

WHAT CAN BE DONE TO REDUCE POVERTY IN THE US

STUDENTS NAME:

PROFESSOR NAME:

COURSE:

DATE:

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BRIEF SUMMARY OF SOLUTIONS TO REDUCE POVERTY IN THE US

During the Great Recession, the official poverty rate in the United States rose to its highest level in over 15 years. Reducing poverty continues to be a serious public policy concern. This report examines the effects of a package of policies that aim to alleviate poverty through increased work supports and other measures, and estimates that these policies would reduce poverty rates in the United States by more than 60 percent.

The policy package, designed by the Community Advocates and Public Policy Institute, includes

- PROMOTING EARLY CHILDHOOD DEVELOPMENT
- SUPPORTING DISADVANTAGED YOUTH
- BUILDING SKILLS
- PROVIDING SAFETY NET AND WORK SUPPORT
- Expanding Apprenticeship Opportunities in the United States
- Designing Thoughtful Minimum Wage
- Encouraging Work Sharing to Reduce Unemployment
- Building on the Success of the Earned
- Supporting Low-Income Workers through Refundable Child-Care Credits
- Providing Disadvantaged Workers with Skills to Succeed in the Labor Market
- Improving Employment Outcomes for Disadvantaged Students

The effects of the policy package were estimated using the TRIM3 microsimulation model, a comprehensive model maintained by the Urban Institute that simulates the effects of the tax and transfer system in the United States. Results were estimated for 2010, at the height of the recent recession, and poverty was measured using the Census Bureau's Supplemental Poverty Measure (SPM), which takes into account the effects of taxes and government programs on poverty.

The policy package as a whole is simulated to reduce the SPM poverty rate in 2010 from 14.8 percent to 7.4 percent (or 6.3 percent with more generous take-up assumptions for transitional jobs). This represents a drop of 50 to 58 percent in the number of people in SPM poverty. The direct cost of the policy package is estimated to be \$332 billion to \$399 billion. These results suggest that a comprehensive policy package can have substantial antipoverty effects, even during a deep recession.

Introduction

Poverty in the United States continues to be an issue of pressing concern to policymakers. The official poverty rate in 2013 was 14.5 percent, as measured by the US Census Bureau (Devas---Walt and Proctor 2014); while this represents a drop from a recent high of 15.1 percent in 2010, at the depths of the Great Recession, it still reflects considerable economic hardship. Thus, numerous interested parties, from President Obama to Representative Paul Ryan, have proposed strategies for reducing poverty, using methods ranging from adjustments to tax and transfer programs to increased incentives to work (Goldfarb and Costa 2014). This report examines a policy package designed by the Community

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Advocates Public Policy Institute, a nonprofit organization in Milwaukee, Wisconsin, to greatly reduce poverty in the United States.

The antipoverty policy package under consideration is similar to one examined in an earlier report focusing on the state of Wisconsin (Giannarelli, Lippold, and Martinez---Schiferl 2012, referred to as the “Wisconsin report”). For this analysis, the policy package is applied to the entire United States, and some modifications were made to the previously simulated policies based on requests from Community Advocates. However, the structure of the policies is broadly the same—the establishment of a large---scale transitional jobs program that would provide work for the unemployed, an increase in the minimum wage, an expansion of the earned income tax credit (EITC), and the expansion of income for retired and disabled people receiving government Social Security or Supplemental Security Income (SSI) benefits. As detailed below, these policies work in concert to assist different subgroups within the population, ultimately reducing poverty in the United States by 60 percent or more.

methodology

To analyze the effects of the poverty package, I used the TRIM3 microsimulation model, a comprehensive model maintained by the Urban Institute that simulates the tax and transfer system in the United States. Using data representative of US households, the model simulates which households are eligible for different assistance programs and tax credits under existing program rules, and captures the effects of changes in program rules or employment on eligibility and benefits. These results are then used to provide detailed estimates of the effect of proposed policy changes on earnings, income, and poverty.

