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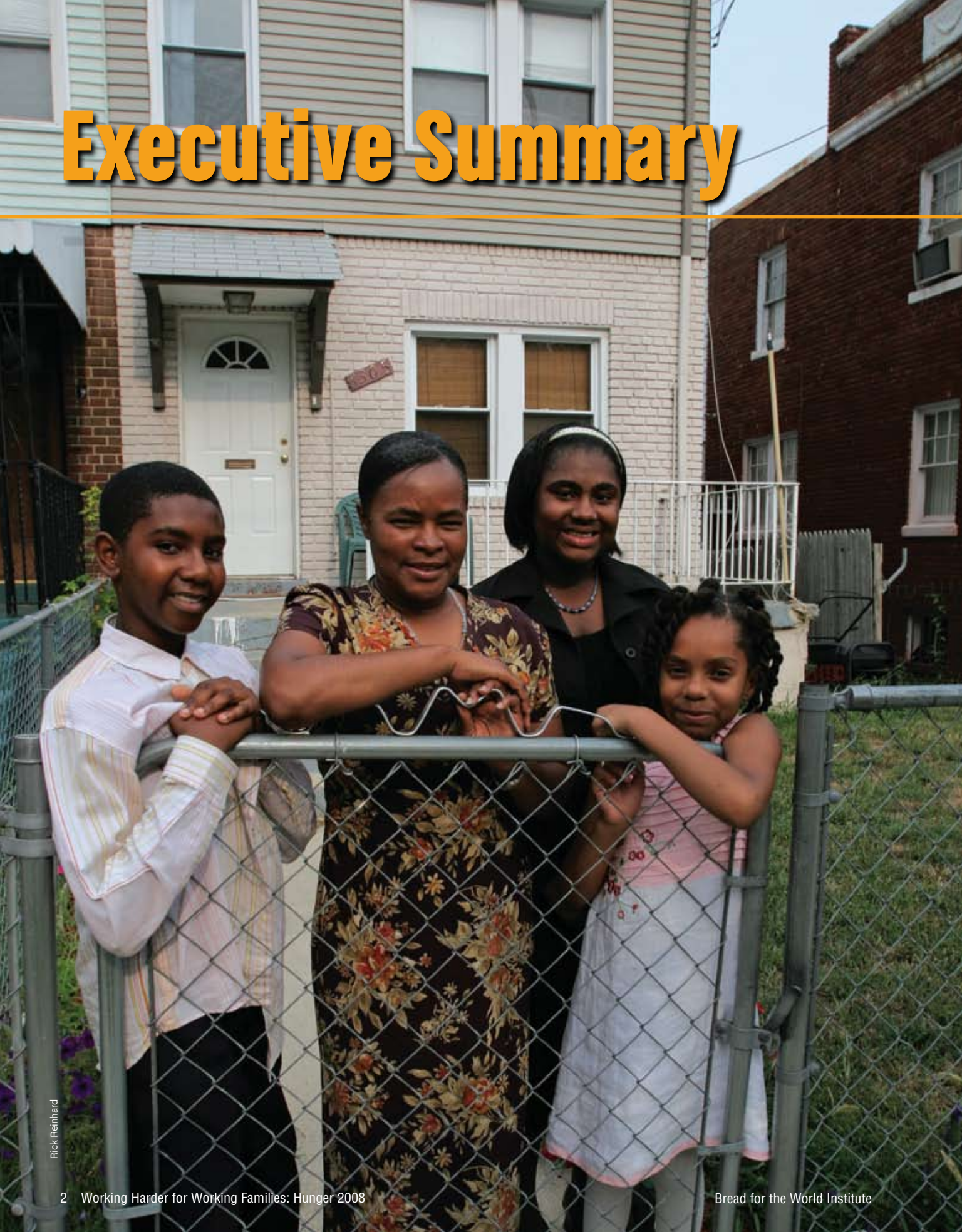
Executive Summary



Rick Reinhard

The U.S. economy has been growing in recent decades, but the benefits of this growth have not been shared equally. Workers at the bottom end of the wage scale have actually been losing ground. Low-wage work pays less today (after inflation) than in the late 1970s.

One in four workers in the United States has a job that does not pay enough to raise a family of four out of poverty. Jobs that pay these low wages may suffice for a single person or for someone with a working spouse and no children. Once children enter the picture, the dearth of good jobs is a far more serious matter, both for a family and society.

Two-thirds of children in poverty have one or more parents who work, and one-third have a parent who works full-time, year-round. Government assistance programs represent a lifeline—yet even with government assistance, such as food stamps, poor families continue to struggle.

Families living in or near poverty are always perched on the brink of a financial disaster. Living this way means choosing to turn off the heat in winter or cutting back on food consumption until spring. One car accident. One medical emergency. One burst pipe. One robbery. One piece of bad luck. This is all it takes sometimes to turn a dicey situation into a desperate one.

What should be done? *Working Harder for Working Families* recommends the following: (1) set a national goal to end hunger and poverty; (2) make every job a good job; (3) strengthen work-support programs; and (4) create incentives to save and build assets.

Set a National Goal to Reduce Hunger and Poverty

The United States should make it a national goal to cut hunger and poverty in half by 2015. Setting a deadline is necessary to generate public interest and action for progress toward the goal. Constituent pressure will encourage policymakers to develop flexible approaches and be as creative as necessary.

We need a fresh commitment from all stakeholders to break out of the stale, polarizing debate that has kept the country from moving forward. Reducing hunger and poverty will require the effort of families, communities, business and government. What we want is a deeper commitment on the part of everyone to seek innovative approaches. This entire report is an attempt to encourage innovation on all fronts, but government must lead and serve as the catalyst.

The year 2015 is not an arbitrary choice; this is when the U.N. Millennium Development Goals (MDGs) are to be achieved. The MDGs set targets to improve basic human development indicators, including reducing hunger and extreme poverty by half. The United States has agreed to the MDGs in principle—along with nearly every country in the world. Obviously, the problems confronting the

poorest countries of the world are on a much larger scale than in the United States. Nevertheless, problems like hunger and poverty persist even though this is completely unnecessary in a country as rich as the United States. U.S. policymakers can demonstrate their commitment to the MDGs by embracing a strategy to achieve them at home.

The national nutrition programs administered by the U.S. Department of Agriculture are an effective safety net for families struggling to put food on the table. But ending hunger permanently depends primarily on reducing poverty. While poverty is clearly a complicated problem that no single policy or program can solve, we recommend a set of coordinated and coherent policy decisions that will move us in the right direction.

In this report, Bread for the World Institute is venturing into some areas of policy analysis that are new to us. We recognize this and have sought knowledge and advice from many experts outside our regular circle of partners. We have embarked on this path because of the inextricable link between hunger and poverty. This report seeks to broaden our analysis of hunger in the United States.

Make Every Job a Good Job

Low-income families need from work what other families need: wages and benefits that ensure an adequate standard of living. In 1968, full-time work at minimum wage amounted to 120 percent of the poverty level for a family of

Volunteers pack bags of groceries in Washington, DC to deliver to nearby low-income seniors.

