OPPORTUNITY 08
Independent Ideas For Our Next President

Attacking Poverty and Inequality
Reinvigorate the Fight for Greater Opportunity

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Summary

Although the nation's poverty rate is higher now than it was in the 1970s, no President since Lyndon Johnson has made fighting poverty a major plank of his campaign or goal of his administration. With large and growing gaps between the rich and the poor, it is now time for presidential campaigns and the next President to focus on poverty and inequality in America. Evidence suggests that the American people are ready to support a reinvigorated fight.

Three effective ways to reduce poverty are to increase work levels, reverse the growth of single-parent families, and improve educational outcomes. Past initiatives that produced strong results, including welfare reform in the 1990s, can be models for aggressive pursuit of all three strategies.

Specifically, the next President should undertake a comprehensive work-family-education assault on poverty and inequality, which would launch a new generation of effective policies and could include:

- strengthening work requirements in government assistance programs
- increasing the minimum wage
- expanding the earned income tax credit
- subsidizing child care for low-wage workers
- promoting marriage as the best environment for rearing children
- funding effective teen pregnancy prevention efforts, premarital education, and family planning, and

- investing in high-quality early childhood education

An effective strategy to expand opportunity will target the bottom third and help them onto the ladder that leads to the middle class. It will also draw people into the labor market, reduce dependence on government assistance, create more taxpayers, and improve people's lives.

A comprehensive new strategy would cost about $38 billion per year in new federal funding which should only be enacted if it is fully paid for by reducing other expenditures.

Context

Poverty engulfs 13 percent of all Americans and 18 percent of America's children. Following an impressive drop in the late 1990s, especially among female-headed families, the poverty rate is higher now than it was in the 1970s. (The federal poverty level is income below $15,700 for a family of three in 2005.) Although the nation has made some progress against poverty in some subgroups of the poor, such as the elderly and female-headed families, a great deal remains to be done.

A major factor in both generating and fighting poverty is the state of the economy. The years since 1979 have seen big increases in income for those at the top of the income distribution, modest increases for those in the middle, and almost no change at all for those at the bottom. What's needed is to pull up the bottom third and help lower-income individuals get their foot on the ladder that leads to the middle class.

Even though the nation has made only modest progress against poverty since the early 1970s, no President since Lyndon Johnson has made fighting poverty a major plank of his campaign or goal of his administration, and few presidential candidates have put poverty or inequality on the front burner of their campaigns. Ronald Reagan talked about the importance of protecting the "truly needy," but this was a minor theme, at best, during his administration. Bill Clinton quietly expanded assistance for the

working poor but avoided talking about poverty, preferring to focus on a middle-class tax cut and "ending welfare as we know it." John Edwards talked about the "two Americas" in his 2004 campaign, but the defeat of the Kerry-Edwards ticket left this issue unaddressed. In 1999-2000, candidate George W. Bush promised to be a compassionate conservative and to "leave no one behind," but poverty has increased under the Bush administration.

The American people may be ready for a fresh look at the question. First, many people across the political spectrum always have believed that helping the poor is a worthy public policy goal, and the Hurricane Katrina experience may have swelled their ranks. Second, welfare reform, because it has successfully moved poor adults into jobs, has refocused attention on the working poor—a group that elicits far more sympathy than those dependent on government assistance. Third, inequality is growing, and the public appears increasingly concerned about the gap between the richest Americans and the poorest. In polls conducted in the fall of 2006, inequality ranked second only to gasoline prices as the economic issue of greatest concern.

Focus on Work, Family, and Education

Why haven't we, as a nation, made more progress against poverty? After all, in 2004 federal and state governments spent over $580 billion on means-tested programs designed to assist the poor—an amount that, after adjusting for inflation, has more than quadrupled since 1968. Two factors have undermined both public and private efforts. The first is a set of poverty-increasing trends: the breakdown of the family, stagnation in real wages among low-skilled workers, and the failure of the education system to equip students with the skills needed in the new economy. The second factor is that many antipoverty programs, which merely provide people with cash and other benefits, have failed to address the main causes of poverty—and in some cases have made them worse. We need a new generation of antipoverty policies that focus on requiring and rewarding work, reversing the breakdown of the family, and improving educational outcomes.