TRIM3 is primarily funded by the Office of the Assistant Secretary for Planning and Evaluation (ASPE), US Department of Health and Human Services, but is available for use with other projects. More technical details about the model as implemented for this project are available in a recent report discussing a similar antipoverty package (Giannarelli, Lippold, Minton, and Wheaton 2015).

Input Data: 2010 Current Population Survey

This analysis uses 2010 public-use data from the Current Population Survey (CPS) Annual Social and Economic Supplement (ASEC), collected in March 2011 and capturing income in the 2010 calendar year. The CPS is a nationally representative survey of the United States noninstitutionalized population, making it an ideal source of data for a national-level analysis. In particular, the CPS has detailed information on household demographics, income, and benefits received, allowing it to serve as an accurate starting point for TRIM3's simulation of taxes and transfers.

The previous Wisconsin report for Community Advocates used 2008 data from the American Community Survey (ACS). Using the 2010 CPS for this project enabled the model to capture effects of the package on the entire United States (rather than just Wisconsin), allowed more detailed simulation of policy rules (for example, the CPS includes more detail than the ACS on the reason households are not working), and allowed the analysis to reflect a more recent time period.

Baseline: 2010 Policies, without Stimulus Measures

The first step in conducting an analysis using TRIM3 is to use the model to generate a baseline that estimates receipt of taxes and transfers among households in the input data. While the CPS provides basic information about household characteristics, many program benefits, such as Temporary Assistance for Needy Families, (TANF), are substantially underreported in the raw CPS data when compared to published administrative data, as shown in detail in appendix A. Further, the CPS does not include information about several tax and transfer programs important to poverty, such as federal and state income taxes. Thus, the baseline process involves making imputations and adjustments to the input data to align measures of program participation and benefits with published administrative totals and to generate reasonable estimates of data elements missing from the survey. The baseline simulations of the various programs are internally consistent; for example, income from simulated TANF benefits is counted when simulating a family's eligibility for public housing programs. The baseline results thus augment the CPS survey data to provide a comparison point against which the effects of alternative policies can be measured.

For this analysis, I began with the standard 2010 TRIM3 baseline generated for ASPE as part of annual TRIM3 development, modified by some technical adjustments prepared for other projects.¹ As shown in appendix A, this baseline is relatively close to administrative totals (within 5 percent) for most of the major tax and transfer programs of interest.² At the request of Community Advocates, I then implemented two changes to the standard baseline data:

- The 2010 standard TRIM3 baseline included the Making Work Pay tax credit, a temporary stimulus measure enacted by the American Recovery and Reinvestment Act of 2009 (ARRA) that gave a \$400 tax refund to almost all taxpayers in the United States. To estimate the effects of the policies in the absence of the credit (which expired after 2010), I adjusted tax rules so this credit was not in effect.

- Also as part of ARRA, the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps) benefits that are reflected in the 2010 standard TRIM3 baseline were substantially increased from their 2008 levels. However, this benefit increase expired in November 2013. To more accurately capture the effects of the policy package in the absence of this temporary increase (as would be the case if the package were implemented today), I used data from the USDA Food and Nutrition Service to calculate what SNAP benefit amounts would have been in 2010 in the absence of the ARRA benefit increase, and applied these benefit levels in the model. Thus, the final baseline used for this project reflects tax and transfer policies in place in 2010, except for the absence of both the temporary Making Work Pay tax credit and the short-term increase in SNAP benefits. I did not adjust or age the data used to reflect other changes between 2010 and the present day; thus, the results reflect the effects of the policy package had its policies been in place in 2010.

