home equity continues to play a central role in asset holdings, and for lower-income and minority families that are homeowners, homeownership makes up a large share of their asset holdings. While their homeownership rates are lower, home equity makes up 77 percent of total assets for lower-income families and 55 percent of total assets for minority families. [8]

However, this past year the state of the U.S. housing market began turning away from its recent record setting pace. The homeownership rate ended 2006 at 68.8 percent, down from its historic high of 69.0 percent, set in 2004. The minority homeownership rate, which historically has lagged the overall population, remains just under 50 percent, although the Hispanic homeownership has increased steadily over the past few years—2005 marked the first time that Hispanics were more likely to own their own homes than Blacks. [9] Increased volatility in housing markets in the past year is expected to lower these rates in the year to come and may undermine the asset holding of many families.

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[1] Bucks, Kennickell, and Moore (2006).
[2] Bucks, Kennickell, and Moore (2006).
[3] Analysis by Ed Wolff in Mishel, Bernstein, and Allegretto (2006), page 251.
[4] Analysis by Ed Wolff in Mishel, Bernstein, and Allegretto (2006), page 253.
[5] Analysis by Ed Wolff in Mishel, Bernstein, and Allegretto (2006), page 253.
[6] Analysis by Ed Wolff in Mishel, Bernstein, and Allegretto (2006), page 253.
[7] Bucks, Kennickell, and Moore (2006).
[8] Di (2003).
[9] U.S. Department of Housing and Urban Development (2007).

Unfortunately, many families have spent down the home equity they have accumulated in recent years by taking out heavily marketed low-interest home equity loans. The sharp increase in household debt held in home equity loans since 2000 presents a potentially troubling scenario if the housing market slowdown of late 2006 continues to cool, and home prices begin to stagnate or fall in 2007. Data from HUD's U.S. Housing Market Conditions report reveal that over the last year mortgage interest rates have increased, along with mortgage delinquencies and foreclosures; home sales are down; and the recent increases in home prices have slowed dramatically.[10]

While home equity represents the single largest component of household wealth, families store resources in a variety of other assets, such as bank accounts, stock investments, and retirement accounts. The percentage of families holding assets varies considerably. It is estimated that in 2004 over 91 percent of families had money stored in checking or savings accounts, while only 20.7 percent owned stock directly in a company. Furthermore, 15 percent owned shares of a mutual fund, 17.6 percent owned savings bonds, and 24.2 percent had assets held in a life insurance policy. Meanwhile, slightly less than half of all families (49.7 percent) had a personal retirement account, such as an IRA or a 401(k).[11] This figure represents a decline from three years earlier when the percentage of families owning a retirement account exceeded 52 percent.

Percentage of Families Holding Assets by Asset Type, 2004

Income Percentile	Stocks	Mutual Funds	Savings Bonds	Retirement Accounts	Bank Accounts	Life Insurance
Less than 20 percent	5.1%	3.6%	6.2%	10.1%	75.5%	14.0%
20 percent–39.9 percent	8.2%	7.6%	8.8%	30.0%	87.3%	19.2%
40 percent–59.9 percent	16.3%	12.7%	15.4%	53.4%	95.9%	24.2%
60 percent–79.9 percent	28.2%	18.6%	26.6%	69.7%	98.4%	29.8%
80 percent–89.9 percent	35.8%	26.2%	32.3%	81.9%	99.1%	29.5%
90 percent–100 percent	55.0%	39.1%	29.9%	88.5%	100.0%	38.1%
All Families	**20.7%**	**15.0%**	**17.6%**	**49.7%**	**91.3%**	**24.2%**

Source: Bucks, Kennickell, and Moore (2006).

The percentage of families holding assets is strongly correlated with their incomes. Compared to those households in the top 10 percent of income, households in the bottom forty percent of income were far less likely to own stock, retirement accounts, and transaction accounts. The differences in retirement asset holdings are especially revealing. The percentage of families owning a retirement plan drops to 10.1 percent for families making $18,900 or less, while well over 70 percent of those making more than $53,600 have a retirement savings account. In 2004, 27.2 percent of households headed by someone aged 47 to 64 did not have enough retirement savings, including social security benefits, to replace half their current income.[12] For Black and Hispanic households, this figure jumps to 39 percent.

Beyond differences in the type of assets households own, there are also differences in how much they own. The mean net worth is over $448,000 but the top 20 percent of families by income own over 80 percent of the Nation's wealth.[13] Families in the bottom 40 percent by income own approximately 5 percent of the Nation's wealth. Another dimension with which to examine wealth holdings is race. In general, minority households own less than ten cents for every dollar of wealth owned by a typical non-Hispanic White family.[14] Even though their income is roughly two-thirds of that of White families, their wealth is only 10 percent as much.

[10] U.S. Housing Market Conditions, 4th Quarter 2006 (2007).
[11] Bucks, Kennickell, and Moore (2006). Includes only all employment-based defined contribution plans plus IRAs and Keogh plans, but not defined benefit plans.
[12] Mishel, Bernstein, and Allegretto (2006), page 268.
[13] Bucks, Kennickell, and Moore (2006).
[14] Wolff (2004); Kochar (2004).

Shares of Wealth Ownership by Wealth Class, 1962–2004

Wealth Class	1962	1983	1989	1998	2001	2004
Top Fifth	81%	81.3%	83.5%	83.4%	84.4%	84.7%
Bottom Four-Fifths	19.1	18.7	16.5	16.6	15.6	15.3
Fourth	13.4	12.6	12.3	11.9	11.3	11.3
Middle	5.4	5.2	4.8	4.5	3.9	3.8
Second	1	1.2	0.8	0.8	0.7	0.7
Lowest	-0.7	-0.3	-1.5	-0.6	-0.4	-0.5
Total	100	100	100	100	100	100

Source: Analysis by Ed Wolff in Mishel, Bernstein, and Allegretto (2006), pp. 252.

The promise of an ownership society will dissipate if it is used only to further concentrate the wealth of those already financially secure. The challenge remains to significantly broaden access to asset ownership by those who own little or nothing. The current proposals in the administration's 2008 budget that focus on Social Security, health savings, and retirement accounts fail to get us all the way there.[15] The following ideas represent a set of proposals that would.