Rick Reinhard

three. Today, working full-time for minimum wage does not even come close to a poverty threshold. Without food stamps and other forms of government assistance, a family with one wage earner employed at a minimum-wage job would be living on the absolute edge of desperation.

Raising the minimum wage would help not only those with minimum-wage jobs, but other workers earning near the minimum. Recently, the federal government took an initial step toward improving the well-being of low-income families: raising the national minimum wage for the first time in 10 years. By July 2009, the minimum wage will be $7.25 per hour. This is an important step forward, but it is just the beginning of what is needed.

Most low-wage jobs provide few employer-sponsored benefits, such as affordable health insurance. Forty-seven million Americans lack health insurance, 90 percent of whom earn less than 200 percent of the poverty level. Ineligible for government-supported health care, many families must nevertheless turn down employer-sponsored health insurance when it is offered because they cannot afford to pay the premiums.

Over the past 25 years, the U.S. economy has changed profoundly, and so has the relationship between government, business and workers. The union movement played a vital role for much of the twentieth century. Today, unions continue to help workers negotiate better wages and benefits, but union membership has fallen dramatically. U.S. unions would be strengthened by the passage of legislation that lifts restrictions on workers' ability to organize, even if the union movement does not fully rebound.

Richard Lord

In the long run, ending poverty will require improvements in wages and benefits and investments in education and training programs.

Without specialized skills or an adequate education, workers in this country have little chance of securing a job that can support a family. Thirty-five percent of low-income working families include at least one parent who did not finish high school or earn a high school General Equivalency Degree (GED). The United States ranks near the bottom of high-income countries in providing job-related education and training. Greater investment in workforce development is essential if the nation is to remain competitive in a global economy.

Investments in the workforce need to begin early in life. The data show that education—particularly early childhood programs—makes a great deal of difference to later economic success. Investing in low-income children should include expanding preschool opportunities and improving the quality of public schools. More financial assistance needs to be available for college-bound students from lower-income families. The entire country stands to gain from a better-educated workforce.

Strengthen Work-Support Programs

In addition to the millions of families living in poverty, many other low-income people need assistance. Their needs vary, but they include tax relief, an adequate diet, help paying for childcare so that they can work, and access to affordable health care. Programs that provide such benefits reach too few families.

By strengthening the Earned Income Tax Credit (EITC), we can help lower-income working families keep more of their earnings. The EITC is a refundable tax credit that increases for families who have one or two children. However, families with more than two children are not eligible to receive a larger credit—a serious problem because poverty rates in families with more than two children are higher than in families with two children. The EITC was designed to reward families for working, not punish them for having more than two children, and it needs to increase with family size.

The Food Stamp Program is the nation's flagship nutrition program, serving approximately 25 million people per month. The program does a good job of reaching people in need, but the benefits do not go far enough. Benefits are issued monthly; nearly all have been used by the second week of the month. The Food Stamp Program could be even more effective in reducing food insecurity if benefits were enough to last the entire month.

Childcare is one of the costliest items in a family's budget. Without some form of assistance, parents are forced to compromise on the quality of care or how much care they can afford. Affordable childcare makes all the difference in whether parents are able to participate fully in the work force. The quality of childcare is also critical to a child's safety and well-being and sets the stage for a child's ability to succeed in school. Government funding reaches only about one in seven families eligible for assistance under federal law. There must be a substantial increase in support for subsidized childcare.

Affordable health insurance should be available to every working family in the United States. If employer-based programs are not available, the best options currently are Medicaid and the State Children's Health Insurance Program (SCHIP). But in more than half the states, there are adults who have incomes below the poverty line, yet are ineligible for Medicaid. Policymakers cite the need to control the rising costs of the programs, but denying coverage to poor people is not the answer.

Raising the participation rates in work-support programs should be a priority, but participation cannot grow at rates even approaching the need for these services until more resources are added. Lack of new resources should not slow efforts to look for more efficient ways of operating the programs, though, because efficient administration of program resources also allows more people to be served.

Margaret W. Nea

Half of all Food Stamp Program benefits are used by children.

Create Incentives to Save and Build Assets

Families need to accumulate financial assets to build their financial security and protect themselves in case of a catastrophic loss of income. Presently one in five U.S. families does not have enough assets to cover twelve weeks of lost income at poverty-level wages. Most of these families do not actually live

below the poverty line. Using an asset lens, rather than an income lens, we see how many more families have only a tenuous grip on financial security.

A large and supportive extended family and a community of friends and neighbors are assets. So are a stable marriage, good health and specialized job skills. All of these are valuable assets that make families more secure. However, the policies addressed in this report focus on assets that build financial security, primarily for homeownership, retirement accounts, business development and postsecondary education. Financial assets provide another benefit—hope, which motivates low-income families to plan for their future and develop strategies that will move them forward.

Several studies have documented the positive effects of asset ownership on low-income families. Children in low-income families with assets do better in school and stay in school longer than children in low-income families without assets. Teenagers in families with assets are less likely to become parents than teens in families without assets. Other studies show positive correlations between asset ownership and physical and mental health, both for adults and children.


Rick Reinhard

Financial education must be an integral part of all asset-building programs.

Broad-based asset-development policies are not unprecedented in the United States. The GI Bill is an example of an asset-building program that allowed veterans from World War II and the Korean War to attend college and purchase homes. The GI Bill was an important catalyst for the expansion of the middle class during the 1950s and 1960s. The Homestead Act of 1862 is another example. Even today, one-quarter of all Americans can trace their land ownership back to the Homestead Act.

Naturally it is harder for low-income people to save money than for wealthier people, but it is a misperception to think that they do not or will not. Low-wage workers save money regularly to pay bills and purchase household items. These savings are not as large an amount, nor as long-term, as saving for a home or college tuition or capital to start a business, but nevertheless, poor people do acquire assets and they can be as disciplined about saving as anyone else.

Roles and Responsibilities

It is not up to government alone to do everything; employers, families and communities share the responsibility. But government must lead by example, setting policies that promote prosperity for all, not just a few. Parents must do their part, holding down jobs if at all possible and raising children to be responsible and productive members of society. For the most part, families are already living up to their end of the deal.

We all have a stake in working harder for working families. Strong families are the best resource the United States has. Work should contribute to the betterment of family life, not detract from it.

Foreword

Brian Duss

All workers should benefit when the economy is strong. "A rising tide lifts all boats" is how it used to be put. Based on what we're seeing now, this upbeat message is at risk of sounding like an anachronism. Since coming out of recession in 2001, the U.S. economy has been surging at some of the highest levels of economic growth in decades. High-income earners have done extremely well, but low-wage workers are losing ground.

More than 40 million workers hold low-wage jobs. For low-wage workers—clerks, cashiers, food servers, daycare providers, retail workers, security guards, housekeepers, groundskeepers and others who also help to keep this economy running—wages have been eroding steadily since long before the start of this decade. When adjusted for inflation, low-wage work pays less today than in the 1970s. Economists studying the problem have offered business leaders, policymakers and citizens a bounty of solutions. But our nation has not done enough to stop the long-term decline in the real wages of many working people.

