The Next Time Around:
Some Thoughts on Poverty Policy in the Next Administration

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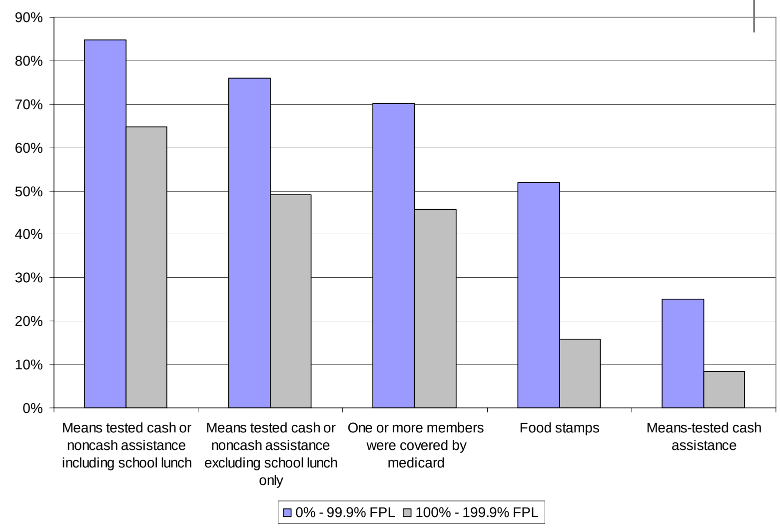
It would be comforting for those of us who write about poverty if we could look back at the last twenty years and point to some major policy triumphs. The sobering reality is that the poverty rate has barely budged and many indicators (child poverty, for example) are stubbornly stuck in position. The great policy triumphs of the past – the drastic reduction in the rate of elder poverty as a result of Social Security, the significant decline in the national poverty rate in the 1960's – have not been repeated. Advocates for the poor have had to fight a rear guard action to prevent a worsening of conditions for those at the bottom of the American social structure, and even the most successful of our social policy instruments (e.g. the Earned Income Tax Credit) have failed to make more than a modest dent in the poverty rate, even though they have prevented those who were poor from becoming even poorer. To the extent that we saw any real change in the last several decades, it came about during the "perfect weather" of the late 90s and early part of this decade when the combination of low inflation, high growth, and record low unemployment boosted the wages of Americans at the bottom. We have not seen that weather since and certainly do not seem poised to repeat it now.

Given this rather sobering assessment, what should the priorities of the new administration be if the country were to devote itself to a new War on Poverty? If we had a more sympathetic Congress and a President more attentive to the poverty problem, what should we be asking of them?

My own laundry list is long indeed, but I will limit myself here to four initiatives that, in my judgment, would (a) make a difference, (b) be politically plausible (though never easy), and (c) speak to the twin needs of assisting adults in poverty [for the present] and the trajectories of poor children [for the future]. No doubt all the authors contributing to this debate will do the same. In addition to these considerations, though, I will also anchor my suggestions to the overlapping problems of the working poor and the near poor.

I mention this last qualifying factor for two reasons. First, in my judgment is it an error to focus all of our energy on behalf of low income families to those below the poverty line. 53 million Americans, including about 21% of the nation's children, live in households with incomes between 100-200% of the poverty line. While they are better off than the 37 million who are truly poor, they remain very vulnerable and are often operating without the safety net that our genuinely poor can lay claim to. The figure below charts the distribution of major benefits and shows pretty clearly how thin the safety net is for the nation's near poor.

Public Assistance in Low Income Households (2005): % (< 18) in Households where at Least One Member Received…



If we can prevent the near poor from falling below the poverty line, and set our sights even higher – to encourage their upward mobility – we may clear the floor for those coming up behind them and ward off increases in poverty. In periods of recession, we are likely to see downward mobility and public policies that will blunt the impact of the downturn on the group that has the most to lose, would be helpful.

If we add together the near poor and the truly poor, we arrive at a shocking number: in the richest country in the world, 1/3 of the population must contend with the vulnerabilities associated with low income, from substandard education and housing, to higher morbidity and premature mortality. While there are gradations of distress within this population, the "family resemblance" among them justifies a broader perspective than the one that focuses solely on those below the poverty line.

