

Testimony of Ron Haskins  
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Before the Committee on Ways and Means  
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Chairman Rangel, Ranking Member McCrery, and Members of the Committee:

My name is Ron Haskins. I am a Senior Fellow at the Brookings Institution and a Senior Consultant at the Annie E. Casey Foundation. I also spent 14 of the interesting years of my professional life working for this Committee and I am very grateful to have this opportunity to testify during today's hearing on poverty and the economy.

The report by my friend Harry Holzer and his colleagues that you are releasing today is a challenging and exceptionally interesting product of sophisticated social science methods.<sup>1</sup> I suspect that economists and other experts would challenge some of the assumptions underlying the report and might come up with slightly different results than those reported by Holzer. But I think the conclusion that if we eliminated childhood poverty we would save on the order of \$500 billion a year because of increased labor, reduced crime, and reduced need for health care is reasonable. Regardless of the exact level of savings, nearly every expert would grant that eliminating poverty would produce economic benefits and that the benefits would be substantial. In short, I applaud this report, especially because it gives us yet another reason to do everything possible to reduce poverty.

I would, however, like to emphasize a cost that is not part of the calculations made by Holzer and his colleagues. Even if we reduce childhood poverty and prevent some of the costs childhood poverty imposes on the economy, whatever actions we take to end poverty would themselves have substantial costs. Thus, even if \$500 billion is an accurate estimate of the costs of childhood poverty, we would need to spend money to reduce childhood poverty in order to reduce its long-term costs. In 2005 we spent well over \$600 billion on programs for poor and low-income individuals and families<sup>2</sup> and yet the child poverty rate was 17.6 percent.<sup>3</sup> It's anyone's guess how much more we would have to spend to greatly reduce the current child poverty rate.

Further, the report tells us little about the causes of poverty, or more important for this committee, how it could be reduced. My concern here is directed especially to those who think that poverty is a random event that strikes indiscriminately, that our economy or our schools are the primary causes of poverty, or that the only difference between the poor and the middle class is money. The poor are poor in large part because they make decisions that greatly increase the likelihood that they will be poor. Yes, many of the poor begin life with disadvantages – lousy neighborhoods, bad schools, single-parent families – that are difficult to overcome. But both research and experience show that many people born with disadvantages manage to overcome them.

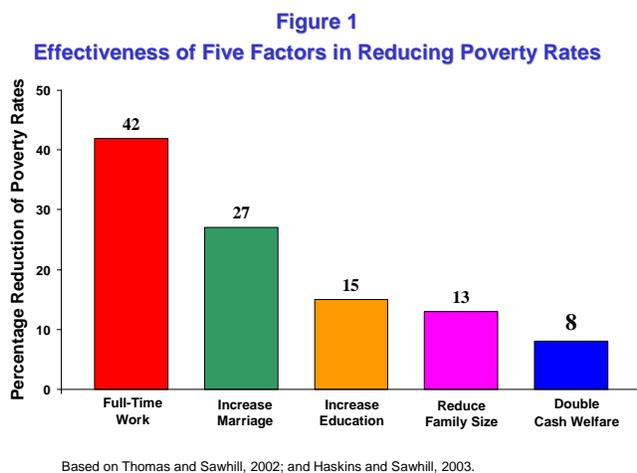
Another complication arises. I think Professor Holzer and his colleagues would agree that in order to realize the gains to the economy they calculate would require changes in the behavior of both poor parents and poor children. Indeed, the underlying implication of their analysis is that the savings they estimate can only be achieved if we can figure out a way to boost poor children into an entirely different developmental trajectory than the one that currently limits their potential. We can have a big argument about whether it is possible to achieve this kind of impact on children, but virtually every student of poverty thinks that just giving money to poor parents would not be enough.