In 2007, federal policymakers raised the national minimum wage for the first time in a decade. This will help low-wage workers, but it only begins to address the challenges faced by families who struggle to support themselves with these kinds of jobs. Low-wage work pays so poorly that a full-time job can leave a family of three struggling to put food on the table. Plus, low-wage jobs often do not include employer-sponsored health insurance or paid sick days or other benefits that most middle-income workers take for granted.

If you believe, as I do, that strong families are vitally important to society, then we must all be concerned about the inadequacy of low-wage jobs. All families should be able to earn enough to meet basic living expenses like food, shelter, transportation and out-of-pocket healthcare costs. A health crisis or divorce can push families into hunger and poverty. In fact, most people in this country fall into poverty at some point in their lives.

In this report we take on the questions of why many people who work continue to live in or near poverty, what barriers they face and what policy changes are needed to make it possible for working people to move out of poverty.

Bread for the World Institute has focused heavily on strengthening the national nutrition programs because increasing nutrition assistance is the fastest, most direct way to reduce hunger in the United States. But broader measures to reduce poverty and economic vulnerability are also necessary. Who wouldn't agree the best and most durable solution to hunger should be a job that allows a family to feed itself?

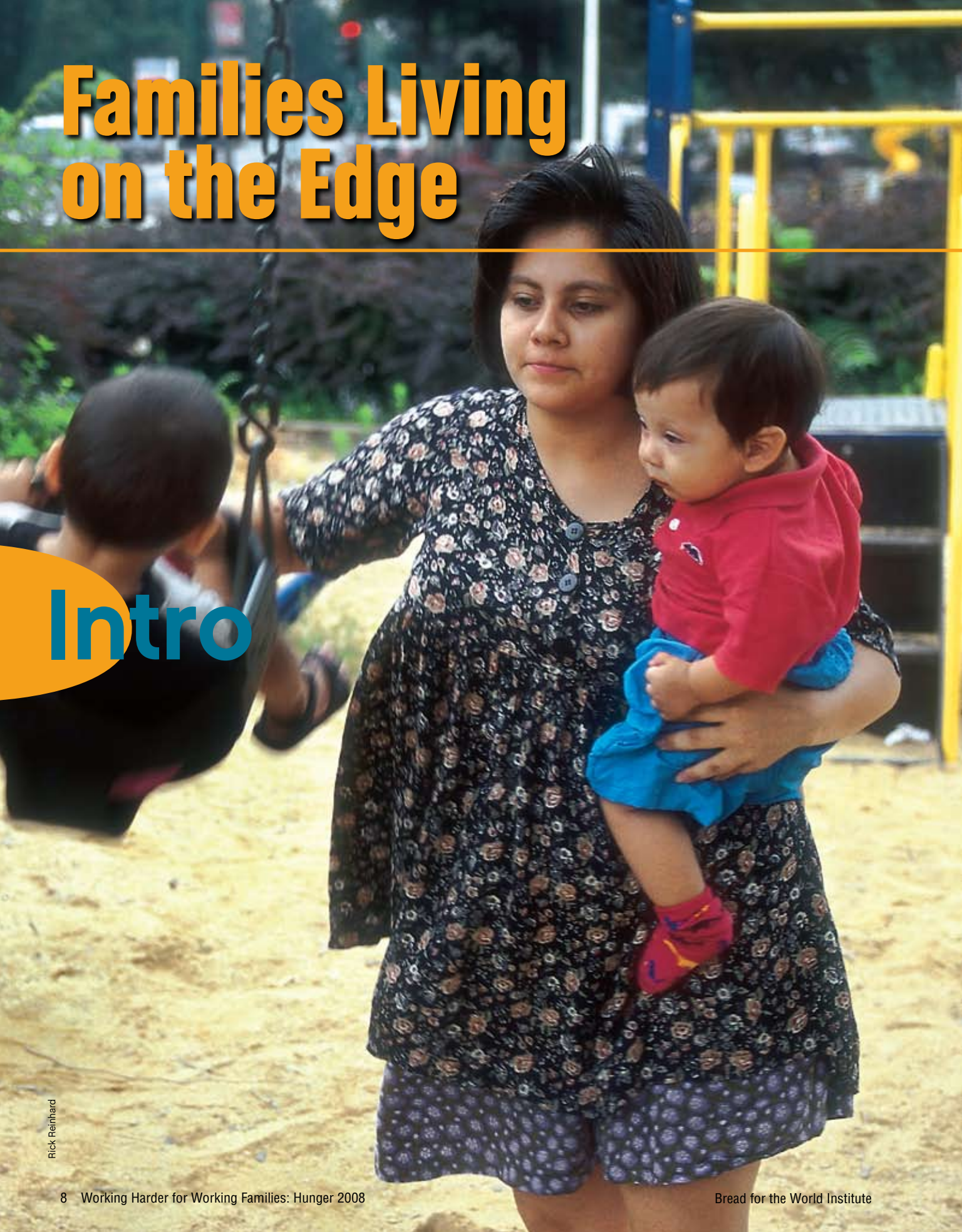
It says in the Bible, "If anyone will not work, neither shall he eat." The corollary is that all who work should be able to eat. And that is not the case in our society.

David Beckmann

Rev. David Beckmann
President, Bread for the World and Bread for the World Institute

Families Living on the Edge

Intro



Rick Reinhard

Families living in or near poverty are always perched on the brink of a financial disaster. One car accident. One medical emergency. One burst pipe. One robbery. One other piece of bad luck. Sometimes this is all it takes to turn a dicey situation into a desperate one.

Living on the edge means choosing whether to turn off the heat in winter or cut food consumption until spring. It means running home from school because the streets are too dangerous to walk. It means longer commutes to work because it is too expensive to keep a car. It means no one to watch your kids because everyone you know—family, friends, neighbors, church—is living on the edge, too.

It takes stamina to live on the edge, to keep going regardless of how exhausting it is.

Opportunities are denied to people on the edge. Opportunities denied because the cost of child care is out of sight. Opportunities denied because few good teachers want to teach at the schools in your neighborhood. Opportunities denied because the neighborhood has been redlined for so long that no one will buy a home or invest there. Opportunities denied because the bus route that used to serve your neighborhood has been eliminated to pay for tax cuts to benefit someone else.

Job opportunities are missed because of inflexible work schedules. Opportunities for training and skill development that are offered to someone else whose "human capital" is a better investment. Opportunities exaggerated by politicians who speak of a growing economy as if everyone were sharing in it equally. Opportunities are weak or illusory when the jobs do not pay enough to live on.

Few images of what it means to live on the edge show the truth like the television images of the Gulf Coast in the aftermath of 2005's Hurricane Katrina. These images stand alongside Walker Evans's portraits of Dust Bowl families or breadlines snaking around city blocks during the Great Depression. The television cameras found a family in New Orleans atop the roof of their home, the flood waters rising, holding a sign that reads, "We are Americans too."