With this as background, I would recommend a special focus on the following:

- **Tax reform**: specifically (1) the reduction of state income taxes for working poor and near poor households; (2) elimination of sales tax on food for home consumption; and (3) transportation tax credits for poor and near poor workers.
- **Early childhood education**: Universal, full day, pre-Kindergarten public school education, starting with four year old children and extending on a voluntary basis to three year olds.
- **Increasing access to "second chance" high school, vocational education, and college.** Addressing the financial aid needs of non-traditional students, esp. poor and near poor part time and adult students.
- **Realizing the "ownership society":** Increasing the rate of subsidized, low income home ownership, with appropriate regulatory controls over lending policy and extending opportunities for banked savings.

Few of these recommendations are original. Most have been discussed at length by think tank fellows, academics who study poverty, policy makers, and politicians. Nonetheless, among the myriad possibilities, these are the ones that strike me as most urgent and most doable.

Tax reform

By now almost everyone knows about the success of the Earned Income Tax Credit in boosting the income of the working poor. A credit against the federal personal income tax, the EITC is a refundable tax providing to working families with benefits that are adjusted by family size. For those families whose tax liabilities are reduced to zero by the federal EITC, the credit is refundable and acts as a kind of wage supplement. In the tax year of 2007, this credit maxed out at $5,716 for a family with two or more qualifying children. 24 states have enacted EITC's of their own, and 21 of them treat it as a refundable credit, while the rest simply eliminate the tax liability. These are fairly recent additions to the EITC "program," but they suggest a degree of political acceptability to what is, in effect, a targeted benefit that is fairly redistributive.

The EITC represents the most culturally acceptable form of poor support and it comes as no surprise, given the general drift of American culture that it is provided only to working families. I believe we should build on this model to (a) encourage the remaining states to create refundable state EITC's; (b) persuade states with non-refundable EITC's to make them refundable and (c) eliminate sales taxes on food for home consumption. If there was a way to target the latter benefit to families below 200% of the poverty line, I would advocate that first and foremost, but the political realities are such that this would probably be a non-starter. Measures of this kind are more likely to pass if they are universal. Finally, I would recommend transportation tax rebates for the working poor and near poor, to lift what has become (and will be for the foreseeable future) a huge bite out of their disposable income and a potential deterrent to labor force attachment as a consequence of skyrocketing gas prices and increasing public transit fares.

Some "tax facts" may be helpful in appreciating why this approach has merit:
-- 42 out of the 50 states have state income taxes.
    19 extract taxes from two parent families below the federal poverty line
    15 tax single parents with two or more children below the federal line
-- 31 states and DC exempt most food purchased for consumption at home, but in the remaining states:
    7 tax groceries at a lower rate than other goods, but still tax them
    5 states tax groceries and offer partial, but insufficient tax credits for families
    2 states apply full sales tax and offer zero relief

In the states that ask the poor to pay income taxes, the threshold – the earnings level above which taxes are owed – is often significantly lower than the poverty line. Until 2006, that threshold was only $4,600 in earned income for a family of four in the state of Alabama. It was recently raised to threshold $12,000, but that is still well below the federal poverty line. Table 2B below, which is taken from a CBPP report[1], shows the state income taxes owed in each state for two parent families at the poverty line, while Table 1B provides the same information for single parent families of three.

Table 2B. State Income Tax at Poverty Line for Two-Parent Families of Four, 2006

Rank	State	Income	Tax
1	Alabama	$20,615	$573
2	Hawaii	20,615	546
3	Arkansas	20,615	427
4	West Virginia	20,615	406
5	Oregon	20,615	319
6	Michigan	20,615	242
7	Indiana	20,615	239
8	Iowa	20,615	236
9	New Jersey	20,615	219
10	Montana	20,615	211
11	Illinois	20,615	192
12	Louisiana	20,615	169
13	Georgia	20,615	160
14	Ohio	20,615	159
15	Oklahoma	20,615	139
16	Missouri	20,615	83
17	Kentucky	20,615	82
18	North Carolina	20,615	78
19	Mississippi	20,615	30
20	Arizona	20,615	0
20	California	20,615	0
20	Colorado	20,615	0
20	Connecticut	20,615	0
20	Delaware	20,615	0
20	Idaho	20,615	0
20	Maine	20,615	0
20	North Dakota	20,615	0
20	Pennsylvania	20,615	0
20	South Carolina	20,615	0
20	Utah	20,615	0
20	Virginia	20,615	0
32	New Mexico	20,615	(40)
33	Rhode Island	20,615	(140)
34	Nebraska	20,615	(299)
35	Kansas	20,615	(363)
36	Wisconsin	20,615	(373)
37	Maryland	20,615	(423)
38	Massachusetts	20,615	(447)
39	District of Columbia	20,615	(708)
40	Vermont	20,615	(1,195)
41	New York	20,615	(1,436)
42	Minnesota	20,615	(1,587)