Professor Susan Mayer of Northwestern University, in a remarkable study cited by Professor Holzer and his colleagues, found that influencing child outcomes requires more than just money. The title of her book, *What Money Can't Buy*, hints at her message that “once basic material needs are met, factors other than income become increasingly important.”<sup>4</sup>

This point is worth emphasizing. The nature of Professor Holzer’s analysis is to compare productivity, crime, and health of children from poor families with children from non-poor families.<sup>5</sup> It is inherent in the logic of their analysis that any differences they find in the labor force productivity, health, or criminal behavior of children from poor and non-poor families cannot be attributed just to family differences in income. The authors are admirably explicit about this point:

[Our estimates] include not only the effects of low parental income, but also of the entire range of environmental factors associated with poverty in the U.S., and all of the personal characteristics imparted by parents, schools, and neighborhoods to children who grow up with them or in them. . . . Of course, in defining poverty this way, we also assume that the entire range of negative influences associated with low family incomes would ultimately be eliminated if all poor children were instead raised in non-poor households. (p. 6)

I think we have some fairly good ideas about how to influence children’s development, but no intervention has shown that it is possible to have these sweeping effects on the child’s home, neighborhood, and school environment. In short, I would not expect to be designing interventions any time soon that will enable us to capture a major portion of the \$500 billion Professor Holzer estimates is lost to our economy every year because children are reared in poverty.

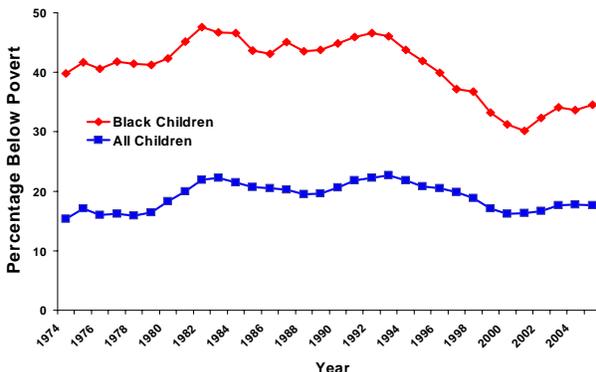


Rather than chase a goal that is far out of our reach to eliminate child poverty, a more modest but potentially more effective set of strategies lies close at hand. Figure 1 portrays the results of an analysis performed by Isabel Sawhill, my colleague at Brookings. Based on Census Bureau data for 2002, the analysis systematically varies factors correlated with poverty and then, based on the magnitude of each factor’s correlation with poverty and on data from a random sample of Americans, estimates how changing that factor would change the poverty rate.<sup>6</sup> The figure shows the impact on poverty of assuming everyone

works full time, of increasing the frequency of marriage to match the rate that prevailed in 1970, of assuming everyone completed high school, of reducing family size so that no family had more than two children, and of doubling cash welfare. As you can see by the height of the bar graphs, the most effective way to reduce poverty would be to increase work levels; the second most effective way would be to increase marriage rates. Increasing education, reducing family size, and doubling cash welfare are much less effective in reducing poverty.

This analysis, like the study being released today by the Committee, is based on statistical manipulations of data and not what actually happens when something in the environment (such as

**Figure 2**  
**Poverty Rates for All Children and Black Children, 1974-2005**



Source: U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States*, Current Population Reports, August 2006.

found jobs. Figure 2 shows what happened to child poverty during the period of increased employment by single mothers. Child poverty declined for seven consecutive years beginning in 1993, falling by nearly 29 percent over the period. Black child poverty fell even more, by about 32 percent, reaching its lowest level ever. Even after some mothers lost their jobs during and following the recession of 2001 and child poverty increased, it peaked in 2004 (it declined again in 2005) at a rate that was more than 20 percent below its mid-1990s peak.<sup>7</sup>

In line with the prediction of the Sawhill analysis, these results present a vivid demonstration that poverty can be reduced by people making the right decisions – in this case the decision to go to work. Congress and President Clinton encouraged work; many poor mothers went to work; child poverty dropped.