1. Establish Children's Savings Accounts

One of the most novel and promising ways to achieve a universal, progressive asset building system over time would be to provide each generation of children a restricted, start-in-life asset account at birth, an idea first proposed by Michael Sherraden and, separately, by former IRS Commissioner Fred Goldberg.[16] These accounts would establish a universal platform and infrastructure to facilitate future savings and lifelong asset accumulation. While every child would have an account, it would especially benefit the 26 percent of White children, 52 percent of Black children, and 54 percent of Hispanic children who start life in households without any significant asset holdings.[17]

Different versions of children's savings accounts have been proposed over the last several years by members of Congress; most, however, are not progressive and are focused on building only retirement assets (most notably former Sen. Bob Kerrey's "KidSave" proposal). However, in the last couple of years, proposals have emerged from both Democrats and Republicans for progressively funded children's savings accounts that could be used for buying a home and going to college, in addition to retirement. Outside the U.S., the U.K.'s Child Trust Fund is providing every newborn with a children's savings account and has already established well over 2 million accounts, and there are comparable programs emerging in Korea, Singapore, and Canada. Additionally, the privately-funded SEED Initiative is operating in 12 sites across the U.S., and is providing highly valuable insights into policy design.

Below are existing congressional proposals to establish Children's Savings Accounts, including three that were introduced in the 109th Congress (2005–2006); similar bills have been or are expected to be introduced in 2007.

America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act **Every** child born after December 31, 2006 issued a Social Security number would have a KIDS Account opened for them automatically. Each account would be endowed with a one-time $500 contribution, and children in households earning below national median income would be eligible for a supplemental contribution of up to $500. Additional savings incentives include tax-free earnings, matched savings for eligible families, and financial education. Senate bill 868 is authored by Senators Santorum (R–PA), Corzine (D–NJ), Schumer (D–NY), and DeMint (R–SC); House bill 1767 is authored by Reps. Ford (D–TN), Kennedy (D–RI), and English (R–PA). ASPIRE Act will be reintroduced both in the House and the Senate.

Young Saver's Accounts Roth IRAs for kids—called "Young Saver's Accounts"—would allow parents, for the first time, to direct contributions to Roth IRA accounts for their children, not just for themselves. YSAs were introduced by Senator Max Baucus (D–MT) in March as part of the Savings Competitiveness Act of 2006, and a similar provision was introduced in July 2005 in the House by Rep. Connie Mack

[15] For an analysis of the President's 2008 budget proposals, see *The Assets Report 2007: A Review, Assessment, and Forecast of Federal Assets Policy*, available at AssetBuilding.org.
[16] Sherraden (1991).
[17] Shapiro (2004).

(R–FL) as part of the Lifetime Prosperity Act. YSAs are anticipated to be included in savings bills in this Congress.

401Kids Introduced as HR 5314 by Rep. Clay Shaw Jr. (R–FL) and other House Republicans, this proposal would convert Coverdell Education Savings Accounts into "401Kids Savings Accounts" which would have expanded uses and the ability to be rolled over into a Roth IRA. This proposal would make it possible for a restricted, tax-advantaged savings account to be opened in a child's name as early as birth, with up to $2,000 of after tax contributions permitted a year. The funds could be used for the K–12 and post-secondary education expenses currently allowed under Coverdell Education Savings Account rules. Additionally, the accounts could also be used for a first home purchase, or rolled over into a Roth IRA for retirement. The bill has been reintroduced in the 110th Congress as H.R. 87 by Rep. Biggert (R–IL).

PLUS Accounts As proposed by Senator Jeff Sessions (R–AL), every U.S. citizen born after December 31, 2007 would have a PLUS Account opened for them automatically by the Federal Government endowed with a one-time $1,000 contribution. Beginning January 1, 2009 individual PLUS accounts would be established for all working U.S. citizens under the age of 65 with a mandatory 1 percent of each worker's paycheck withheld pre-tax and automatically deposited into their account (workers could voluntarily contribute up to 10 percent). Employers would also be required to contribute at least 1 percent (and up to 10 percent) of earnings. No withdrawals from PLUS accounts could be made until accountholder reaches the age of 65, although there would be a loan program for pre-retirement uses. Sen. Sessions plans to introduce legislation to establish "PLUS Accounts" by the end of March.

2. Create Savings and Asset Accumulation Incentives for the Working Poor

Enact an "EITC Savers Bonus" Linked to Existing Tax Credits

Anyone eligible for the EITC would be eligible for a larger refund if they deposited a portion of their refund into an existing savings product, such as an IRA or 529 College Savings Plan. The savings would be matched on a 1–1 basis, up to $500, for the amount contributed. The match would be delivered as a higher EITC refund—an "EITC Savers Bonus"—and would be deposited directly into the savings product. This may be more politically acceptable than creating a new refundable tax credit, and would ensure that the government match is saved directly into the account. Alternatively, taxpayers could report contributions they have made to their savings accounts during the year—including contributions to company-sponsored defined contribution plans, IRAs, 529 plans, or U.S. Savings Bonds—on their tax returns and this could trigger a higher EITC amount. The larger refund could then be received by the taxpayer or, ideally, it would be re-directed to the specified savings product. The cost of this proposal would depend on the size of the bonus and the number of people eligible. Eligibility could be linked to the EITC or the Child Tax Credit.

Improve the Saver's Credit

The 2001 tax bill created a new voluntary individual tax credit—the Saver's Credit—to encourage low-income workers to contribute to existing retirement products (IRAs, 401(k)s, etc). The 2006 Pension Protection Act followed through on the administration's proposal to make the Saver's Credit permanent and also indexed the contribution limits to inflation. However, the credit remains flawed in several important ways. It is not refundable, and it offers only a modest matching contribution. Consequently, it benefits only a small proportion of those technically eligible. For example, only about 20 percent of filers get any benefit, while only one in one-thousand persons receive the full benefit. Mark Iwry of the Brookings Institution, who helped design the Saver's Credit, suggests three ways to improve the credit: (1) make it refundable; (2) expand eligibility—instead of a 50 percent credit that phases down to 20 percent for joint filers with AGI over $30,000, the 50 percent Saver's Credit should be expanded to cover joint filers with significantly higher incomes within the middle-income range, for example, up to $60,000, phasing out at about $70,000 to $75,000; (3) smooth the phase-down of the credit to resemble IRA income eligibility, instead of the "cliffs" now in effect. These would offer a meaningful retirement incentive for families currently left out.