Source: Center on Budget and Policy Priorities

[1] Jason Levitis (2007) The Impact of State Income Taxes on Low-Income Families in 2006. Center for Budget Policy and Priorities. http://www.cbpp.org/3-27-07sfp.pdf

Table 2A. State Income Tax at Poverty Line for Single-Parent Families of Three, 2006

Rank	State	Income	Tax
1	Alabama	$16,079	$483
2	Hawaii	16,079	401
3	West Virginia	16,079	302
4	Michigan	16,079	194
5	Louisiana	16,079	150
6	Montana	16,079	142
7	Arkansas	16,079	135
8	Oregon	16,079	120
9	Georgia	16,079	97
10	Ohio	16,079	93
11	Illinois	16,079	89
12	Indiana	16,079	86
13	Missouri	16,079	51
14	North Carolina	16,079	51
15	Mississippi	16,079	50
16	Arizona	16,079	0
16	California	16,079	0
16	Colorado	16,079	0
16	Connecticut	16,079	0
16	Delaware	16,079	0
16	Idaho	16,079	0
16	Iowa	16,079	0
16	Kentucky	16,079	0
16	Maine	16,079	0
16	North Dakota	16,079	0
16	Pennsylvania	16,079	0
16	South Carolina	16,079	0
16	Utah	16,079	0
16	Virginia	16,079	0
30	Oklahoma	16,079	(44)
31	New Mexico	16,079	(65)
32	Rhode Island	16,079	(160)
33	Nebraska	16,079	(342)
34	Wisconsin	16,079	(416)
35	Kansas	16,079	(551)
36	Maryland	16,079	(627)
37	Massachusetts	16,079	(641)
38	New Jersey	16,079	(854)
39	Minnesota	16,079	(1,135)
40	District of Columbia	16,079	(1,154)
41	Vermont	16,079	(1,366)
42	New York	16,079	(1,375)

Source: Center on Budget and Policy Priorities

The geographic distribution of the most punitive states is not random. While there are Midwestern and western states among them, the unmistakable shape of the old confederacy is plain to see. The Jim Crow origin of the southern taxation system has left a long standing legacy that requires disadvantaged families to carry a heavy burden of state taxes. Not surprisingly, we see a similar regional pattern in grocery taxes. Mississippi and Alabama are the two states that apply full sales tax to food; Arkansas, Tennessee, Missouri, Kansas, Oklahoma and Virginia are among the states that tax groceries at a lower rate than other goods, but tax them nonetheless.[2]

[2] (To be fair, Illinois, Utah and West Virginia do as well).

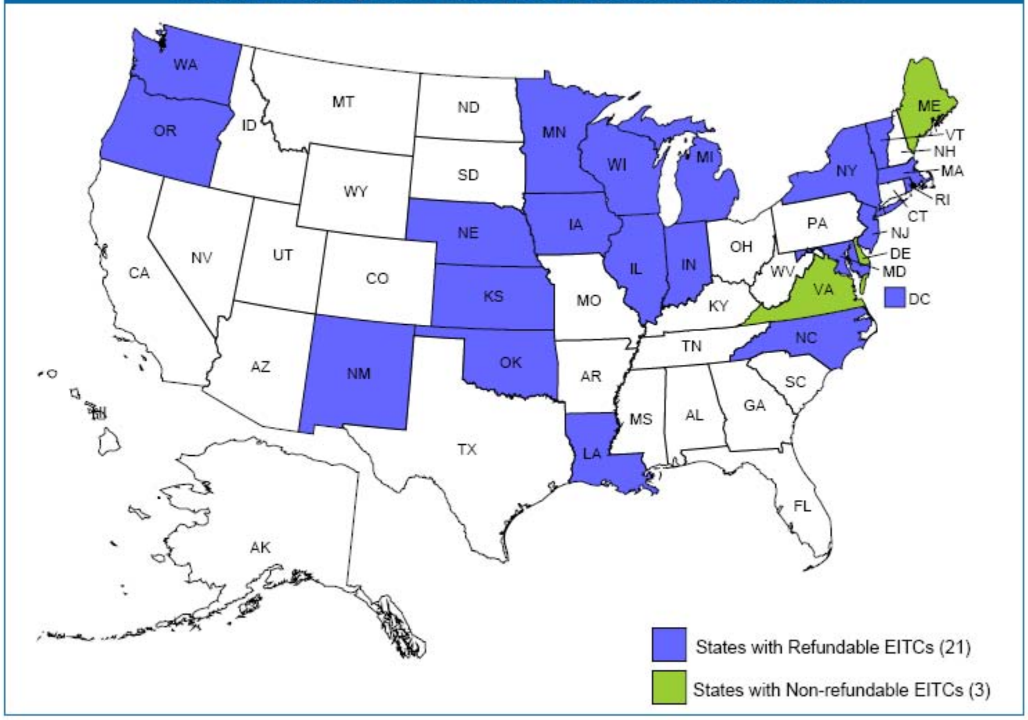
The "southern system" of taxation falls on top of families living in the states with the highest poverty rates in the nation. If we look at the states that have poverty rates above 16%, we find the following: Alabama, Arkansas, Louisiana, Mississippi, New Mexico, Oklahoma, South Carolina, Tennessee, Texas, West Virginia, and Washington DC. If we tighten our measure to look just at the states with more than 7% of their population living in extreme poverty (below 50% of the poverty line) we see almost the same roster.[3]