The Scale of the Problem

From year to year, about one in seven families with children under 18 is living in poverty.[1] Official poverty thresholds are based on annual income; income limits vary depending on family size. In 2006, the annual income of a family of three in poverty, with children under 18, was $16,227 or less, according to the U.S. Census Bureau. For a family of four, also with children under 18, the poverty threshold was $21,134.[2]

A family with an annual income of up to 200 percent of the poverty level is considered *low-income*. When low-income families are added to poor families, the numbers start to balloon. Some 13 million children are poor, but there are nearly 30

million who qualify as low-income—four out of every ten children in the United States.[3] Nearly 90 million Americans, close to a third of the population, are considered low-income.[4]

One of the points we make in this report is how difficult it is to draw a distinction between poor and low-income families. The division does not occur at the official poverty line because the poverty line is not a measure of what it actually takes to support a family. Low-income families on the cusp of poverty may be worse off than those in poverty. For example, a family in Los Angeles faces drastically higher living expenses than a family in rural Arkansas, but if the Los Angeles family has an income above the poverty line, it does not qualify for the same amount of government assistance as the Arkansas family below the poverty line. Which family is better off? Costs of living vary widely across the country, but the poverty line is set at the same level everywhere.

This report is concerned with all families struggling to get by. They live in every part of the country and include two-parent and single-parent families; they may have one child or many, speak different languages, practice different religions, have different cultural outlooks; they may be native-born U.S. citizens or have arrived in this country only recently. Sometimes their struggles are exacerbated by a combination of factors. In the United States, illness, disability, debt, substance abuse, lack of education, and a dearth of job opportunities are among the most common problems that increase the risk of tumbling into poverty.

The national media still tends to portray poverty as generally confined to the lone homeless people who are the easiest to capture on camera. Less conspicuous, but a much larger group, are the people who cycle in and out of poverty. Families most at risk for becoming poor are those which are already not much better off—for example, the low-income family that loses its financial footing because the main wage earner's job has suddenly been eliminated. During the 1970s, the chance that U.S. adults would spend a year in poverty during their prime wage-earning years was 18 percent. During the

Renee Musser Hummell and her family live in Staunton, VA.

Renee's story, Part I

I was on my own before my 18th birthday. No family or friends to turn to for help, and poverty seemed to follow me everywhere. I entered a relationship at age 19, which produced a beautiful baby girl. I was so happy when I held her in my arms. My life had more meaning than ever before.

The relationship I had with her father was troubled almost from the start, but I clung to the belief that we could make it work. There was physical and verbal abuse that continued after our child was born. Separating from him was the safest decision I could make at the time for my daughter and me.

This is where I begin my story, as it sets in motion my life as an adult. I am 33 years old now. In many ways, I feel lucky to be alive. As a child I suffered physical and psychological abuse at the hands of my mother's boyfriend, and as a teenager on more than one occasion I tried to commit suicide and nearly succeeded. But I will not tell you any more about that period of my life. I have not stopped learning from my past, but my life is about triumph and success over adversity. It is still not easy.

I am proud of all that I have accomplished to get to where I am now. I have chosen to be a stronger person and not allow the past to stop me from moving forward. I hope you can learn something from my story. I appreciate this opportunity to share it with you as part of *Working Harder for Working Families*.

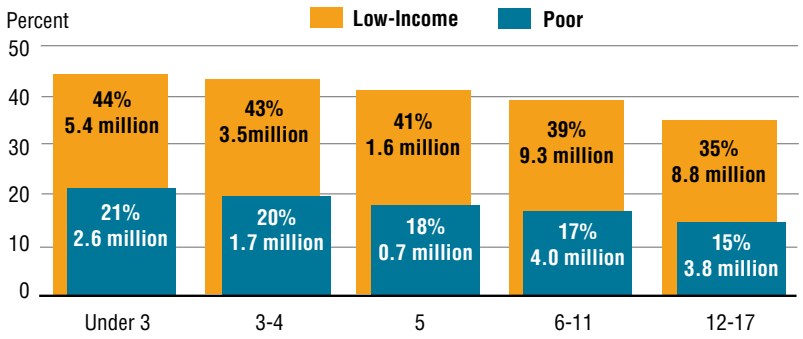
This is the first of five entries in Renee's story. The next entry appears on page 19.

1990s—several years of which were quite prosperous—the chance of spending a year in poverty jumped to 43 percent.[5] Once all the data are in for this decade, the 2000s may prove to be even more insecure than the 1990s for struggling families.

Poverty and Hunger

In the United States, hunger is not caused by a scarcity of food. There is more than enough food to feed everyone. We have the infrastructure to deliver it. There is a network of interstate highways and a trucking industry ready to move mountains of food daily wherever it needs to go. The supermarket store shelves are stocked to the ceiling. But none of this matters if customers have no money in their pockets. Poverty spoils every meal.

Figure 1: **Children Living in Low-Income and Poor Families, by Age Group, 2006**



Poor: Children are defined as poor if family income is below the federal poverty threshold.

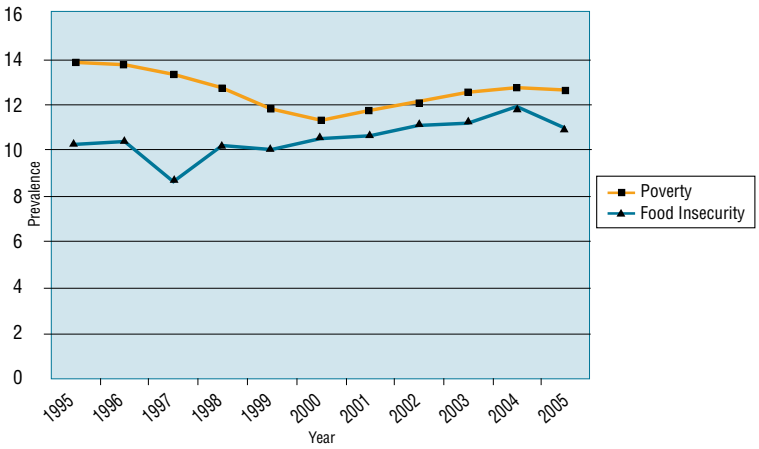
Low Income: Children are defined as low-income if the family income is less than twice the federal poverty threshold.

Source: National Center for Children in Poverty, *Basic Facts About Low-Income Children: Birth to Age 18.* www.nccp.org/publications/pub_762.html

Around the world, wherever poverty exists hunger is sure to exist as well. This is not surprising, and for some time, governments around the world have recognized the two as inseparable. The Millennium Development Goals (MDGs), a set of human development targets, put reducing hunger and poverty together at the top of the list. All the other goals follow from these. The MDGs, introduced at the United Nations (U.N) in 2000, have been accepted by all U.N. member countries, including the United States. The deadline for meeting them is 2015. Besides reducing global hunger and extreme poverty by half, the MDGs include improving maternal and child health, slowing the spread of infectious disease, achieving universal primary education, and providing wider access to basic services such as potable water and sewage treatment. The MDGs apply to all countries, not just the least developed. As a country which has accepted the MDGs, the United States must be committed to achieving them at home.