Ways that can reduce poverty in the US

After conducting all experiments and analysis about poverty in the United States, the following methods can help curb poverty in the country:

1. PROMOTING EARLY CHILDHOOD DEVELOPMENT

Achievement gaps between children from low- and high-income families appear early in life and then persist through high school and afterwards. For example, by age four, children in the highest income quintile score, on average, near the 70th percentile on tests of literacy and mathematics, compared to children in the lowest-income quintile who score near the 30th percentile (Waldfogel and Washbrook 2011). Scholars and policymakers have increasingly come to appreciate the role of noncognitive skills as well, highlighting the importance of socioemotional traits such as self-esteem and self-control that develop early in life (Heckman, Stixrud, and Urzua 2006).

Early childhood interventions can play an important role in addressing poverty in America. These interventions need to be broad in their focus, and need to address issues of early childhood schooling and high-quality child care, as well as addressing family circumstance and parenting practices. The work of Nobel laureate James Heckman and colleagues has emphasized that early childhood interventions can have significant long-term impacts on educational and economic attainment (see, for example, Knudsen et al. 2006). These findings have been highlighted in earlier work by The Hamilton Project.⁸ In this volume, Elizabeth U. Cascio and Diane Whitmore Schanzenbach contribute a policy memo offering a thoughtful consideration of early childhood education and proposing a framework for states to improve their educational investment in young children by expanding access to high-quality preschool.

The home environment is also a crucial input into early childhood experiences. On this dimension, too, poor children are increasingly at a disadvantage. Numerous studies have shown that higher-educated, higher-income parents spend more time with their children, and more time in educational activities in particular (**Guryan, Hurst, and Kearney 2008; Kalil, Ryan, and Corey 2012**). The policy memo by Ariel Kalil in this volume proposes a new federal initiative to study effective early childhood interventions in the home environment. Better understanding of these programs can ultimately lead to smarter, more-innovative, and more-accountable developmental programs for children and families.

In terms of family structure, it is important to acknowledge that poverty rates are five times as high among children living with single mothers compared to children in two-parent households. This has led to concern among scholars about the rise in single motherhood and its associated consequences for poverty. It has also led to concern about the rate at which lower socioeconomic groups are moving away from marriage and the implications that has for the intergenerational transmission of poverty. For instance, only 9 percent of births to college-educated women are outside marriage (virtually unchanged from a generation ago). In sharp contrast, 57 percent of first births to women with high school diplomas or less are nonmarital (**Shattuck and Kreider 2013**).

Earlier policy efforts focused on marriage promotion yielded disappointing findings. As a result, poverty scholars are turning to an emphasis on delaying pregnancy and preventing unplanned pregnancies, with the goal of increasing the rate at which children are born to mothers and fathers who have planned for those births and are in a better position to care for their children. The policy memo by Isabel Sawhill and Joanna Venator addresses this issue and puts forward a proposal to promote greater knowledge and choices about contraception among women and their health-care providers.

2. SUPPORTING DISADVANTAGED YOUTH

Disadvantaged youth seemingly face barriers at every turn. They all too often struggle in school, commit crimes and are victims of violent crimes, have few positive adult role models in their lives, and lack sufficient skills—academic and behavioral—to succeed in the workforce.

The rate at which disadvantaged youth drop out of high school is one concrete measure of how our nation's poor youth struggle to move up the economic ladder. According to recent estimates, nearly four in ten eighth-grade students from families in the lowest income quartile did not eventually graduate from high school (**Ingels, Owings, and Kaufman 2002**). In school districts located in our country's fifty largest cities, only 53 percent of students graduated from high school (Swanson 2009). These dropout rates are particularly worrisome given the limited earnings and job prospects for high school dropouts in today's economy. The consequences of low educational attainment and lack of labor

market skills are too severe to ignore; thus, finding effective ways to foster the academic skills and socioemotional development of disadvantaged youth through their teenage years must be a priority in our nation's multipronged attack on poverty.

In their policy memo, Amy Ellen Schwartz and Jacob Leos-Urbel cite an emerging body of research suggesting that, in addition to the immediate benefits of a summer job and the wages associated with that employment, summer youth employment programs can improve educational outcomes, strengthen social and emotional development, and decrease crime rates. Building on evidence that summer employment can be a very positive driver of adolescent development, Schwartz and Leos-Urbel propose a nationwide summer youth employment program, aimed at helping low-income youth to build human capital and so transition to a productive adulthood.