Simulation research performed at Brookings demonstrates that increasing workforce participation, increasing marriage rates, and improving education are the three best ways to reduce poverty. Securing fulltime jobs for all would reduce poverty 40 percent, restoring marriage rates to their 1970 level would reduce it 30 percent, and achieving universal high school graduation would reduce it 15 percent. By contrast, even doubling cash welfare payments would reduce poverty less than 10 percent.

These projections are consistent with experience. In the 1990s, a robust economy, welfare reform that required mothers to work, and increases in the federal benefits for low-income working families combined to increase the work rate of never-married mothers heading families—women with the lowest education and the least job experience—by nearly 40 percent in five years. This is a feat without parallel for any other demographic group in Census Bureau records. Partly as a result of this increased maternal employment, the poverty rate for children in female-headed families fell 30 percent between 1993 and 2000, while poverty among black children reached its lowest level ever.

One reason for welfare reform's success is that it combined sticks with carrots. Mothers who failed to search for a job could lose their benefits, and there was a five-year time limit on cash welfare payments. The carrots consisted of generous work-support benefits in the form of wage supplements, child care, health insurance, and food stamps for mothers who joined the workforce. Under the old welfare system, when parents left welfare for work, health coverage and other benefits virtually ceased as soon as the paychecks started coming in. In short, policy changes made welfare less desirable and work more desirable. Government action that emphasizes personal responsibility, yet supports those who play by the rules, can have a major impact on poverty—including concentrated poverty of the kind exposed by Katrina.

Adopt All Three Strategies to Reduce Poverty

A full package of work-family-education proposals is, in our view, the best bet for insuring that more children have the skills needed for adult success and that more unskilled adults are able to support their families through work. However, any one of the proposals described below would be a good start on achieving these objectives.

Require and Reward Work

One way to require and reward work is to strengthen work requirements in housing programs. Another way is to adjust the minimum wage to keep it in line with market developments and provide low-income working families with wage supplements and child care assistance.

Strengthen Work Requirements in Housing Programs

As the welfare reform experience shows, increasing work levels reduces poverty, when combined with government benefits that help low-income working families. Yet, work requirements in other federal and state programs, including Food Stamps, are either weak or nonexistent. One fertile area for strengthening work requirements is housing programs.

Each year, 4.8 million housing units involve some type of federal subsidy, at a total cost of $30 billion. Only those units that are in public housing projects entail a work requirement, and even there the requirement is just eight hours per month and is observed in the breach. Worse, most housing programs actually contain substantial work disincentives: the general rule that beneficiaries must pay 30 percent of their income toward the cost of their unit means that, if they accept a job, their rent goes up by as much as 30 cents for each dollar of earnings. When this obligation is added to FICA and state taxes, many workers in low-wage jobs pay 50 percent or more of their earnings in taxes and extra housing payments. It would be challenging to think of a system that would more effectively discourage work.

A major congressional objection to work mandates is the fear that sanctions will make some residents homeless. However, the large-scale Jobs-Plus demonstration program conducted in public housing units in six cities found that a voluntary program featuring incentives and social supports for work produced very high rates of participation and substantial increases in both work and earnings.

One approach to increasing work would be to give local housing authorities, for a time, the power to impose work mandates and sanctions and allow them to decide whether and how to use them. Under this approach, the Department of Housing and Urban Development (HUD) would have authority to negotiate with local authorities over such particulars as the percentage of the caseload that would be required to participate, the hours of participation, and the definition of work. The emphasis would be on private-sector jobs, with the work program providing jobs of last resort. Participating local authorities would be allowed to forgive the 30-percent rent charge on earnings, with resulting lost local revenues compensated by the federal government. If, after several years, a high percentage of housing beneficiaries still were not working, the approach could be revisited.