Another decision that people make that greatly increases their odds of living in poverty is the decision to have a baby outside marriage. Children in female-headed families are four or five times more likely to be poor as children living with their married parents.<sup>8</sup> The Brookings analysis referred to above shows that if we had the marriage rate we had in 1970, we could reduce poverty by well over 25 percent. The analysis does not assume any higher levels of employment or any government spending above the level that actually occurred in 2002. The analysis proceeded by randomly matching single men and single women with the characteristics (including employment and income) they actually had in 2002. The matches, based on age, education, and race, proceeded until enough virtual marriages had been created to equal the 1970 marriage rate. Clearly, the decision to marry by millions of young adults could have a major impact on poverty rates. As it is now, the decision not to marry and to have babies outside wedlock contributes greatly to the high level of poverty in America, especially the poverty level among children.

Dropping out of high school is yet another individual decision that has a major impact on poverty. As Figure 1 shows, we could reduce poverty by about 15 percent if everyone would simply finish high school. Of course, if more youth went on after high school and achieved 2-year or 4-year degrees, the impact of education on poverty would be even greater.

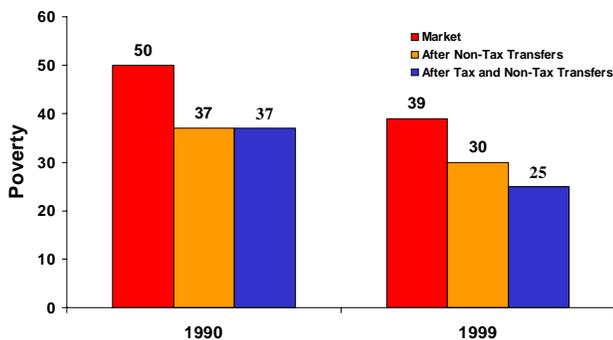
So far, I have emphasized work, marriage, and education because not only are these effective levers to manipulate to fight poverty, but they are all primarily under the control of individuals. The major lesson from welfare reform is that increased personal responsibility is vital to reducing

work or marriage rates) changes. But, thanks in large part to this Committee, the nation has conducted a huge experiment that shows what happens to poverty rates when more people work. In the welfare reform legislation of 1996, welfare rules were dramatically changed so that mothers on welfare had to look for work or have their cash benefit reduced or even terminated. In addition, mothers were confronted with a 5-year time limit. In part because of these new rules, the mid- and late-1990s saw the largest increase ever in work by females heading families. As many as two million poor mothers left or avoided welfare and

poverty. No matter what we do as a nation to fight poverty, increased levels of responsible decision making by individuals should be at the heart of our strategy. If we can increase the number of parents who decide to work, if we can encourage young people to marry before having children, and if we can help young people complete high school or even achieve additional years of schooling beyond high school, we will greatly reduce poverty and realize the economic gains predicted by the Holzer report.

I am emphatically not arguing that we should create a brave new world in which disadvantaged individuals must slog it out in a low-wage economy without help from government. Government has a vital role to play. But government is already doing a lot. Members of this Committee undoubtedly hold a wide range of views about how much government should do to help the poor and what particular actions government should take to fight poverty. But since roughly the 1980s, the legislative and executive branches of the federal government have dramatically shifted the focus of American social policy. As Kate O’Beirne testified before this Committee during the 1995 hearings on welfare reform, the watchword of the old welfare system seemed to be “Spend more, demand less.”<sup>9</sup> But the welfare reform legislation of 1996 has brought dramatic change. Now low-income families are expected to work, but when they do the federal government meets them in the labor market with a host of work-conditioned benefits including the Earned Income Tax Credit (EITC), a partially refundable child tax credit, child care, a worker-friendly food stamp program, and Medicaid coverage. In the bad old days, a poor mother who left welfare for low-wage work could actually lose money – and lose her family’s Medicaid coverage as well. Now she can get up to \$4,500 in cash from the EITC, she might qualify for the refundable part of the child tax credit, she could qualify for around \$1,500 in food stamps, her children are covered by Medicaid as long as she has low earnings, and there’s a very good chance her child care would be covered.

**Figure 3**  
**Poverty Rates for Children Living with Unmarried Mothers**  
**Before and After Government Programs**



Source: House Committee on Ways and Means, 2004 *Green Book*, Table H-21.