Mentorship, too, can play a critical role in positive youth development. In his memo, Phillip B. Levine notes that upwards of 9 million children have no caring adults in their lives; he cites credible evidence that effective mentoring programs can help propel young people up the economic ladder (**Bruce and Bridgeland 2014; Cavell et al. 2009**). He establishes a framework for evaluating mentorship programs, calling for higher levels of private and non-profit-sector investment in youth mentorship.

The policy memo by Bridget Terry Long addresses the issue of underpreparation for college. Long notes that only 32 percent of students leave high school at least minimally prepared for four-year college, and the proportion is much smaller for African American and Hispanic students—20 and 16 percent, respectively (Greene and Foster 2003). Moreover, only 59 percent of low-income students who met a minimum standard of being academically qualified for college completed a bachelor's degree within eight years, in contrast to 89 percent of high-income students (**Adelman 2006**). This low level of preparation threatens college completion: only 9 percent of students from the bottom income quartile who enter college actually complete a bachelor's degree by age twenty-five (Bailey and Dynarski 2011). Long proposes to reform the remediation system in this country to better support young, underprepared students in their transition to college.

In addition to tackling the three issues highlighted here, strengthening our country's K–12 education system is of utmost importance. Multiple papers previously published by The Hamilton Project have addressed this issue, and so we do not include papers on education reform in this volume.⁹

3. BUILDING SKILLS

Skill development and job creation are critical components of our nation's fight against poverty. It is increasingly difficult for individuals to be economically secure in today's global economy with limited skills and education. Recognizing the paramount role of adequate skill and job creation in our national economy, The Hamilton Project has devoted considerable attention to these topics in years past, with papers on using data to improve workforce training,¹⁰ creating more-effective education and workforce development systems in the states,¹¹ and improving worker advancement in the low-wage labor market.¹²

Stagnant wage growth for low-skilled workers is a persistent economic threat. For four decades, high-skilled workers have seen their wages increase while less-skilled workers have seen their economic positions erode. High school graduates and those with less than a high school diploma saw their real wages fall through the late 1970s and 1980s and rebound a bit in the early 1990s, only to remain

stagnant since then (**Autor, Katz, and Kearney 2008**). In contrast, since the mid-1970s, those with the highest levels of education—more than sixteen years—have seen their wages rise steadily. Those with a college degree or some college have seen some improvement, but the increase in their wages has not kept up with those with more advanced education.

A second, related trend is what labor economists have referred to as a polarization of job opportunities in the United States. As David Autor explained in his earlier Hamilton Project paper, the U.S. labor market has witnessed expanding job opportunities in high-skilled, high-wage occupations on the one end, and low-skilled, low-wage occupations on the other.¹³ Employment prospects for middle-skilled workers in white-collar occupations—clerical, administrative, and sales positions—have weakened, as have those for middle-skilled workers in blue-collar occupations—production, craft, and operative positions. These trends have been experienced by other economies around the world, suggesting that there are global economic forces that have led to a restructuring of the labor market.

The magnitude of this challenge and its stark implications for poverty in America can only be addressed with a massive commitment to skill-upgrading. To date, however, our nation's commitment to investment in skills has lagged behind that of other countries. As Sheena McConnell, Irma Perez-Johnson, and Jillian Berk point out in this volume, the United States does not currently invest heavily in vocational training compared with other countries. Whereas the United States spends less than 0.05 percent of its GDP on vocational training, other industrialized nations invest up to ten times as much. In their policy memo, McConnell, Perez-Johnson, and Berk propose strengthening vocational training for disadvantaged adult workers to boost employment and reduce poverty.