The geographic concentration of poverty itself combined with a taxation system that highly regressive, leaves the poor of these southern states (who collectively account for about 25% of the nation's poor) in particularly dire straights. The top ten states with the highest percentage of poor people, and the top ten states with the highest percentage of children under 18 who live in poverty are – with only two exceptions, namely New Mexico and West Virginia – all southern states. Hence in suggesting that poverty policy prioritize tax relief (income and consumption taxes on food), I am simultaneously recommending that we spend more effort focusing on the poor in a region of the country that is often left out of contemporary social science and journalistic accounts of poverty, which disproportionately focus attention on the rust belt cities of the north and the Midwest. Of course, we have some very large (and poor) cities in the Midwest and Northeast, so there is no suggestion here to neglect them. But we turn our eyes away from the old south, where poverty is deep and public policy is particularly unhelpful. While keeping the pressure on states like Michigan – which also subjects poor families to income tax – we should recognize that the northeast is a zone of relative enlightenment. In Massachusetts, Rhode Island, New York, and Minnesota, not only are families below the poverty line not taxed, they are provided a rebate that returns money to their pockets.

Creating a refundable credit would return between $50 (in Mississippi) and $483 (in Alabama), with intermediate amounts returned to the working poor in 13 other states. Treating individuals without children in the same fashion as families would extend the reach of these "work incentives," removes one of the least defensible forms of discrimination, and – to the extent that income matters in encouraging marriage – makes working singles more attractive as partners.

[3] States with more than 7% of the population below 50% of the poverty line in 2006 included Alabama, Arkansas, Louisiana, Mississippi, New Mexico, Oklahoma, Tennessee, Texas and West Virginia.

FIGURE 1. Twenty-four States Have Enacted EITCs, June 2008



Source: Jason Levitis and Jeremy Koulish, "State Earned Income Tax Credits: 2008 Legislative Update." Center on Budget and Policy Priorities (June 6, 2008). www.cbpp.org/6-6-08sfp.htm

Reducing or removing altogether taxes on food for all consumers, and subsidizing transportation via a graduated credit for families and individuals earning less than 200% of the poverty line, would also be a significant contribution to the well-being of low income and poor households, especially in the Deep South. The objective is to make it easier for low income families to feed their children and drive to work.

The main problem with tax reform is the ease with which opponents can paint it as a tax increase on someone else. While that "someone else" usually has a lot more resources, it is never a simple matter to make up the income (and states are hurting particularly badly at the moment). Nonetheless, there are some hopeful signs that these kinds of reforms are gaining traction, even in states historically resistant to the idea. As CBPP reports note, "since 2006, five states have enacted new EITC's…" Two of them – North Carolina and Louisiana – are southern states. 24 states now offer EITC's and the benefits exceed $2 billion to low income families.[4]

Sadly, we see less of a positive trend where consumption taxes are concerned, as states turn to them to increase revenues. It will take a significant public information campaign and lobbying effort to turn that tide back. It may require advocating higher sin taxes to cover the revenue loss. Nonetheless, even in the state of Mississippi, where

[4] Jason Leviis and Jeremy Koulish, "State Earned Income Tax Credits: 2008 Legislative Update." Center on Budget and Policy Priorities (June 6, 2008). www.cbpp.org/6-6-08sfp.htm

grocery taxes are the highest in the country, the Republic chairman of the State Senate Public Health Committee split with Haley Barbour to advocate reducing grocery taxes and increasing cigarette taxes to improve public health and lower health care spending.[5]

Education Spending

The United States is under-investing in the most critical engine of human capital creation and no one is hurt more by this short-sightedness than poor and near poor families. We cannot compete with countries that have vast pools of extremely cheap labor by taking the low road of depending on our unskilled labor poor. Our best bet is to seize the high road and try to corner the skilled end of the labor market. Instead, we are seeing high school drop out rates approaching 50% in large urban school districts and a huge class divide in educational attainment. We cannot afford this drag on our productivity.