Make Work Pay

Some people choose not to join the labor force or to work only sporadically simply because wages for low-skill jobs are very low, have stagnated in recent decades, and are often not competitive with other sources of income, including crime, government programs, and friends and relatives. To make work pay, the federal government should increase the minimum wage a modest amount, expand the earned income tax credit (EITC) for those working full-time at low wages, and subsidize child care enough to cover expenses fully (along a sliding scale linked to income).

In combination, these three measures would reduce poverty by about 14 percent, lift six million Americans out of poverty, and provide more than 20 million working families with an average benefit of almost $1,500 per year. They would also attract 800,000

more people into the labor market, thereby cutting welfare expenditures and increasing tax revenues.

For low-skilled men, especially minority men, special policies are needed. This group is experiencing falling employment, declining rates of marriage, and distressing rates of crime and incarceration. Along with higher wages, targeted initiatives might dilute this witches' brew. Increasing the EITC to provide payments up to $2,700 to all low-wage workers over age 21 who work at least 30 hours a week is one way to reach male low-wage earners who do not have custody of children. In addition, state officials could be given authority to suspend past-due child support obligations for men who obtain jobs and meet future child-support obligations. Similarly, a program of early release from prison could be targeted to nonviolent offenders who participate in work preparation programs then hold jobs for prescribed periods of time. All these approaches are promising and merit limited federal funding of state demonstrations.

Restore the Two-Parent Married Family

Restoring the share of children who are being reared in married-couple families to 1970s levels would reduce the poverty rate by 20 to 30 percent. Two ways to reduce the prevalence of single-parent families are to reduce teen and out-of-wedlock childbearing and to reduce the incidence of divorce.

Reduce Teen Pregnancies and Out-of-Wedlock Births

Happily, since the early 1990s, teen pregnancy and birth rates have declined about one-third. This decline has slowed growth in the proportion of children born outside marriage. If this decrease had not occurred, the number of children ages 0-6 in poverty would be 8.5 percent higher than it is today. Explanations for the decline include more conservative attitudes among the young, heightened concern about sexually transmitted diseases, and greater efforts to prevent teen pregnancy, including messages about abstinence and more effective use of contraception. A future drop in teen childbearing will save taxpayers money since it now costs the federal government at least $9 billion per year in direct costs for health care, foster care, criminal justice,

and public assistance programs, and lost tax revenues. Because unwed mothers are less likely to marry than other similar women, a decline in births outside marriage will increase marriage rates as well.

New public messages are vital to reducing teen pregnancy further. Many young people, especially teens, have not fully absorbed the message about the normative ordering of events that is critical to achieving life's goals: finish high school (and, if possible, obtain a two-year or four-year degree); do not marry before your twenties; and wait to have children until after you marry and at least one parent is stably employed. The broadcast media and other communications venues, including the bully pulpit of the Presidency, can disseminate knowledge about this success sequence to a broad cross-section of society and can propel a message about responsibility into the cultural ether. Our nation's leaders should actively discourage unwed childbearing, especially among teens; building on the examples set by Presidents Bill Clinton and George W. Bush, they should promote marriage as the best environment for rearing children.

In addition, the federal government should fund programs that teach values and relationship skills to younger Americans, while providing information about preventing unwanted pregnancies. (Such information would include sex education that encourages abstinence among teens but provides accurate information about contraception for those who are sexually active.) Programs that teach responsibility and engage young people in constructive activities through community service are effective in reducing teen pregnancy.

Another way to reduce unplanned pregnancies outside marriage is to provide more family planning services to low-income women. Through Medicaid family planning waivers, states have reduced unintended pregnancies and births and saved money in the process. Providing low-income women greater access to family planning services through Medicaid is a cost-effective way to reduce the number of children living in poverty.