Poverty in the United States has been measured for decades; measuring hunger, or what the U.S. government is more comfortable calling food insecurity, is a more recent phenomenon. Once annual food insecurity data was collected, beginning in 1995, it became clear that the ups and downs in food insecurity line up closely with the changes in poverty. The United States has done a much better job fighting hunger than it has poverty. Hunger is a simpler issue in some ways. The Food Stamp Program, the Special Supplemental Nutrition Program for Women, Infants and Children (WIC), the National School Lunch Program, and 12 other nutrition programs run by the U.S.

Figure 2: **Poverty and Food Insecurity in the United States, 1995-2005**



Sources: USDA, U.S. Census Bureau

Department of Agriculture (USDA) serve millions of U.S. residents every day. All of these resources are needed, and when government programs are not enough, there is also a robust network of emergency food providers to fill the gaps.

The ancient Chinese maxim still rings true: Feed a man a fish and he eats for a day—teach him to fish and he eats for a lifetime. Families become hunger-free when they can provide for themselves. The solution is simple: jobs that pay enough for a family to live on.

Government Support and Personal Responsibility

We all agree that helping families get out of poverty is a good goal. The controversy comes in sorting through the variety of options that would help accomplish this. The sharpest differences of opinion usually turn on what role the government should play versus how much depends on personal responsibility. The truth is that both are critically important to ending poverty.

Debating strategies for ending poverty is useful—polarization of the issue is not. "Unfortunately, partisan and ideological divisions too often promote one-sided solutions and prevent genuine progress," observes Christian Churches Together in the USA (CCT), a body of churches and national organizations representing virtually every Christian group in the United States, including Bread for the World. "Overcoming poverty," the CCT *Statement on Poverty* reads, "requires both more personal responsibility and broader societal responsibility, both better choices by individuals and better policies and investments by government, both renewing wholesome families and strengthening economic incentives."[6]

For decades, anti-poverty programs have been promoting personal responsibility. The Earned Income Tax Credit (EITC) was established in 1975 to reward poor and low-income families for work by refunding a substantial portion of their income taxes. The EITC lifts more children out of poverty than any other government program.[7] In 1996, President Clinton signed into law the most sweeping changes in welfare policy since the Johnson Administration, restructuring welfare policy to make working the major condition for receiving government supports.

Champions of greater personal responsibility in anti-poverty programming are keen to point out the reductions in the numbers of families on welfare since 1996. Caseloads have been cut in half. Unfortunately, most welfare-leavers end up in jobs that pay in the range of $7 to $8 per hour, barely enough to lift a family of three above the poverty line.[8] The success of welfare reform was that it reduced welfare caseloads, but it has not reduced poverty. Between 2000 and 2004, while welfare caseloads were falling, the number of children living below *half* the poverty line increased by 774,000.[9] For parents

who are jobless, welfare reform has meant less access to much-needed assistance.

Responsibility is a two-way street, and government has to do its share. Welfare reform promised families much more help with childcare than was delivered. Welfare reform promised to go after noncustodial parents who shirk their responsibility by failing to provide child support, but in 2005 Congress cut funding for child-support enforcement, at an estimated loss of more than $8 billion in support payments.[10] Ultimately, it is government's responsibility to ensure that the most vulnerable members of our society are provided for. Low-income seniors are guaranteed government-supported health care, as are the disabled. But nine million children, most of them from poor and low-income families, lack any form of health insurance.[11] At some point, policymakers may finally come to terms with what is readily acknowledged to be a broken health care system. Until then, government should at a minimum guarantee health care coverage for all U.S. children whose parents cannot afford to provide it for them.

Government does act responsibly in most cases—and so do a majority of parents. When parents are working hard to make ends meet, or are unable to work because of an illness or disability, it is not fair to lay the blame for their financial hardships on a lack of personal responsibility. Economics, not personal responsibility, is the problem: jobs that do not pay enough to provide a decent standard of living; lack of benefits like health care, parental leave and employer savings programs, which are available mainly to the middle class and wealthy; and lack of access to pathways out of poverty like

Poverty and Racism

– Catholic Charities USA*

Any strategy to reduce poverty in America must also confront the deep connection between racism and poverty. We are convinced that poverty and racism are so intertwined that it is impossible to fully separate them. Racism, in both its individual and institutional forms, is a cause of poverty and at the same time an additional barrier for people of color seeking to escape poverty. We are convinced that without a conscious and proactive struggle against racism, our efforts to reduce the plague of poverty will be in vain. Any effective campaign to reduce poverty must also confront the "unresolved racism" which still permeates our national life. In order to uproot the scandal of poverty, we must also be agents of racial justice.

Any concern with racial justice today must take into account the changing demography of American society, and the seismic shift in the composition of our population. We are becoming more racially and culturally diverse than ever before. At least one out of three Americans are now, in the language of government bureaucracy, "Latino or nonwhite." Many of our nation's urban centers are now so-called "majority-minority," meaning not only that people of color are the majority of the population, but also that no single racial or ethnic group constitutes a numerical majority. Because of immigration patterns and differing birthrates among the various racial groups, it appears likely that by the middle of this century, whites will no longer be the majority race in the United States. Indeed, it is probable that our country will have no single racial majority group.

Thus, the major demographic shifts of the present and near future force us to confront the unfinished business of our nation's struggles for racial justice and inclusion. As one authoritative study notes, "The color question is pervasive in our lives, and it is an explicit tension or at least subtext in countless policy debates." The ghosts of our legacy of racial inequality continue to haunt us.

*Excerpted with permission from the Catholic Charities USA Poverty in America Issue Brief *Poverty and Racism: Overlapping Threats to the Common Good.*

affordable preschool and college tuitions. These are the real problems that make it hard for families who play by the rules to escape poverty.


Richard Lord

No Family Left Behind

"Americans have a deeply held belief in opportunity—the ability of anyone who works hard and plays by the rules to get ahead," says Isabel Sawhill, a Senior Fellow at the Brookings Institution and Co-Director of the Center on Families and Children.[12] But hard work alone is not a guarantee that a family can escape poverty. Many Americans take for granted that the United States is a land of opportunity and that anyone who works hard can get ahead. The facts should challenge our faith in this creed. More often than not, people end up where they started or move up only slightly, and several other developed countries have higher rates of economic mobility than the United States.[13]

The United States will always have a need for low-skill workers. Office buildings will always need to be cleaned, fruits and vegetables harvested, food and drink served. The people who perform these jobs contribute to society and, like anybody else, deserve a standard of living that allows them to support their families and create opportunities for their children to achieve a better future. So do the people who cannot work because of illness, disability, the need to care for an ill or disabled family member, lack of childcare, lack of jobs, domestic violence or other reasons. No one should be forced to live in poverty—but perhaps the greatest shame, and one that is emblematic of much larger economic problems, is that people who are working hard may still end up living in poverty.