Expand the List of Products Eligible for the Saver's Credit

If the goal is to promote savings for low-income workers in general, and not just retirement savings, a range of existing savings products—529s, Coverdells, Health Savings Accounts, U.S. Savings Bonds and Individual Development Accounts—could be added to the list of products that would trigger the Saver's Credit. One could certainly argue that one's health and pre-retirement assets—especially a first home and post-secondary education—are critical elements of retirement security. It also should be noted that IRAs already permit penalty-free withdrawals for buying a first home and post-secondary education. And among low-income savers, data presented in this paper (page 4) shows U.S. Savings Bonds—which are long-term in nature and must be held for at least five years to avoid a penalty at redemption—are a more likely choice for saving than stocks or mutual funds. This change, however, would represent a significant philosophical shift in the purpose of the credit. The president proposed to make contributions to section 529 college savings plans eligible for the Saver's Credit in the FY 2008 budget.

3. Establish Savings Products with Default Features that Promote Savings

Create an Automatic, Accessible, and Flexible National Savings Plan

Congress could create a national savings plan structure that would be accessible to all current workers. Proposed by Reid Cramer of the New America Foundation, this saving plan, called AutoSave, could be available to facilitate flexible, pre-retirement savings. [18] Under this plan, employers that make payroll deductions will make deposits to the AutoSave system on behalf of their employees; the self-employed would be able to make deposits at their discretion. Employers will facilitate automatic deposits. AutoSave will offer a limited set of low-cost investment options, such as money market funds or index funds, administered by professional money managers. Money deposited in this system belongs to the individuals, and since deposits will be from after-tax dollars, normal tax rules apply. Individuals will have the flexibility to opt-out of the system or withdraw funds at any time. But workers will not have to elect to participate. The AutoSave system will assume you are in unless you state a preference to get out. A default contribution rate can be set at 2 percent of pay. At this rate, someone earning $50,000 a year would have $1,000 diverted directly into savings, which could grow with responsible stewardship. Additional targeted incentives could be applied to encourage longer-term savings, but AutoSave would be designed to take advantage of one of the most tried and true savings techniques—inertia.

Enact, and Possibly Match, "Automatic IRAs"

"Automatic IRAs," developed by the Brookings Institution and Heritage Foundation and supported by AARP, is aimed at the 71 million workers employed by small businesses that do not offer a pension plan to their workers. Firms not offering 401(k)s, 403(b)s, and the like could instead offer automatic payroll deductions into IRAs. Employers would inform employees of this savings option and would have the choice to either obtain from each employee a decision to participate or not, or automatically enroll employees (and then allow the employee to opt-out). While low-income workers would likely be reached through this proposal, there are no matching funds involved. Under the Auto IRA proposal, introduced in the 109th Congress as HR 6210, firms that do set-up Auto-IRAs would qualify for a one-time, small tax credit to offset their administrative costs; one could propose that this tax credit could be expanded to cover matching funds provided to lower-income employees.

Make Retirement Savings Plans Universal and Accessible

Universal 401(k)s, proposed separately by Michael Calabrese of the New America Foundation and Gene Sperling of the Center for American Progress, would offer all Americans, regardless of their employment status, generous savings incentives and automatic savings opportunities that employer-provided 401(k)s now offer their employees. The components of a citizen-based, Universal 401(k) include: (1) $2-to-$1 government matching contributions for initial savings of low-income families and $1-to-$1 matches for middle-income families; (2) a new flat refundable tax credit of 30 percent for savings done by all workers; and (3) a single, portable account that benefits families by continuing to provide strong savings incentives for parents who take time off to raise children or who are between jobs. To facilitate deposits into Universal 401(k)s, automatic payroll deductions would be offered by employers. For very low-income workers who might initially have very small account balances, or who are otherwise unable to navigate the process of setting up and managing a private account, a "clearinghouse" (modeled after the federal TSP) could be set up and empowered to create "default" accounts for such workers.

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[18] Cramer (2006).

4. Connect Tax Refunds to Savings Products

Promote the Split Refund Option

For the first time in 2007, individuals have the opportunity to split their tax refund across three accounts right when they file, using form 8888. Tax time presents a unique opportunity for all families, especially low-income households, to grow their personal savings account or invest in savings vehicles such as an IRA or 529 College Savings Plans. Splitting refunds across multiple accounts is a new and exciting opportunity to save at tax time. The IRS should work to educate both individual filers and tax preparers on the split refunds option, encourage tax-payers to take advantage of this simple savings mechanism and encourage the financial services industry to make certain products—529 plans and IRAs, especially—more easily funded through direct deposit.

Allow Tax Filers to Open Accounts Directly from their Tax Forms

Building on the opportunities presented by split refunds to use tax refunds to jump-start both a relationship with a financial institution and savings, tax filers should be able to open a transaction, saving, or investment (including IRA) account directly on their tax forms. Especially for low income families who receive refunds and may not have an account—and a savings or investment account in particular—with a financial institution, being able to open such an account directly on a tax form could make a major difference in the savings take-up rate. The IRS could achieve this goal in several ways. For instance, the IRS could solicit proposals for private financial institutions to provide low-cost quality accounts nationwide. Or, the IRS could create and maintain a web-based directory of financial institutions that open low-or no-cost accounts online for tax filers. The directory's URL address would be printed on all tax forms and it would be searchable by zip code.

Expand the Earned Income Tax Credit (EITC)

An expansion of the EITC, in addition to enabling more low-income Americans to save, would provide tax relief to lower-income working families. Previous expansions of the EITC have proven to be effective at providing work incentives and lifting families out of poverty. A well-crafted expansion would increase the maximum credit for working families with three or more children, expand the credit for married, two-earner couples, and expand the credit for families with two or more children. An expanded EITC program will create larger tax refunds, which in turn can be linked to savings products. An EITC saver's bonus, described above, would also serve to expand the reach of the EITC while at the same time promoting saving and investment.