Figure 3, based on data taken from the *Ways and Means Green Book*, shows how successful the policy shift to mandatory work combined with federal work supports has been.<sup>10</sup> The figure compares progress against poverty among children living with their unwed mothers in 1990 (the first set of graphs) and in 1999 (the second set of graphs). The first bar shows that before any government transfer programs, the poverty rate based just on market income was 50 percent in 1990 but only 39 percent in 1999. The 1999 market poverty rate was more than 20 percent lower than the comparable rate in 1990 because so many more

unwed mothers were working in 1999. The second bar shows what happens when non-tax transfers from cash welfare, food stamps, and housing are added to family income. These programs took a big bite out of poverty in 1990, causing it to fall from 50 percent to 37 percent. But the same programs also had a major impact on poverty in 1999, despite its lower initial level, causing it to fall from 39 percent to 30 percent. When tax benefits, notably the EITC, are added to income, there is virtually no impact on poverty in 1990. But in 1999, the EITC and other tax benefits brought poverty down by another 5 percentage points or 15 percent. As can be seen by comparing the last bar in each set, the combined effect of government programs in 1990 was to bring poverty down by about 25 percent, from 50 percent to 37 percent. But the impact of government programs in 1999 was even greater,

reducing poverty by over 35 percent – despite the fact that increased incomes from work by mothers had caused the market poverty rate to be 20 percent lower. It would be difficult to imagine a clearer demonstration that the new federal strategy of requiring personal effort and then rewarding it with work-contingent benefits is functioning just the way this Committee and Congress hoped it would.

The beauty of what has happened to work and poverty in America over the past decade is that our current approach to fighting poverty is deeply bipartisan. For Republicans there is the reliance on personal responsibility and the market; for Democrats there is the use of government programs to provide work incentives and boost incomes. If the Members of this Committee base their decisions on how to fight poverty on the lessons of the past, they will build their policies on a foundation with three bulwarks that would make the policies inherently bipartisan: jobs in the private sector (even if they are low-wage), work requirements to spur individual responsibility, and government programs that support work (“make work pay”).

My Brookings colleague Isabel Sawhill and I have just completed work on a paper that is part of a larger Brookings project designed to bring attention to critical issues of foreign and domestic policy that should be addressed by candidates during the 2008 presidential campaign.<sup>11</sup> Our paper is based in part on an issue of the journal *The Future of Children* that Brookings and Princeton University publish twice a year. Our next issue contains eight specific recommendations, made by some of the nation’s leading scholars, about policies to fight poverty. Here are brief descriptions of four proposals for fighting poverty that meet the criteria of building on the low-wage economy, spurring individual responsibility, and supporting work:

- Raising work levels is a proven strategy for reducing poverty. Yet the only federal program that has strong work requirements is Temporary Assistance for Needy Families. The federal government should work with states and local housing authorities to increase the incentives for work in both the food stamp and housing programs.
- Simulations like the Sawhill analysis cited above show that increasing marriage rates could have a major impact on poverty. However, there is only modest evidence that programs such as marriage education will increase marriage rates or strengthen families. Fortunately, the Bush administration has funded a series of scientific studies, now being conducted by highly qualified research companies, to examine a range of marriage programs working both with young unmarried parents and with young married parents. In addition, the Administration has recently funded over 120 marriage programs around the nation. The Ways and Means Committee should follow the progress of these research and demonstration programs and from time-to-time conduct hearings to examine the findings. If the programs are effective in building strong families and boosting children’s development, they should be expanded.
- A large number of poor and low-income men, especially minority men, continue to have serious problems in the labor market and to exhibit low rates of marriage, high rates of impregnating their unmarried partners, low rates of paying child support, and high rates of crime and imprisonment. The primary government program for these young men is child support enforcement, which uses all available means – including incarceration – to force them to pay child support. A reasonable approach to helping these young men would be to use both prison release programs and interventions implemented through the Child Support Enforcement program to provide incentives for work. In addition, Congress should provide funds for a few states to experiment with large-scale demonstrations of the effects of providing these young males with a large income supplement comparable to the EITC;