For a good part of the twentieth century, as the U.S. economy improved, all wage earners reaped the benefits at about the same rate. But during the past 30 years, wages at the top and in the middle of the income scale have been growing faster than wages at the low end. The partnership that exists between government, business and workers must ensure that economic mobility and opportunities exist for all families—including those whose wages put them at the bottom of the income ladder.

Leaving aside the economic issues for now, there are moral considerations that must be addressed. Should working parents have to raise their children in poverty? The answer is "Of course not," according to the American people when asked what they think—and yet the sad truth is that many working parents do raise children in poverty. Two-thirds of all children growing up in poverty in the United States have one or more working parents, and one-third have a parent working full-time, year round.[14] The chapters ahead will consider what has caused this shift in the U.S. economy, and what can be done to address the needs of people in poverty and those most vulnerable to income drops that would push them into poverty.

'The solution is simple enough: jobs that pay enough for a family to live on.'

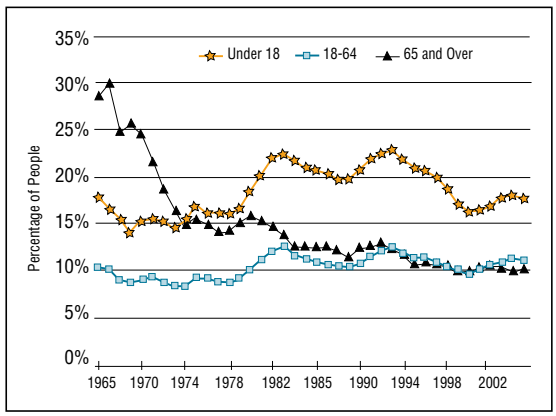
Families Are Still Worth Fighting For

In 1964, President Johnson famously declared war on poverty. In 1988, President Reagan famously declared that "Poverty Won"—but this is hardly a true statement. Between 1964 and 1973, poverty in the United States was cut nearly in half, and hunger was also sharply reduced. For a short time, it seemed that poverty in the United States might one day be eliminated, and perhaps that day would come soon.

More than 30 years later, poverty rates continue to be stuck between 10 and 15 percent of the U.S. population. This lack of progress is disappointing, but we should not lose hope or think that poverty is intractable. The United States is the richest country in the world, and it has the resources, if not yet the will, to guarantee a decent standard of living to all of its people.

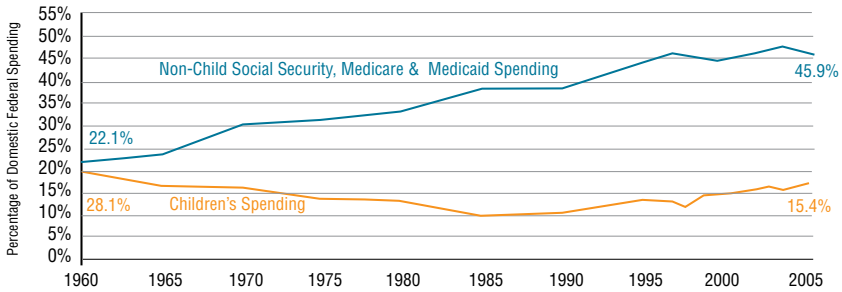
Eliminating poverty in the United States is well within our grasp. At the beginning of the 1960s, the poverty rate for senior citizens was 35 percent. Presently, senior poverty is holding steady at 10 percent. This is still 10 percent too high, but the dramatic 25-percentage-point reduction in senior poverty shows that huge gains are possible when there is political will to tackle a problem. It was primarily the creation of Social Security and Medicare, along with vast improvements in nutrition assistance programs, that made it possible to make such progress against senior poverty.

Figure 3: **Poverty Rate by Age, 1966-2005**



Source: U.S. Census Bureau, Current Population Survey, 2006 Annual Social and Economic Supplement

Figure 4: **Federal Spending on Children and Major Entitlements, 1996-2006**



Source: The Urban Institute, January 2007. Estimates and projections developed using the Budget of the United States Government, FY 2008 and CBO's The Budget and Economic Outlook: Fiscal Years 2008-17

Child poverty rates followed similar downward trends in the 1960s and early 70s, before climbing again through the 1980s and early 1990s, dropping in the late 90s, then rising again in the early part of the 2000s and now holding steady at close to double the rate for seniors. In contrast to the increase in spending on seniors, spending on domestic children's programs declined from 20.1 percent to 15.4 percent of the federal budget between 1960 and 2006.[15] Another reason for the derailment of progress against child poverty is that policies to help poor and low-income families did not adapt to the changing economic conditions these families face.

Low-Wage Work: Whose American Dream?

1

Richard Lord

One in four workers in the United States has a job that does not pay enough to raise a family of four out of poverty.[1] Jobs that pay such low wages may possibly suffice for a single person or for someone with a working spouse and without children. Once children enter the picture, the shortage of well-paying jobs is a far more serious matter, both for a family and a society.

When parents do not earn enough to live on, everyone in the family suffers the consequences. All parents struggle with the pressures of managing work and raising children, but the strain on families who are barely getting by on low-paying jobs is severe. Nearly half of all low-income families who use food pantries are working families with children.[2] Using a food pantry should not be a strategy for making rent payments on time. Too often it is. And sometimes the food pantry isn't enough—across the United States, there are homeless families holding down jobs and eating their meals in shelters.

There have always been critics ready to blame poor people as responsible for their own hardships: poverty is due to dropping out of school, having children too young, abusing drugs, getting into trouble with the law or other factors that poor people can control. It's true that any of these situations make it harder to climb out of poverty, but it is simply inaccurate—and somewhat disingenuous—to suggest that all poor families have such problems. In fact, low-wage jobs, with their lack of benefits and opportunities for advancement, prevent many more families from pulling themselves out of poverty than the "personal choices" explanations favored by such critics.

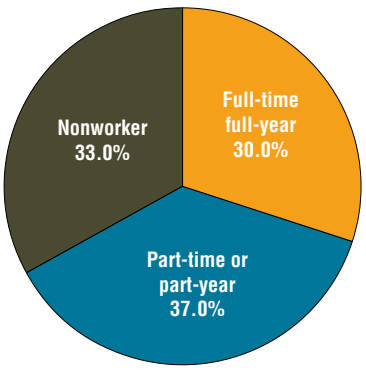
Life on Low Wages

Like many of the working poor, Janet Smith has a job in a low-skill service industry. She works 30 hours a week sorting clothes at a thrift store in Washington, D.C. The average wage for a worker in the retail industry is $9.50 per hour, according to the Bureau of Labor Statistics—well below what Janet needs to meet her family's basic needs.[3]

A single mother with two children, Janet's income does not come close to covering all the costs of living in one of the most expensive places in the United States. In 2007, the poverty line for a family of three was set at $17,170. But this indicator does a poor job of capturing the financial reality faced by Janet's family and the more than 20 million other low-income families trying to make ends meet in the United States.[4]

Since Janet's 30-hour workweeks are not defined as full-time work, she does not receive benefits like health care, personal days or vacation pay. About one-third of poor households get by on part-time work.[5] It is not by choice in a lot of cases. Millions of people want to work more, but are not able to find full-time work.[6]

Figure 1: **Poor Families with Children, 2006**



Source: U.S. Census Bureau.