In my view, there are three critical kinds of educational investment that should be high on our national priority list: universal early childhood education (as distinct from day care); high quality vocational/technical training for the non-college bound; and increasing access to public higher education for non-traditional students (commuter students, part time and working students). Solving these problems is a pricey proposition. But it is costing us now and will cost us even more in the future in lost markets, lower levels of innovation, and high costs associated with poor labor market prospects.

Jim Heckman has shown convincingly that early childhood education is by far the most efficient form of investment in human capital. Remediation later in life is costly and often not very effective. Preventing people from needing remediation, by giving young children high quality teachers, small classes, longer school days and school years, obviates the need for more expensive "catch up" programs later. Economist Robert Lynch has shown that the benefits of universal early-childhood education would outweigh the costs by $31 billion by 2030 if we factor in the expected returns on lifetime earnings and decreased criminal behavior alone. I would advocate universal, full day, pre-Kindergarten on a mandatory basis for four year olds, with optional half days for three year olds, and a push to expand the ranks of well trained early childhood teachers. Obviously this would cost a lot of money. But if countries like France and Italy can do this now, it would seem a reasonable possibility for our own country.

The savings on child care expenses for poor and near poor families would have the added benefit of increasing their disposable income. But the most important reason for putting our education dollars behind young children is that, particularly in an era of high-stakes tests, they are at risk for falling so far behind that they are not equipped to succeed in high school. Dropping out of secondary school is a guarantee of life time poverty for most people and often leads to a life of crime for young minority men. Beyond this, though, we are at a particularly critical juncture in our nation's history: we are poised to become a majority minority country, with an exceptionally high proportion

[5] Emily Pettus, "Miss. Considers Slicing Grocery Tax," Washington Post. March 7, 2007.

of immigrant children. Taken together, native born minorities, immigrants, and children of immigrants will constitute a much larger fraction of our nation's labor market in 15-20 years. If we don't find a way to insure their educational success, we will all be losers.

Although the national obsession with illegal immigration burns brightly at the moment, there is still some reason to think that Americans will consider increasing investment in education if it is targeted. In the state of California, voters approved a Proposition 98, a ballot initiative in 2003 to decrease class size in K-3. The state of Florida, generally quite conservative on spending, voted to make four year old pre-K universal in 2005. 70% of Georgia's four year olds participate in pre-K; New York State has set a goal of publically funded pre-K. This should be a national obsession.

Increasing Access to Vocational Education and College for Low Income, Non-Traditional Students

We cannot focus only on young children, because we presently have a bumper crop of "echo boomers" who need more educational options. Measuring the high school drop out rate is notoriously complicated. The Manhattan Institute believes that the national graduation rate is 70%. The Economic Policy Institute thinks that 9 out of 11 students graduate (82-83%). The differences are generally attributable to the time period (assuming educational completion at age 18 or 20) and to the difficulty of counting students who take non-traditional pathways to the diploma, including the GED degree. In any case, the drop out rate is too high, the racial gap too large. What can we do for those who are at risk for dropping out?

There are two things I think we need to invest in: high quality, employer-linked vocational education and training, and "second chance" education for those who have dropped out and need to be brought back into the fold. Once upon a time, the United States had a reasonably good system of vocational education. Its vestiges are visible in New York City's "Aviation High School," which still sends its graduates to good jobs in the air transportation industry. But the community college has now become the default option for vocational education. Sadly, the community college system is financially strapped and turning students away who could capture good jobs if they could get in to nursing, welding, etc. This happens because it is more expensive to run courses in welding and nursing than to offer traditional liberal arts classes, but we are letting go of an important opportunity to train the non-college bound for good jobs.