As Robert I. Lerman points out in this volume, the United States also lags far behind our competitors in apprenticeship investment. While apprenticeships offer a productivity-enhancing approach to reducing inequality and expanding opportunity, Lerman notes that the numbers in the United States have declined in recent years to levels about one-tenth of those in Australia, Canada, or Great Britain. Lerman puts forth a proposal to better encourage apprenticeship training and put the United States on a par with other countries with regard to training. On a related topic, Harry J. Holzer in his policy memo observes that the courses pursued by many low-income college students do not equip them with the skills demanded by the labor market. Holzer's proposal focuses on educational reform to incentivize public colleges and universities to better tailor their curricula to improve labor market outcomes for graduates. Clearly, there is significant opportunity to improve our system of education and training to better equip America's workforce with the skills that are demanded and rewarded in today's global economy.

4. IMPROVING SAFETY NET AND WORK SUPPORT

A strong safety net is crucial to fighting poverty in America. Without programs designed to lift the poorest households out of poverty, roughly twice as many Americans would live below the poverty line today. As revealed by the SPM (see footnote 1), including government programs in the calculation of poverty halves the share of Americans classified as poor from 31 percent to 16 percent (**Fox et al. 2013**). Evidence further suggests that the safety net is becoming even more effective at fighting poverty: in 1967, government benefits cut poverty by only about one-quarter.

The safety net has become especially effective at fighting poverty among the elderly. Programs like Social Security, Medicare, and Supplemental Security Income—making up 36.1 percent of the federal

budget in 2012—have helped drive elderly poverty down to less than 10 percent and so promote a dignified and healthy retirement for America’s oldest citizens (**Danziger and Danziger 2005**). In many ways, the social safety net for elderly Americans can be considered a great success.

The two largest safety-net programs today, in terms of expenditure outlays, are the Earned Income Tax Credit (EITC) and the Supplemental Nutritional Assistance Program (SNAP). Poverty scholars generally regard these programs to be effective. SNAP is the quintessential safety-net program and has proven to be responsive to weak economic conditions in exactly the way a true safety-net program should be. When economic conditions weaken, SNAP caseloads rise; when economic conditions improve, SNAP caseloads fall. Furthermore, researchers have documented the long-term health and economic benefits of this food assistance program to low-income children and individuals (**Almond, Hoynes, and Schanzenbach 2011; Hoynes, Schanzenbach, and Almond 2012**). A recent Hamilton Project discussion paper by Diane Whitmore Schanzenbach proposed reforms to strengthen SNAP to make the nutritional benefits even greater.¹⁴

The EITC has been shown to encourage work among single mothers and to lead to long-term improvements in the wellbeing of families and children (Dahl and Lochner 2012; Evans and Garthwaite 2014; Hoynes, Miller, and Simon forthcoming). As noted by Hilary Hoynes in this volume, the EITC also has immediate and significant impacts on poverty, raising 6.5 million Americans out of poverty in 2012 alone (**CBPP 2014**). Hoynes’ policy memo in this volume proposes to build on this success by raising the EITC benefits for one-child families.

Another set of programs and policies aimed at working Americans are not classified as safety-net programs, but are instead considered to be work support for those in the labor force. These programs include unemployment insurance and wage-support policies like the federal minimum wage. Arindrajit Dube proposes a framework for designing effective minimum wage policies at the state and local levels to better compensate workers in high-cost areas in a way that recognizes and minimizes potential negative employment effects.

5. Expanding Apprenticeship Opportunities In The United States

Robert I. Lerman Proposes a series of targeted federal and state-level initiatives to expand access to registered apprenticeship programs by creating marketing initiatives, building on existing youth apprenticeship programs, extending the use of federal subsidies, and designating occupational standards apprenticeship opportunities could reduce poverty in the united states at a greater percentage. (**Robert I. Lerman**)

6. DESIGNING THOUGHTFUL MINIMUM WAGE

Policy at the State and Local Levels

Arindrajit Dube Proposes that states and localities consider median wages and local costs when setting minimum wages, index the minimum wage for inflation, and engage in regional wage setting. (**Arindrajit Dube**)