Along with millions of other low-income working families, Janet's family gets by with the help of multiple government assistance programs. Janet and her children live in government-subsidized rental housing and participate in the Food Stamp Program. The family used to receive cash assistance through the Temporary Assistance for Needy Families (TANF) Program, but their benefits ended when they reached the lifetime limit of five years. Janet and her children are covered by Medicaid. Having access to insurance is critical because one of her children is disabled. Without subsidized insurance, meeting the child's health care costs would be impossible.

Employers, particularly those employing low-wage workers, are reluctant to offer health insurance because coverage is so expensive. In 2006, the average cost of health insurance for a family of four was more than the salary of a minimum-wage worker working full-time for the whole year.[7] In the absence of employer-sponsored health insurance, government is not filling the void. Medicaid misses most working poor families.

Although she is glad to be working, Janet faces a number of barriers that make climbing out of poverty more difficult. A high school dropout, she received her General Equivalency Degree (GED) and additional training but still feels she does not have the skills to excel in a more demanding job. An African American and a female, Janet may also face discrimination affecting working conditions and wages. Nearly 40 percent of African-American women work for poverty-level wages or less.[8]

"In general, low-earning men are much more likely to transition out of low earnings by work in construction, manufacturing, transportation and wholesale trade," writes Harry Holzer, "while most women (and presumably welfare recipients) who advance do so within the service sectors."[9]

The Middle Drops Out

For low-income working families, escaping poverty requires jobs that provide good wages and benefits, but job opportunities that provide a path up out of poverty are becoming harder to find for many Americans. The economy has undergone profound changes in recent decades. Over the past two decades, the U.S. economy has taken the shape of an hourglass, explains labor expert and author Beth Shulman. Most job creation has taken place "at the high and low ends of the income scale."[10]

The bottom half of the economic hourglass has expanded with many low-wage service jobs. During the 1990s, for example, the number of home health care jobs more than doubled, and jobs for child and residential care providers also experienced exceptional growth.[11] More recently, between 2000 and 2005, 2.3 million new service jobs were created, with a third of this job growth concentrated in just a handful of low-wage service occupations, mostly food preparation and restaurant staffing. Over half of the new jobs created since 2000 pay wages in the bottom quarter of the wage distribution, less than $342 a week.[12] With jobs paying this poorly, it is not surprising that low-income working parents find it difficult to make ends meet.

Squeezed out of the middle of the economic hourglass are solid middle-income jobs, particularly in occupations that do not require high levels of education or skilled training. Most prominent among the economic losers of

the last several years are workers in the manufacturing sector. Since 1995, the nation has lost some 3 million jobs in manufacturing, a third of which were located in just seven states: Michigan, Ohio, Illinois, Indiana, Pennsylvania, New York, and Wisconsin. Five of these states, Ohio and Michigan among them, have lost more than 20 percent of their manufacturing job base. In Flint and Canton, Dayton and Detroit, job loss has been even more dramatic, with a quarter of manufacturing jobs disappearing.[13]

The loss of the manufacturing job base has been swift and painful. In rural Greenville, Michigan, residents are dealing with this pain firsthand. This small rural community of 16,000 is the former home of the Electrolux Refrigerator Plant, a manufacturing facility which employed 2,700 people, roughly 10 percent of the local labor force. With more than 100 years of operation in Greenville, the plant was one of the largest and most sophisticated of its kind in the United States, capable of churning out some 6,000 refrigerators per day. In 2004, Electrolux announced plans to move its Greenville operation to Juarez, Mexico. Although the county and state offered nearly $80 million in concessions, and the local labor union proposed substantial wage and benefit concessions, the company chose to move. The last refrigerator rolled off the plant's line in March 2006, and the company shut its Greenville doors forever.

A small percentage of former Electrolux employees were old enough to retire. Some families have moved out of the county in search of better economic opportunities. Many more are still trying to piece together a financial future. "It's like a divorce," Donny Pellow, a former employee and union representative, says of the plant's decision to leave. "There is a sense of denial in the community, a sense that the company will come back." With a high school diploma and more than 20 years of experience, Donny is too young to retire, though he is not certain he is young enough to retool with the skills necessary to provide his family with the same $20 per hour salary he received at the plant. Even if he is able to find a well-paying job, he worries that he will not receive health benefits or pension options matching those provided by Electrolux.

Renee's story, Part 2

My daughter and I were living in poverty off and on, but mostly on, between 1993 and 1998. During that time we were on welfare. I was able to obtain my GED and even go to college for awhile. I'd had my fill of bad jobs and was hoping that college would lead to something better.

I'd worked in foodservice, and I'd worked in retail. At one point I worked three jobs to make ends meet. After sticking it out for a year at one foodservice job, they offered me a 5-cent per hour raise. I quit. If I didn't cry about it, it was because I was too angry. The absolute hardest job I had was as a housekeeper in a terminally ill senior center. Every day I was seeing death, doing my work cleaning up after death, all for minimum wage.

In 1996 I was doing some volunteer work in a Big Sister program. One day I was in the office at the agency where the program was run. The phone rang at the front desk. The secretary was not there and I said I would get it and take a message. That impressed somebody who was nearby. I was offered a job. The wage was low but I took the position because of the benefits. I had health insurance, retirement, life insurance, and paid sick leave. I didn't want to give up college, but with those benefits I was gaining a sense of control I'd never known in my life, and that was unbelievably satisfying for me then.

This is the second of five entries in Renee's story. The next entry appears on page 44. The first entry appears in the Introduction.

Renee Musser Hummell and her family live in Staunton, VA.

Economic Mobility—Also Known as "The American Dream"

The American Dream means many things to many people: the rights of free expression and worship; right to participate in the democratic process; equality under law regardless of race, gender, or national origin. These components of the American dream are about the opportunities to participate in the civic and political life of the country. Opportunity is central to the American dream, fundamental to our national experience. Opportunity takes an economic form as well, the opportunity to participate in the free market system. The economic version of the American Dream says: Work hard and you will have the opportunity to get ahead.

Celia Escudero Espadas

There are many individual success stories which illustrate that the American Dream can be a reality. An immigrant gains citizenship and through military service and the GI bill receives a college education, or a person has ingenuity and entrepreneurial drive that are well rewarded in the marketplace. Of course it is true that those who work hard, save, and invest responsibly can achieve a better financial future for themselves and their children. Yet individual success stories do not tell us whether and how the nation's economic opportunities have changed over time. Is it getting easier for people on the bottom rungs of the economic ladder to work their way up into the middle class and higher? Access to opportunities does not guarantee outstanding economic outcomes, but it is fair to ask how much economic opportunity there is in the United States and whether economic, social, and political conditions unfairly benefit some people more than others.