Meanwhile, the firms that need to hire workers with these skills are importing nurses from the Philippines. I don't know where they are finding their welders these days. We need to recognize that (a) we need these skilled workers and (b) we won't have them if we don't adequately fund the training schools that can produce them. I would advocate for a national community college initiative, with appropriate buy in from and involvement with local firms, and a more progressive form of financial aid for non-traditional students (including returning adult students, but focusing especially on non-college bound youth, even to the point of letting them complete their high school diplomas in a tertiary setting of this kind.)[6]

Speaking of the returning adult student, I think we need to consider the need for "second chance" schooling that is more elaborate than the GED, presently the only real option for high school drop outs who realize, belatedly, that they really need that diploma. The community college strikes me as the right location for second chance students, because they are older and need to avoid the stigma of being age inappropriate. The point, though, is that we cannot just write off students who dropped out of high school and programs that emphasize drop out prevention are not enough. Thousands drop out anyway and only after they have hit their heads on the brick wall of an unforgiving labor market do they realize they need to make up for lost time.

Finally, I come to financial aid for non-traditional college students. We typically think of college students as 18-21 year olds who go to university full time and live off the largesse of Mom and Dad. But as Attewell and Lavin (2007) have shown, nearly ¾ of the nation's college students do not fit this mold. The majority of college students are now enrolled part time, work an average of 30 hours a week, and – as a result – require many more years to complete their education than the six years we typically use as the cut off for measuring college completion. Every year of education these students get pays off in higher wages; but every additional year it takes them to complete, puts off into the future the benefits of a sheepskin. The share of bachelor's degrees awarded to students from families making between $30-50,000 (near poor and lower middle class households) fell from 15 percent in 1980 to 11 percent in 2004. We are headed in the wrong direction.

Fortunately, some states have seen the light. In the fall of 2006, the legislature of Washington State declared the University of Washington free for all students whose families fall below $46,500 in annual income (for a family of four). All qualified students from poor and near poor households will enjoy a completely free ride. In 1999, Congress provided all graduates of DC high schools with scholarships of $10,000 to pay the difference between in and out of state college tuition at public colleges and about $2,500 for private schools. Since 2000, the number of students from the nation's capital who attend college has grown by 35%. Lest we think programs of this kind are impossible outliers, it bears remembering that the University of California, the largest public university in the country, was entirely tuition free until about 1970. And few would question what this investment bequeathed to the Golden State: a "machine" for producing highly educated, high income taxpayers.

Twenty years ago the maximum Pell grant covered nearly 60 percent of the average tuition, fees, room and board at a public four year college. In 2005-6, it covered only 33 percent. That trajectory will be improved by the reauthorization of the Higher

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[6] This is the British model of the sixth form college or the "college of further education", where 16-18 year old college bound students study for advanced exams, alongside returning adults, vocational students, etc.

Education Act which was recently passed by Congress.[7] Beyond that, the eligibility rules need to take into account the complex situation of poor and near poor young people. Family income is taken into account for all students regarded as dependent, but the working assumption is that anyone under the age of 24 is a dependent, and able to access their family's income for partial support.

Since the majority of Pell grants go to students with family income of less than $20,000, this leaves students who are in their early twenties, from near poor households up a creek. Since near poor households are more likely to experience divorce, accessing the assets of parents is often even more complex. Their families don't really have the money to help them, but parents are considered contributors to their children's educational expenses for the purposes of federal financial aid. Enforcing these rules puts these students in the position of having to leave college repeatedly to earn enough money to go back, elongating the time period it takes them to finish. We need a new metric for "dependent" students that recognizes the actual income parents can and will provide their children and stop punishing kids who come from families who can't do for them.

Educational investment at all levels will make a big difference for the nation's poor and near poor young people and ultimately the rest of us. It is the single best guard against poverty and the one path likely to happen politically (where a return to high levels of union density, which would also make a big difference, seems unlikely to happen.) Access to higher education pays off, not only in the lifetime earnings of today's adults, but perhaps even more importantly, in the trajectories that college educated parents foster in their children. Poor people who complete their college educations are far more likely to raise children who break the cycle of poverty. Opening up access to college, then, is not only a strategy that pays off in the here and now; it is probably the single most important investment in the future of succeeding generations.

Realizing the Ownership Society

Americans are unlikely to embrace the kind of welfare state that our Nordic friends enjoy. We have been, and will continue to be, more reliant on private resources (savings, earnings, equity, loans, parental support, and adult children's contributions) to take care of our educational, child rearing, health and elder care needs. Accordingly, whatever we can do to enhance the access of the nation's poor and near poor families to the private safety net of household assets will help them take care of themselves. My recommendations in this section will seem, at best, ironic (and at worst, misguided), in the context of today's subprime lending meltdown. Yet, I want to argue that precisely because minorities and near poor families have been among the nation's most damaged victims in this meltdown, their long term interests in becoming home owners should be promoted – albeit on more solid terms than the predatory lending arrangements that have led to such large losses for so many.