Increase Funds to Low-Income Tax Preparation Sites to Support Financial Education and Counseling

Congress should increase federal funding by $50 million to support the expansion of important IRS initiatives aimed at low-income families, such as outreach regarding the EITC and the Child Credit. The receipt of tax returns presents an opportunity for low-income families to connect to financial services and products and learn about investments and savings. Linking tax preparation with savings and/or investment tools, such as 529 college saving plans, would increase asset-building knowledge. To meet these goals, tax preparers need resources to (1) hire and train counselors and (2) develop software to maintain client information. Policy-makers must more adequately fund and support the development of tax preparation sites and education efforts to identify families who qualify for such assistance and maximize potential income tax return benefits. In line with these goals, in March 2007 Sen. Jeff Bingaman (D–NM) requested $10 million in appropriations for community-based Volunteer Income Tax Assistance Centers for Fiscal Year 2008.

5. Make 529 College Savings Plans More Inclusive

Create a State Innovation Fund

A variety of state and private sector actors have enacted innovative programs within their 529 plans to primarily help low-income children pay for college. For example, a few non-profit organizations have offered matches to families saving for college through parallel 529 scholarship accounts. In SEED for Oklahoma Kids, 1,000 newborns will receive a 529 plan with a starter deposit of $1,000. Financial information and matching deposits will be provided as incentives for families to continue to save for a post-secondary education. Coalitions are being formed in states such as Kentucky and Michigan to look into the possibilities of universal 529s for every child in the state with progressive savings incentives incorporated to help low-income families. The Federal Government could encourage these types of innovative activities by sponsoring a competitive grant process where states could receive awards to help seed these initiatives

Add 529s to the List of Products Eligible for the Saver's Credit

The Saver's Credit currently provides a 50 percent match—in the form of a non-refundable tax credit—to low-and moderate-income people who contribute to a retirement account such as a 401(k) or IRA. To further promote savings in general, a range of savings products, including 529s, could be added to the list of products that trigger this credit; the administration proposed such a change as part of the FY 2008 Budget. Certainly one could argue that pre-retirement assets—especially a post-secondary education—is a critical element of retirement security, and it should be noted that all IRAs already permit tax-and penalty-free withdrawals for post-secondary education.

Support Matching Grants to Low-Income Savers

Currently 529 plans are largely underutilized by low and middle-income families. A number of states have dedicated funds to match savings in 529 plans as an additional incentive for low-income families. These incentives appear to be successful in encouraging families to contribute to 529 plans. Seven states—Colorado, Louisiana, Maine, Michigan, Minnesota, Rhode Island, and Utah—already provide matching funds to low-income savers, and Arkansas will begin providing targeted matches in 2008.

6. Foster Access to Wealth Building Financial Services

Fix the Electronic Transfer Account (ETA) and Expand Its Availability

Currently, the ETA is available only to those Americans who receive a recurring federal payment, like Social Security. Approximately 2 percent of federal benefits recipients have opened an ETA. Yet it is estimated that at least 4.5 million federal benefit recipients still do not have bank accounts. The take-up rate is low because the ETA is not attractive to either consumers or banks. For consumers, the account lacks functionality. For banks, there is an insufficient volume of small accounts. The Treasury Department should give banks greater flexibility to offer customers a range of options with different fee structures, as long as the bank continues to offer at least one low-cost option that is available to any federal benefit recipient regardless of past banking history. The need for a basic bank account is high and the ETA continues to represent a potentially useful infrastructure for providing access to financial services—particularly if account eligibility guidelines are expanded and banks are given greater flexibility to better tailor the product to meet consumers' needs. Further, the ETA should be made available to a broader segment of unbanked consumers, especially those who receive tax refunds.

Strengthen the Community Reinvestment Act and Improve the Service Test

The Community Reinvestment Act (CRA) has been successful in encouraging banks and thrifts to provide credit and make investments in communities in which they have branches. It has been less successful in ensuring that CRA-regulated institutions are actually serving the transactional, savings and investment needs of residents of low-income communities, and in encouraging those institutions, and their credit-providing affiliates, to provide products with appropriately risk-based prices and terms in all communities in which they do business. To score well on the service tests, banks and thrifts should be required to demonstrate that they not only provide, but also effectively market, fairly priced products and services that meet the needs of lower-income consumers. And it is time to consider how to both encourage banks and thrifts to extend their best lending beyond their assessment areas and to make certain that non-prime lending within the holding company family is well-priced and on fair terms.

Increase Accountability and Responsibility for Financial Institutions

While the Community Reinvestment Act has been quite successful in increasing responsibility and accountability of banks and thrifts to low- and moderate-income communities in which they have branches, the financial services world has changed dramatically since CRA was enacted in 1977, and those subject to CRA have a smaller and smaller portion of the consumer's financial "wallet." Credit unions, mortgage bankers and brokers, insurance companies, securities firms and providers of all sorts of alternative financial services from check cashing through pawn broking all compete for the consumer's financial business. While each industry is subject to, for example, laws relating to unfair trade practices, as well as its own distinct laws and regulations (with highly variable levels of supervision and enforcement), there is no uniform obligation to serve low- and moderate-income consumers and communities *and to do it in a manner that is fair to the consumer while profitable, and thus sustainable, to the provider. The on-going debacle in the sub-prime lending industry suggests the need to revisit this situation and open the debate on corporate responsibility in all parts of the U.S. financial services sector.*

Capitalize an Innovation Fund to Facilitate R&D Focused on Under-Banked Consumers

The Treasury Department should create an Innovation Fund to spur systemic change throughout the financial services industry by providing seed funding for financial services companies to develop products and services for under-banked consumers. These R&D funds would encourage banks—and other financial services firms—to engage in the kind of intensive research and planning that they perform to develop products and services for higher income consumers. The fund would seek to increase the reach of mainstream financial institutions into the under-banked market by encouraging innovation both in how products are structured and in how they are marketed and delivered. Ideally, products would bundle multiple functions, include a savings feature where feasible, use incentives creatively, and be competitively and responsibly priced.