- The intervention program that has the best evidence of having long-term impacts on children’s development is high-quality preschool.<sup>12</sup> Evidence from model programs shows that preschool can reduce placements in special education and retentions in grade, boost school graduation rates, reduce delinquency and crime, reduce teen pregnancy, and increase college attendance, among other effects. But there is little or no evidence that large-scale programs like Head Start can produce these long-term effects. More than forty states now spend their own money on preschool programs, indicating a high level of state commitment to preschool. Congress should offer additional funding to a few states that agree to coordinate all their child care and preschool funding, to focus on boosting school readiness, to cover all poor 4-year-olds (or both 3- and 4-year-olds), to use highly qualified teachers, and to submit their programs to third-party evaluations. Although model programs show what can be accomplished, we do not yet have the knowledge to implement effective large-scale programs.

I believe the Ways and Means Committee should be commended for opening its agenda for the 110<sup>th</sup> Congress by examining poverty. We have learned a lot about fighting poverty in the past decade. If we build on what we have learned, and especially if we conduct large-scale demonstrations of new ideas based on the bipartisan principles outlined above, I think it is possible to further reduce poverty and to realize some of the savings to the nation’s economy so impressively documented in the Holzer report.

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<sup>1</sup> Harry J. Holzer and others, “The Economic Costs of Poverty in the United States: Subsequent Effects of Children Growing Up Poor” (Washington, D.C.: Center for American Progress, January 2007).

<sup>2</sup> Congressional Research Service, Domestic Social Policy Division, Knowledge Services Group, *Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2002 – FY2004*, CRS Report for Congress (Washington, D.C.: Author, March 2006).

<sup>3</sup> Carmen DeNavas-Walt, and others, U.S. Census Bureau, *Income Poverty, and Health Insurance Coverage in the United States: 2005*, Current Population Reports, P60-231 (Washington, D.C.: Government Printing Office, 2006), Table B-2.

<sup>4</sup> Susan E. Mayer, *What Money Can’t Buy* (Cambridge: Harvard, 1997), p. 148.

<sup>5</sup> Actually, the comparisons in the study are between poor children and children from families at twice the poverty level (about \$30,000 for a family of three in 2006). Thus, the full savings they estimate would not be achieved unless we could develop policies that brought the families of poor children to twice the poverty level.

<sup>6</sup> Adam Thomas and Isabel Sawhill, “For Richer or for Poorer: Marriage as an Antipoverty Strategy,” *Journal of Policy Analysis and Management*, 21(4): 587-599; Ron Haskins and Isabel Sawhill, “Work and Marriage: The Way to End Poverty and Welfare” (Welfare Reform and Beyond Brief #28), Washington, D.C., Brookings, September 2003.

<sup>7</sup> Ron Haskins, *Work over Welfare: The Inside Story of the 1996 Welfare Reform Law* (Washington, D.C.: Brookings, 2006), Chapter 15.

<sup>8</sup> According to tables from the U.S. Census Bureau, in 2005 the poverty rate among children living in married-couple households was 7.4 percent; the rate for children living in households headed by females was 38.0 percent. Thus, the poverty rate among children in female-headed households is 5.1 times greater than among children living with a married couple.

<sup>9</sup> Haskins, *Work over Welfare*, p. 126.

<sup>10</sup> Committee on Ways and Means, *2004 Green Book* (Washington, D.C.: U.S. Government Printing Office, 2004), table H-21.

<sup>11</sup> Ron Haskins and Isabel Sawhill, “What a Winning Presidential Candidate Should Do About Poverty and Inequality” (Washington, D.C.: Brookings, forthcoming).

<sup>12</sup> Ron Haskins, “Putting Education into Preschools,” in Paul E. Peterson, ed., *Generational Change: Closing the Test Score Gap* (Lanham, Maryland: Rowman & Littlefield, 2006); Jens Ludwig and Isabel Sawhill, “Success by Ten” (Washington, D.C.: Brookings, forthcoming).