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[7] The maximum allowable Pell grant would rise to $6,000 compared to $4310. It would reach a maximum grant of $8,000 in 2014-15.

Most American families – including those in the middle class – live at the edge of their earnings. Particularly compared to, for example, the Japanese, we are meager savers and most of us do not have enough money in the bank to last even two months without our paychecks. The savings we have come largely from the equity that builds up in our homes – at least in normal times. This is one of the reasons that the US enjoys such high home ownership levels: we need that equity to support everything from college tuition for our kids to our health needs in retirement. And it is by far the most important reason why the deduction for mortgage interest, a huge subsidy to the nation's middle class, is so fiercely guarded. Lacking access to private housing condemns the nation's low income families to exclusion from this essential backstop. That exclusion has a long history, dating all the way back to the GI bill, and its ramifications in terms of wealth inequalities are profound.

In the current context, this takes on particular urgency. Some analysts have suggested that the subprime lending crisis has cost people of color somewhere between $164 and 213 billion. Most of those families are in the minority middle class and few of them are below the poverty line. Some of them will be shoved down into the "missing class," the near poor below 200% of the poverty line by the combination of rising unemployment and the loss of these critical assets. With losses this steep, it may seem odd to consider increasing the access of the near poor to home ownership as a boost to their economic well being. And it is true that the strategy has its risks: renters can potentially move more easily if a neighborhood spirals downward. At the same time, between the (normal) importance of increasing equity and the tax deductions available to shelter mortgage payments, home ownership can constitute an extremely important safety net for low income families under the right circumstances.

In addition to the financial advantages, there are clear social and environmental benefits to living in owner occupied communities. These neighborhoods are far more stable; their residents can access better local schools than those they will find in more transient, renter areas. Crime is lower, children are safer in the streets and playgrounds, and they generally find more recreational facilities, which encourages healthy exercise. As Rob Sampson has shown in his studies of Chicago, stable neighborhoods encourage the formation of social capital and public trust, the willingness to intervene when bad behavior threatens the peace on the streets. Unstable neighborhoods are less endowed with social networks that will step forward on behalf of the common good. For all these reasons, creating opportunities for home ownership are worth examining.

Conservatives are interested in this notion as well, and hence the Bush administration did quite a lot to enhance low income home ownership. In 2006, Bush sponsored the American Dream Downpayment Initiative, which set aside $100 million to assist first time home buyers in low income households. The Clinton administration created the Homeownership Voucher Program, which enabled Section 8 housing vouchers to be used to help finance owner-occupied homes, rather than just rentals. The Family Self-Sufficiency Program enables families in public housing to set aside money in an escrow account that might otherwise go to rent increases when a family's income rises. All of these initiatives are helpful and should be supported. Indeed, this is one domain in which we can point to significant progress: the rate of African American homeownership rose from 42.3 percent in 1994 to 49.1 percent, the highest level in US history. (Even so, this is about where white ownership stood in 1900).

Municipalities can be helpful partners in the effort to develop low income home ownership programs. Cost sharing of down payments and mandatory sell-back provisions (at reasonable rates of return) can be managed by mayors, so that first time home buyers have a chance to get into the market, and the stock of available housing is replenished as initial occupants move on. In Philadelphia, the mayor's office, the Greater Philadelphia Urban Affairs Coalition and eight major banks got together to create loan products for low income consumers with weak credit histories and, in the process, identified and then favored the more socially responsible mortgage providers. The city of Berkeley has been engaged in low income home ownership programs for almost thirty years. There is some experience out there from which to draw best practices and consider questions of scaling.

It would be critical for an effort of this kind to unfold in the context of a more carefully regulated mortgage market. In 2002, subprime lending topped $210 billion and while low income families were hardly the sole beneficiaries, they were over-represented in this market precisely because they don't earn enough to qualify for the more reasonable loan programs. Yet there are concerns over some reforms under consideration that would choke off financing for low income families by capping fees so sharply that lenders would exit the market. As Charles Steele Jr (president and chief executive of the Southern Christian Leadership Conference and advocate for low income home ownership) has pointed out, something like this followed congressional intervention in the student loan market. The Credit Cardholders' Bill of Rights Act (HR 5244) mandated the payment of all fees assessed during the first year of a new account before a card can be issued. This will almost certainly discourage access to credit for low income households.