Encourage TANF Recipients to Open Bank Accounts

Having a bank account is often one of the first steps towards building savings and assets. One way to assist TANF recipients—many of whom are "unbanked"—in this regard, while potentially curtailing costs of delivering benefits to recipients, is to have benefits electronically transferred to an account. Federal law does not require or prohibit electronic delivery of TANF cash assistance. Many states distribute TANF cash assistance via electronic benefit transfer (EBT) to a debit or stored-value card with access to funds via ATMs. Some states also offer recipients the option to have cash benefits directly deposited into a bank account. States that do not have a direct deposit option already in place could be encouraged to do so by offering bonus awards for states that reach a particular direct deposit threshold and by requiring states to specify in their state plans how they will encourage direct deposit of TANF benefits, and partner with financial education programs, free tax counseling programs, and mainstream financial institutions (banks and credit unions) to encourage unbanked recipients to open free or low-cost accounts.

7. Revise Asset Limit Rules in Public Assistance Programs

Eliminate Asset Limits from Eligibility Considerations

Eliminating asset limits entirely from certain programs should be considered and adopted where appropriate. Because states set the asset limits for TANF and Medicaid, the Federal Government has limited control over asset limits, with discretion primarily in the SSI and Food Stamp programs. However, the Federal Government could support states that choose to eliminate asset limits and commission research on the effects of this reform.

Reform Existing Asset Limits

Raise the limit. Asset limits could be raised to a more realistic level in public assistance programs, so that families could save more without being penalized, and then indexed to inflation to keep pace with rising costs. The raising of asset limits will encourage families to save in a variety of saving products, including Savings Bonds. Unlike income limits, which are adjusted upwards on a regular basis, asset limits in some programs have remained the same for several decades. In effect, asset limits have caused eligibility to become more and more restrictive over time. Program funding levels may benefit from the recent change to a more temporary focus on administering assistance, but families will benefit more from a long-term plan of savings and asset-accumulation

Index limits to inflation. The asset limits currently used in determining eligibility for major income support programs such as Food Stamps and SSI have, in some cases, not been updated in more than two decades. Over time, these limits become increasingly restrictive as they are not updated to reflect the effects of inflation. Indexing asset limits to inflation will work to ensure that the limits retain their original purchasing power and spare Congress and state legislatures from the need to continually legislate an increase.

Exclude certain asset holdings, such as savings for education and retirement; a car; and EITC refunds. Currently, employer sponsored 401(k) plans as well as IRAs generally are counted towards asset limits. Families needing to go on temporary public assistance therefore may have to spend down these retirement accounts even if they face a penalty in doing so. These families, who likely already lack sufficient retirement savings, will have even less—making it more likely that they will have to rely even more on public assistance once again when they are seniors. In line with excluding retirement accounts, contributions to 529s and other restricted education savings plans should also be excluded from eligibility consideration.

Cars are often overlooked as "assets" because they quickly depreciate in value. However, the value of a car should not be measured only by its resale value, but by the utility it provides in giving families access to job opportunities across their region. This is particularly important for families in areas lacking a convenient public transportation system.

Finally, low-income workers who receive an EITC refund should be allowed to save their refund for up to a year after receipt to pay for unexpected expenses, debts, and other purposes. This would help families pay for both expected and unexpected expenses throughout the year and offer greater protection from financial emergencies that could cause them to return to public assistance. This one-year time period has already been set in the Food Stamp program and the SSI program allows the EITC to be disregarded for nine months, so these precedents could be expanded to other programs which receive federal funding.

Reform Asset Limits in the Supplemental Social Security (SSI) and Medicare Programs

Asset limits in the SSI and Medicare programs currently impose an implicit tax of 100 percent on all retirement savings—for every dollar withdrawn for use in retirement, an individual's benefit is reduced by a one-for-one ratio. Under these program rules, individuals who saved for retirement during their working years are no better off than if they had not saved at all. SSI and Medicare asset limits must be reformed to restore the incentive for low-income workers to save for retirement by removing, or reducing, the penalty for withdrawals from retirement accounts.[19] Additionally, asset limits in SSI and Medicare present a tangible disincentive to save for pre-retirement uses, such as skills training, homeownership, or home improvement. SSI recipients, who may be capable or working for short periods, are prohibited from saving more than $2,000; when their disability results in an inability to work, these individuals must spend down their savings in order to re-qualify for SSI assistance. Not only do asset limits prevent SSI recipients from saving for skills training or homeownership these rules also prevent individuals from building a personal safety net through precautionary savings for use in a personal or medical emergency. The above recommendations to raise and index asset limits in addition to excluding all restricted savings vehicles, could make a tremendous impact on the financial security of this population.

8. Expand Responsible Homeownership Opportunities

Enact a Refundable First-Time Homebuyers' Tax Credit

The years immediately following a home purchase can be ones of financial hardship. Family income is devoted to mortgage payments and many auxiliary expenses accrue related to the maintenance and operating of a home. There is often a need to help sustain homeownership after the initial purchase. In addition to giving new homeowners access to information and services to prevent foreclosure, many homeowners would benefit from getting some financial relief in the years immediately after home purchase. A Homebuyers Tax Credit should be available to qualifying households for the three years after purchasing their first home, helping families sustain homeownership after trying so hard to achieve it. Qualifying households would apply for the tax credit directly on their tax returns. The credit would be refundable so it benefits families even with low or no tax liabilities. The benefits would appear as a lower tax liability or as a tax refund.

Increase Use of the Family Self-Sufficiency Program

The FSS program is one of the Nation's largest programs designed to help working poor families increase their savings. When earnings increase for Section 8 or public housing program participants, their rising rent payments are diverted into an escrow account which they can access after achieving self-sufficiency goals. While public housing authorities have the ability to open escrow accounts, they are required to identify designated case managers. In recent years, the funding to support case managers has been restricted and plagued by bureaucratic complexity.