7. ENCOURAGING WORK SHARING TO REDUCE UNEMPLOYMENT

Katharine G. Abraham and Susan N. Houseman Proposes that the federal government subsidize state work-sharing payments during economic downturns, make work sharing a requirement for state unemployment insurance systems, change federal requirements to modify provisions of state

worksharing plans that may discourage employer participation, and provide states with adequate funding to administer work-sharing programs. **(Katherine G, Abraham and Susan N. House)**

8. BUILDING ON THE SUCCESS OF THE EARNED

Income Tax Credit

(Hilary Hoynes) Proposes expanding the Earned Income Tax Credit (EITC) by raising the benefits for families with one child to be on par with the benefits for families with two children.

9. SUPPORTING LOW-INCOME WORKERS THROUGH REFUNDABLE CHILD-CARE CREDITS

James P. Ziliak Proposes converting the federal Child and Dependent Care Credit from a nonrefundable tax credit to a refundable one, capping eligibility at \$70,000 and making the credit a progressive function of income, the age of the child, and utilization of licensed care facilities. **(James P. Zilak)**

10. PROVIDING DISADVANTAGED WORKERS WITH SKILLS TO SUCCEED IN THE LABOR MARKET

Sheena McConnell, Irma Perez-Johnson, and Jillian Berk Proposes increased funding for training programs targeted to low-skill workers through the Workforce Investment Act (WIA) Adult program and a series of reforms to training programming offered by state and local workforce boards. **(Sheena McConnell, Irma Perez-Johnson and Jilian Berk)**

11. IMPROVING EMPLOYMENT OUTCOMES FOR DISADVANTAGED STUDENTS

Harry J. Holzer Proposes the creation of financial incentives for public colleges to offer classes in highreturn fields and for employers to offer more training to their employees. This will creat more employment opportunities since more people shall be skilled hence curbing poverty. **(Harry j. holzer)**

Responsible personnel to curb poverty

The following people need to take responsibility so as to curb poverty in the us

✓ Local governments

Disadvantaged preschool aged children, especially those who currently have limited preschool access, the State and local governments should Promote expansion of cost-effective, high-quality public preschool for low-income children to reduce the income-based gap in school readiness and improve school outcomes for disadvantaged preschool children. Costs would depend on the existing preschool options in each state.

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✓ U.S. Department of Health and Human Services

Low-income families with young children between the ages of 0 and 5, the U.S. Department of Health and Human Services, administration for Children and Families should Collect evidence on successful parenting interventions for young children through rigorous experiments, and develop new interventions that are lower cost and better matched to families' needs.

✓ Learning institutions

Disadvantaged, academically underprepared students in high school and college School districts, community colleges, university systems could be helped come out of poverty by learning institutions, the learning institutions should Reduce the need for college-level remediation and better match underprepared students with effective resources and supports to equip them with the skills they need to succeed in college and in the workforce. Reforms would likely result in higher educational outlays in the short run, but would lead to cost savings for students, institutions, and taxpayers in the long run.

✓ U.S. Department of Labor

Low-income youth between the ages of 16 and 19 who are enrolled in, or have recently graduated from, high school could be pulled out of poverty with the U.S. Department of Labor, state and local governments, and community-based organization, the department of labor should Expand summer job programs for disadvantaged youth to increase school attendance, improve educational outcomes, and reduce violent behavior and crime. Cost would be roughly \$2,000 per participant.

CONCLUSION

In conclusion, Poverty remains one of America's most important policy challenges. On any given day, 46.5 million Americans, including 16.1 million children, endure the hardships of poverty. Millions more hover with great vulnerability just above the poverty line. Still more may be able to meet their current basic needs, only to find themselves living in poverty in the future. The persistent threat of poverty represents a failure of our economic system to provide all children with the support they need to acquire human capital and to provide able-bodied working-age Americans sufficient opportunities for stable and well-paid employment.

If the above policies and many more are put into action then poverty in the US can greatly be reduced.

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