Reduce Divorce

Divorce rates have leveled off since the 1980s, but divorce nonetheless contributes substantially to the number of children living in single-parent families. One effective way to reduce the risk of divorces (and, thereby, single parenting) is to teach relationship skills to couples who are married or are contemplating marriage. Doubling the number of couples who receive premarital education could reduce divorce rates by seven percent, and, over a decade's time, reduce the number of children living in poverty by at least 200,000. However, not all such programs have been successful. The marriage demonstration programs launched by the Bush administration can serve as a useful foundation. The next President should build on that foundation, supporting investment in learning what works to reduce births to teens and unmarried women, while promoting healthier marriages and better relationships.

Improve Educational Outcomes

Americans have long believed that education is the key to economic success. Recent research has added three important insights about the role that education plays in reducing poverty and improving opportunity. First, gaps in skills related to school achievement are present as early as age 3 and persist throughout the school years. Second, from preschool through college, education usually reinforces, rather than mitigates, preexisting differences between groups defined by race and socioeconomic status. Third, although improvement is needed at every level of schooling, improving preschool programs is more effective than virtually any other intervention in boosting test scores, helping children perform at grade level and avoid special education, increasing high school graduation rates, and producing better economic and social outcomes in the adult years.

To reduce education gaps and promote opportunity, intensive, high-quality preschool programs are needed for disadvantaged 3- and 4-year-olds. Such programs produce more positive effects than do typical Head Start programs or state-run preschool programs, although Head Start does modestly enhance learning and behavior. Characteristics of high-quality programs include extensive teacher training, evidence-

based curricula, small classes, and low staffing ratios. These high-quality programs, although small in scale, have dramatically improved high school graduation rates, college enrollment, adult earnings, crime rates, teen childbearing rates, and other outcomes. One challenge, though, is to retain the effectiveness of model programs as they go to scale and successive generations of adopters try to implement them "on the cheap."

The benefits of such a program will be, according to the evidence, greater than the costs. Consequently, it makes sense to provide new federal funds to states that design programs that meet certain broad quality requirements. State proposals should include plans for integrating funds from Head Start, federal child care programs, Title I and state preschool programs. States also should be required to match new federal funding, dollar-for-dollar. States would be required to agree to rigorous, independent evaluations so that administrators and policymakers could find out what is and is not working and use this information to improve the program.

Paying the Bill

The roughly estimated costs of the proposals described above are summarized in Table 1. Most are not very expensive and are designed to achieve their objectives as cost-effectively as possible. The most expensive component is the proposal to expand the EITC and child care assistance to low-income working families. The proposal is designed to provide the largest benefits to those who work full-time. These are the families that are playing by the rules but who do not have the skills to earn a wage that would allow them and their children to join the middle class. As shown by polling data and public support for a higher minimum wage, most Americans want to help this group.

Nonetheless, new initiatives should not be undertaken, in our view, unless the costs can be fully covered by eliminating spending or tax preferences in other areas. For several years, Brookings scholars have been calling attention to the impending federal fiscal crisis and a number of our publications have suggested areas where such offsets

might be found. We refer readers to these publications for suggested savings in other areas of the budget.

Table 1: Proposed New Annual Federal Antipoverty Expenditures

Item	Amount ($ millions)
Housing work program	$ 1,000
Wage and child care assistance	25,000
Teen pregnancy prevention programs	1,400
Expanded Medicaid family planning	1,000
Expanded premarital education	200
High-quality early childhood education	10,000
TOTAL	**$38,600**

Concluding Observations

Americans have never liked welfare and tend to believe that anyone who gets an education and works hard can succeed. Policies intended to reduce poverty and inequality must be consistent with these values. The proposals described above, by emphasizing work, marriage, and education, meet this test. The next President need not adopt this particular menu of policies, but should improve opportunities for those left behind by balancing personal and public responsibility in a way that the majority of Americans can support.

About the Authors and the Project

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Additional Resources

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