The Department of Housing and Urban Development (HUD) should stabilize these funding streams, increase their capacity to hire case managers and more effectively seek partnership with agencies already in the case management business. FSS has proven to be a successful model, and HUD should expand it by encouraging local

[19] Center on Budget and Policy Priorities (2007).

partnerships between organizations with complimentary skill sets. Developing and publicizing FSS partnership arrangements will provide support for FSS practitioners by sharing best practices and entrepreneurial approaches to program growth. Beyond these reforms, the FSS approach should be dramatically expanded upon. The number of participants should double within the next four years. Furthermore, policymakers should consider making the link between increased earnings and savings accounts a central feature of the provision of housing assistance.

Expand Viability of Homeownership Uses from Restricted Accounts

In recent years the number of tax-preferred savings products which are defined by rules that govern contributions and withdrawals has continued to grow. While many of these accounts are associated with retirement, they have many pre-retirement allowable uses, including first-time homeownership. Though some have described these uses as "leakages," accrued savings can be used productively to help build a bridge to retirement. Policymakers should consider make these uses more robust and valuable, especially by updating the provisions related to first-time homeownership. First, policymakers should amend the rules for IRAs and Roth IRAs to raise the one time homeownership use allowance from IRAs from $10,000 to $20,000, which would bring this level up to a more contemporary downpayment standard. Second, rules which govern 401(k) and 403(b) plans should be amended to permit savers to use their funds for first-time homeownership and make the rules consistent with those for IRAs.

9. Strengthen Laws to Protect Assets Increase the Oversight of the Homebuying and Refinancing Market, Especially in the Sub-Prime Sector

The existing protections for high-cost and other potentially dangerous home loans must be improved. This would include prohibiting equity stripping practices, such as excessive prepayment penalties and fees for payoff information, modification, or late payment; requiring a borrower receive counseling before entering into a high-cost loan; and prohibiting mandatory arbitration clauses on high-cost loans. Consumers must also be far more effectively informed of all the terms of a loan—especially likely changes in payments arising from expiration of "teaser" rates—and lenders required to underwrite to ensure customers can pay after teaser rates expire and full amortization begins. More effective state oversight of mortgage brokers and others under their jurisdiction is also required.

Reduce the Cost of Tax Preparation and Restrict the Marketing of Refund Anticipation Loans

The IRS should continue to expand the provision of free electronic filing. Further, it should ensure that 1) the free services are easier for eligible tax filers to access and navigate; 2) the marketing of Refund Anticipation Loans is limited; and 3) options to open IRAs online are included.

Promote Strategies to Avoid Foreclosure

Overall foreclosure levels, and in particular foreclosure levels for sub-prime loans have hit record levels, and are expected to continue to increase, damaging not only families but also whole communities. Borrowers in trouble need access to both information to enable them to understand the potential for trouble while they still have the ability to refinance or to otherwise avoid foreclosure; and to non-predatory alternative mortgage products. In neighborhoods at risk of large numbers of foreclosures, lenders should be encouraged to make available homes vacated by borrowers who must move at no or low cost to community-based organizations that can resell the homes to borrowers who can afford the home, using an affordable mortgage product. Modifications to loan contracts (especially those that use pre-payment penalties to lock borrowers into loans they cannot pay), securities terms or laws (to allow modification of securities to allow loan prepayment or payment at less than par), or the Bankruptcy Code (to allow the secured part of a mortgage obligation to be reduced to no more than the value of the house) may also be required.

Increase Scrutiny of Payday Loans

Payday loans—which are short-term, low-dollar loans secured by a post-dated check—have become a serious asset-depleting type of lending, especially in moderate-income, working communities. Auto title lenders and pawn shops serve similar functions. While some states have been able to enact laws that limit or reduce payday lending, others have enacted more permissive statutes. Following revelations about the damage this type of lending was having upon the military, in 2006 Congress enacted the Talent Amendment to the Defense Appropriations bill, which establishes strict standards for consumer lending to members of the military and their depend-

ents. While the Department of Defense must write implementing regulations before the law goes into effect in October 2007, the statute has focused attention more broadly on why there is a growing demand for such credit, why the demand is not being met by traditional financial institutions such as banks and credit unions and how consumers can be better served. The Federal Deposit Insurance Corporation (FDIC) has issued proposed guidelines to encourage banks to provide both payday loan alternatives and savings products to reduce the need, and is considering a pilot program to explore how banks could get back into this business in a sustainable manner while helping customers move toward more constructive forms of credit. It is important that the FDIC's efforts are encouraged, that other bank and credit union regulators take similar steps, and that efforts to restrict payday and similar lending continue in the states.

Prevent Credit Card Abuses

The terms under which most credit cards are issued are virtually impossible to understand and present a substantial trap for the unwary and, especially, those who are financially stressed. Congress has recently held a series of hearings that have highlighted some of the worst abuses, such as double-interest and universal default clauses, and some financial institutions have begun to change the most egregious terms. But there is need for additional action, both to help card issuers who are willing to improve terms not be undercut by competitors, and to ensure that credit cards are offered on terms that are fully, accurately, and timely disclosed in a manner that is easily understood; make sense to consumers (e.g., a credit limit is a limit on credit granted, not an opportunity to charge an over-limit fee); and fairly enforced.

SOCIAL INCLUSION

FOR THE UNITED STATES

This working paper makes the case for a new, overarching framework—social inclusion—to advance and integrate social policy. It critiques the current poverty framework and the official U.S. poverty measure, and explains why the concept of social inclusion is a better alternative. The paper discusses how the concept of social inclusion is used in the United Kingdom and how it might be adapted for use in the United States.

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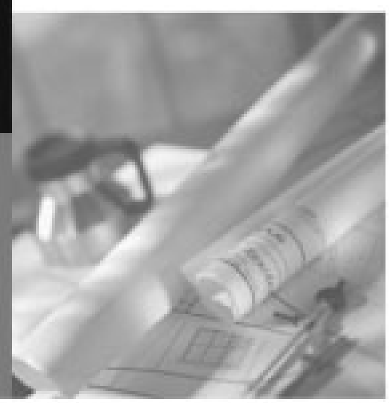

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Social inclusion is based on the belief that we all fare better when no one is left to fall too far behind and the economy works for everyone. Social inclusion simultaneously incorporates multiple dimensions of well-being. It is achieved when all have the opportunity and resources necessary to participate fully in economic, social, and cultural activities which are considered the societal norm.