Clearly a delicate balance is in play here. Unrestrained access to credit has drained many low income households by encouraging them to pile up debt they cannot possibly repay and reforms to the bankruptcy laws have left them with few options under these circumstances. Wage garnishing, asset seizing, and all manner of financial devastation are now far easier to exact. Perhaps this will have a salutary effect in reining in ruinous debt. Still, reasonable access to credit is essential to financial security in a society where private assets remain an essential aspect of the personal safety net.

While homeownership remains the single most important "savings plan" in the United States, there are other instruments that should be born in mind. Only 71% of American families in the lowest income quintile have checking or savings accounts. Their well-heeled counterparts are entirely "banked" and benefit immensely from saving incentives available only to them, ranging from tax deductions for property taxes and mortgage interest, tax forgiveness for retirement savings through 401K and IRA plans and generous tax exemptions for capital gains. For the poor, the near poor, and the lower middle class, the opposite form of public policy prevails: asset tests that limits access to programs like Medicaid discourage low income families from accumulating cash in bank accounts or buying cars, both of which can disqualify them from the medical insurance they need.   Increasing the length of time needed for savings bonds to mature (as Congress did recently) also discourages low income savers; they cannot afford to lock their money up for long periods of time.

There are policy options here that should be pursued and, in some instances already have been. In 1999, President Clinton proposed a Universal Savings Account that would have matched contributions to retirement savings for adult with incomes between $5,000-100,000. I would have lowered that ceiling by half, but the basic idea is a good one. In 2001, George Bush created the "saver's credit" which provides tax credits to low income taxpayers to contribute to personal retirement accounts. It is not a refundable credit; but it should be. And the idea should be expanded beyond retirement savings to include "individual development accounts." In 2003, there were 250 IDA programs in the country with more than 20,000 savers enrolled. A random assignment evaluation of this program (comparing savers offered matching funds with those who were not) showed that home ownership was 6% higher among those in the treatment group. The UK has experimented with the creation of an IDA-like account for children at birth, to be used for a restricted set of purposes after the age of 18, including education and home ownership. All of these ideas are worthy of further investment.

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The ideas suggested here would make a difference both for the poor and the near poor. They would help the most vulnerable raise their standard of living by giving back to them more of their own earnings, increase the chances that their incomes will rise by investing in their human capital, and – for those at the top of this low income group – give them the opportunities that come routinely to middle class Americans to increase their assets and hence provide more of their own safety net.

If I were handed this task in Iceland or Barbados, Denmark or Sweden, the list would look quite different. It would focus on universal entitlements and increased social investment. Unfortunately, this does not appear to be the American way and hence my remarks are directed toward options that seem to me consonant with the drift of American values and therefore more likely to gain traction. The climate going forward will certainly be a challenging one within which to try to persuade the public to invest in another "War on Poverty," but it is certainly a struggle whose time has come again.

Further readings:

On the need to consider the near poor:

Katherine Newman. 2007. *The Missing Class: Portraits of the Near Poor In America*. Boston: Beacon Press.

On state level tax reform:

The Earned Income Tax Credit Series of the Bookings Institution. http://www.brookings.edu/metro/EITC/EITC-Homepage.aspx

Center on Budget and Policy Priorities studies of "State Taxes and Low Income Families"
See "State Fiscal Policy analyses" http://www.cbpp.org/pubs/sfp.htm

George Zodrow and Peter Mieszkowski, 2008. *United States Tax Reform in the 21st Century*. New York: Cambridge University Press.

On early childhood education:

Foundation for Child Development report "PreK-3rd : A New Beginning for American Education" http://www.fcd-us.org/initiatives/initiatives_show.htm?doc_id=447080

James Heckman, "Schools, Skills and Synapses." Forthcoming (2008) in Economic Inquiry.

James Heckman, "The Productivity Argument for Investing in Young Children," (with D. Masterov", Early Childhood Research Collaborative Discussion Paper, August, 2006.

On college education for non traditional students:

Paul Attewell and David Lavin. 2007. Passing the Torch: Does Higher Education for the Disadvantaged Pay Off Across the Generations? New York: Rose Monographs/Russell Sage Foundation.

On low income home ownership and asset building:

Thomas Shapiro and Edward Wolff, eds. 2001. *Assets for the Poor: The Benefits of Spreading Asset Ownership*. New York: Russell Sage Foundation.

Daniel Schneider and Peter Tufano. 2004. "New Savings for Old Innovations: Asset Building for the Less Affluent." (Paper prepared for the Community Development Finance Research Conference, hosted by the Federal Reserve Bank of New York).