Introduction

Poverty divides us. Social inclusion can unite us. Whenever too many fall too far behind the rest, our whole society is diminished. Inclusion demands goals and polices that avoid separating us. Inclusion calls on us to strive for a nation in which everyone lives with purpose, dignity, and satisfaction. Inclusion describes what Robert Kennedy called our desired "bond of common fate."

Indicators based on social inclusion would assess the extent to which low-paid workers fall behind the rest of the workforce, not only in terms of wages and income, but in a variety of dimensions, including health, education, housing, skills, advancement, and opportunity.

Unlike poverty, social inclusion is something positive to support, not something negative to oppose. Social inclusion has considerable potential to improve our understanding of social issues and policies. A serious effort should be made to introduce the concept in the United States.

Poverty Reduction as a National Goal: The Measurement Problem

Taking note of recent efforts in the United Kingdom and other countries to meet poverty-reduction goals, some advocates and policy makers in the United States have proposed adopting a goal to reduce poverty as it is understood and measured in the United States. In our view, adopting such a goal would not be part of an effective strategy to improve living standards in the United States. The United Kingdom has a broadly accepted definition of poverty that is tiered and multidimensional—the measure is not limited to income inadequacy—and a vision for what it means to end poverty in this broader sense. We have neither in the United States.

UK Prime Minister Tony Blair described the challenge in 1999:

> For years, many in our country have been forgotten by government. They have been left out of growing prosperity, told they were not needed, ignored by the government except for the purpose of blaming them. That must change—there will be no forgotten people in the country we want to build.

In his speech, the Prime Minister spelled out a vision of social inclusion that promoted advancement in the labour market, improved education outcomes, reduced health inequalities, higher quality housing, safer neighbourhoods, and importantly, the reduction of income inequality.

Consequently, the poverty indicators adopted in the United Kingdom measure both income and *social inclusion*. Political leaders there knew where they wanted to end up and designed a set of measures to match. When deciding how to address and measure income poverty, they chose a relative or inequality-based measure. Under the U.K. measure a family is poor if their income is below 60 percent of median income, after housing costs are subtracted. This measure recognizes the importance of income inequality as a cause and consequence of social exclusion.

But the United Kingdom also recognizes that poverty involves more than income. In a recent report on measuring poverty, Jonathan Athow, Head of the Work Incentive and Poverty Analysis Team in the U.K. Treasury Department, explained that poverty also encompasses "neighborhood environments, lack of opportunities to gather knowledge and skills, housing quality, access to mainstream financial services, and inequalities in health."

By contrast, the United States does not have a useful poverty measure, instead using a flawed one-dimensional measure of income deprivation, not a measure of inclusion or economic mobility. The official U.S. poverty guidelines are based on life as it was in the 1950s, when housing costs represented a smaller part of household budgets than today, one worker could support most families, and child care costs weren't much of a factor.

This is not our current economic reality. Forty-four million jobs in the United States—one in three—pay less than $11.11 an hour. Most of these jobs do not provide the employment benefits other workers take for granted: health insurance, paid time off, and retirement plans. Middle-class families have a hard time affording health care, child care, and other necessities. We could end "official poverty" in the United States, nudging families slightly above the $20,000 a year or so they need to earn to not be considered officially poor. But if we fail to build an economy that works for all, providing upward mobility, a decent standard of living, and economic security, we will merely consign millions to a lifetime of exclusion without opportunity.

In a recent Pew Foundation poll, seven out of 10 Americans agreed with the statement "the poor have become too dependent on government assistance programs."

Poverty Reduction as a Framework: The Public-Understanding Problem

The problem with a national initiative to end poverty runs much deeper than measurement issues. If we define our goal in terms of reducing *poverty* the policies and outcomes we want will not follow, even if we get the measurements right. As long as the problem is defined *as poverty*, the public and political will cannot be developed to support comprehensive initiatives that address it, *regardless of how it is defined*.

Public understanding of poverty is based in large part on the fact that the United States already declared a "War on Poverty," and the widely held belief that, as President Reagan said, "poverty won." Most people with inadequate incomes work, but as long as we refer to them as *poor*, too many people will see low-wage workers as *them*, and as different from *us*. Overwhelmingly, Americans believe people are poor due to individual shortcomings—bad decisions, character flaws, or moral weakness. These beliefs are reflected in a Pew Research Center poll conducted earlier this year in which seven out of 10 Americans agreed with the statement "the poor have become too dependent on government assistance programs."

Additional research—including a series of important reports from the *Economy That Works For All* project—demonstrate that attitudes about poverty would undermine any effort to build public will for policy solutions that actually address it. While many people believe we should eradicate hardship, we don't have a common understanding of its causes and this disagreement is a barrier to effective political action when we talk about solutions.

A New and Better Approach: Social Inclusion

Instead of designing initiatives and establishing national goals based on what we *oppose*, we should decide what we *want*.

We want initiatives and a national goal that support policies that cut across issue silos and lead to results—simultaneously and comprehensively—like greater income equality, better jobs, improved skills, health care for all, and better quality housing. Social inclusion is a multifaceted approach that enables us to do this.

Social inclusion allows us to focus on research and policy solutions that recognize simply getting a job may not be enough to ensure that families escape hardships and can fully participate in the social and economic life of their communities.

Ending poverty wouldn't even begin to address the reality of our current economy and labor market. Establishing such a goal would lead to interminable debates over the causes of poverty. Moreover, the goal is ill-designed to improve economic mobility and social inclusion. Any effort to meet this flawed target would take energy and resources for years to come, would likely be deemed a failure, and set us back still further as a result.

We should instead establish a national goal that acknowledges our history, the limitations of our current poverty measure, and the holes in our social infrastructure that make low-wage jobs problematic for reasons that go beyond wage levels. Social inclusion is such a goal.

Our nation cannot afford to leave so many behind. A social-inclusion goal allows us to address hardship faced by the poorest among us by focusing on a multitude of barriers to opportunity, including the erosion of middle-class jobs.

Social Inclusion, the Economy, and Work-Life Balance

A social-inclusion goal addresses multiple concerns. It addresses whether everyone can meet basic needs, as well as rising wage and income inequality, the erosion of middle-class jobs, and pressures that many families face in balancing work and other pursuits. While the richest families in the United States have seen their incomes continue to rise since the last half of the 1970s, moderate- and low-income families have only been able to hold their ground by working more. As families put in more hours at work, they have less time for friends, family, volunteering, leisure, recreation—relationships and activities that make one feel included in social life.

Changes wrought by globalization, declining unionization, technological change, and a policy environment hostile to establishing and enforcing labor standards have made it harder for working families to fully participate in social life. Social inclusion allows us to focus on research and policy solutions that recognize simply getting a job may not be enough to ensure that families escape hardships and can fully participate in the social and economic life of their communities.

These concepts are at the core of social inclusion. In contrast, focusing on poverty implies that meeting a very basic income standard is sufficient to ensure economic security and well-being. Social inclusion allows us to see low-wage work for what it is: work without adequate standards, such as a sufficient minimum wage, benefits like health insurance or retirement, job security and paid time off, or enforcement of labor laws. When some jobs lag so far behind the rest, it is impossible for all workers to feel or be included in everyday social activities and responsibilities.

Adopting a goal of social inclusion would focus more attention on—and provide new language to describe—the relationship between work and community life in the United States. Viewed from a social-

Social Inclusion in the United Kingdom and Other Countries

In the United Kingdom, the rest of Europe, and many other well-off nations, social inclusion is an overarching framework for addressing a myriad of social policy issues, including income inequality, skill levels, education, health inequalities, housing affordability, and work-life balance. Social inclusion is now part of the framework laws of the European Union and several nations. The precise boundaries of the concept are far from determinate, and countries have different definitions, but at its core, social inclusion involves including everyone in social institutions and relations in ways that matter for well-being.

As an example, the United Kingdom's National Action Plan on Social Inclusion states: "Poverty and social exclusion are complex and multidimensional problems. While household income clearly has an important impact on well-being, there are many other factors that help or hinder efforts to transform the lives of those suffering from poverty. Housing, health, education, and employment status may all have a role to play. And people are influenced by what sort of neighbourhood they live in, and whether they feel safe from crime or anti-social behaviour."

inclusion perspective, "living wages" might be seen as important not only because they help individual families make ends meet, but also for the broader positive effects they have on the building of social capital.

Social Inclusion is Consistent with Deeply Held Values

The concept of social inclusion goes well beyond our limited poverty definition in its ability to communicate a full range of means for social policy to boost income and build human capital. Social-inclusion approaches provide an inequality-based understanding of income and well-being, and build understanding of social issues by naming a phenomenon that isn't adequately identified in the United States by existing terms.

We must face the fact that some of the key concepts in our current social-policy vocabulary, including poverty and discrimination, don't have the same resonance as in earlier eras. Social inclusion is a new and evocative term that could build understanding among and open the ears of those who have grown weary of problems defined using older terms like poverty.

From a values perspective, a poverty framework is counterproductive because Americans tend to attribute poverty to individual characteristics—such as lack of a work ethic. The concept of social inclusion has the advantage of situating individuals in a social and relational context. Moreover, the experience of exclusion of some sort, unlike the experience of poverty or discrimination, is nearly universal.

A focus on poverty has the effect of setting the bar for future social policy too low. If the problem is defined as poverty or meeting basic needs then the question becomes "how minimal the minimum should be." Social inclusion is a broader concept than absolute differences in income—as poverty is officially defined in the United States—or other forms of material hardship. Social inclusion is a bigger-picture, more encompassing end goal in other nations, and boosting incomes and reducing income inequality is considered only one of multiple means to accomplish that end.

A Social-Inclusion Goal Supports Effective Policy Solutions and an Economy that Works for All

Rather than simply copying the practice of other nations to reduce poverty, it is critical for the United States to adopt a goal with more resonance in our social and political culture. Given what we know about public understanding of poverty and lack of confidence that government has a role to play in addressing the problem, we cannot use the language of poverty to build public will for policy solutions.

It is most likely impossible to completely eradicate poverty. Importantly, we don't have to "eliminate" inclusion, but can seek to increase it. Rather than establishing an impossible goal or equivocate by setting a low bar—halving poverty for example—we can seek to increase inclusion and create a tiered, multifaceted measure to assess our progress.

Establishing a poverty-reduction target and not meeting it would lead to more blaming of individuals—poor workers would be blamed for being irresponsible and government officials would be blamed for being ineffective. We should establish a lofty, but realistic goal to increase social inclusion. Increasing inclusion is hard to oppose, while eliminating poverty will seem like the height of folly to many in the United States, nothing more than revisiting an already failed strategy.

A new framework based on the idea of social inclusion would better support efforts to improve living standards and increase equality in the United States.

The experience in the United Kingdom shows us that public understanding of and a political commitment to social inclusion can yield important policy changes across a variety of issue areas. These policies include a $10-per-hour minimum wage, substantial tax credits for low-income individuals, and the right for employees to request flexible work schedules. These measures have been viewed by the government as investments in individuals and economic growth. Furthermore, the social-inclusion approach has provided a framework to coordinate initiatives across government agencies, reducing tendencies toward programmatic silos. Together these policy changes resulted in income gains that moved lower-income individuals closer to the middle.

In the United States, a social-inclusion goal provides more room than a poverty-reduction goal for consideration of comprehensive policies, including universal health care, paid leave, democratic workplaces, and portable retirement accounts, that result in an economy that works for all.

If policy, research, and funding communities support a social inclusion approach, we can expect policy makers, political candidates, and the media to follow. For example, candidates could adopt proposals such as a National Commission on Social Inclusion, a national social-inclusion goal implemented across multiple programs and agencies, and state and local offices for social inclusion.

Conclusion

As long as we continue to define the problem we seek to solve as *poverty*, the political will and public support to address it will not exist. A new approach based on the idea of social inclusion has the potential breathe new life into our shared efforts and make it possible for us to accomplish our common goals.

Further Reading

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