'Opportunity is central to the American dream, fundamental to our national experience.'

Measuring economic mobility is a way of answering this question. In a recent study by the Federal Reserve Bank of Chicago, researchers examined income mobility for generations of families beginning in the 1920s and 1930s. The study concluded that since the 1950s, economic mobility in the United States has been declining.[14] Another study examined the likelihood that a person's annual income between 1994 and 2001 would match, exceed, or fall short of his or her parents' income from 1967 to 1971. The study found that children born into a family in the bottom income quintile—the poorest fifth of the population—had a 42 percent chance of remaining in the bottom income quintile but only a 1.1 percent chance of reaching the highest quintile.[15] The same study found that mobility was higher for white children: 32.3 percent of white children born into poverty remain there in adulthood, while 62.9 percent of black children born into poverty remain there as adults.[16]

Race is one of the "transmission channels" that transmit income and economic status across generations. Another key transmission channel is educational attainment. Low levels of education correspond to low long-term earnings potential. A parent's ability to invest in his or her child's education is determined by that parent's income potential. As the economy creates new job opportunities for highly trained, highly specialized workers, the economic returns to education have increased.

Immigrants in the Low-Wage Economy

The question gets asked: Do immigrants depress wages and take jobs away from native born workers? Immigration has been a touchy subject recently, so it may not always be clear where this question is coming from. Is it a genuine concern for growing wage and income inequality? Or is it to argue for building a fence around the southern border of the country? Motives matter. In that case, we feel inclined to say something simple and true at the outset. There are many factors contributing to economic trends.


Calla Escudero Espadas

The largest group of immigrants to the United States comes from Mexico and countries of Central America. These immigrants generally have low levels of education and work in just a handful of low-skill industries including food production and preparation, landscaping, construction and agriculture. There is no evidence that these immigrants systematically displace native born workers, a fact confirmed most recently in a study by the Pew Hispanic Center.

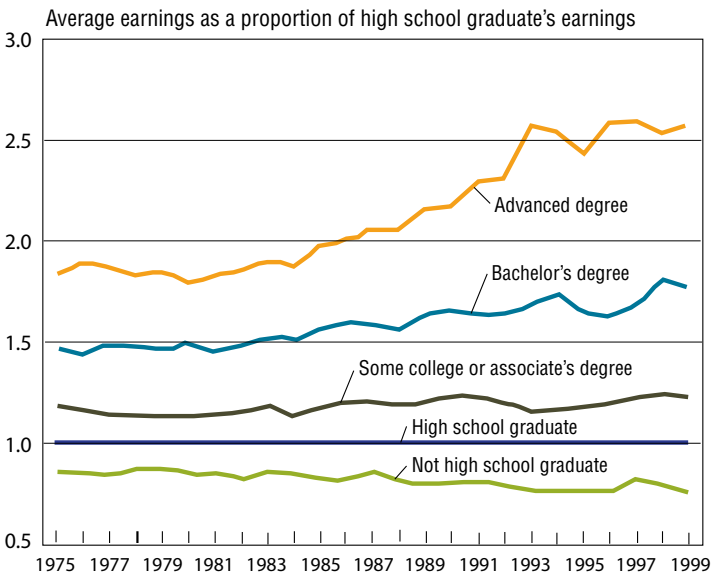
The effect of immigrant labor on wages is less clear. A report completed by the National Academies of Science in 1997 concluded that low-skilled immigrants have a negligible impact on wages in the United States—what amounts to an earnings reduction for native-born workers of no more than 2 percent. More recently, economist David Card of the University of California at Berkley arrived at a similar conclusion. Meanwhile, economist George Borjas of Harvard found a more demonstrable relationship between immigration and wage depression. According to Borjas, the flow of immigrants into the United States between 1980 and 2000 reduced the wages of U.S.-born high school dropouts, a group considered to be in direct job competition with low-skilled immigrants, by as much as 8.9 percent.

The mechanics of wage depression seem straightforward: a large supply of labor creates more competition for jobs, leading to more workers willing to accept lower wages. Quantifying the effects of immigration on wages as the above studies try to do is more difficult. Understanding how labor supply impacts wages requires that the researcher make assumptions about what employers and native-born workers would do in the absence of immigrant labor—would employers raise wages or invest in labor saving technologies? would workers compete for jobs or move to other areas in search of better economic opportunities?

Immigration is a complex issue, but as the evidence shows, simply blaming immigrants for depressing wages and causing job losses is unfounded. Doing so also misses the crucial role played by employers in determining wages and providing strong worker protections that help all people in low-wage jobs. This role cannot be ignored. Examining our nation's immigration policies falls well beyond the scope of this report, but it is important to make the point that immigrants help make our nation strong. This should not be lost in the debate.

For college-educated workers, starting salaries are not only well above those for people with a high school education or less, but so are the financial rewards over time. Individuals with college and post-college degrees usually see steady wage increases during the course of their careers. But for people with a high school diploma, wages remain practically flat, and for those with less than a high school degree, wages have been in decline.[17] In 1979, workers with less than a high school education earned an average of $12.82 per hour (in 2005 dollars). By 2005, their average hourly wage had dropped to $10.53.[18]

Figure 2: **Schooling and Earnings, 1976-2000**



Source: U.S. Census Bureau.

Retooling and Schooling

Laura and Robert Rios, whose grandparents emigrated from Puerto Rico; have strong family roots in rural Ohio. They took manufacturing jobs straight out of high school. As Laura describes it, "We had this vision that Robert would get this fantastic job at the steel plant because that's where his father worked and grandfather worked, or he would get a job at the Ford plant like his uncle and his uncle before him... We were of a generation that didn't need a skilled job to make a good living. All we needed was a high school diploma. We knew people who had dropped out of high school and walked into these living-wage jobs."[19]

When the manufacturing work in their community moved away, Laura and Robert were laid off. For more than a year, the family lived in poverty. The couple decided that the only way to improve their long-term financial security was to go back to school. This was easier said than done since they had three children to feed and a mortgage and other bills to pay. But it was the only way they could see to get the skills needed to compete for good jobs. Their additional education has paid off. Laura now has an associate's degree and a job as a community organizer. Robert received vocational training that helped him land a well-paid job with a local hardware supply company. Robert and Laura's experience is not uncommon. Research shows that earning an associate's degree or higher—or even some postsecondary education—often becomes a "trigger event" for exiting poverty.[20]

A generation ago, a high school degree by itself might have been enough for one working adult to provide a family with a middle-class standard of living. Increasingly, high school graduation has become a precarious place to end one's education. This was the reality faced by Robert and Laura, the Electrolux employees whose jobs were packed up and moved away, and millions of others put out of work as the economy changes. Rapid shifts in the U.S. economy have caught many people off-guard, plunging families into poverty and shattering whole communities.

Some areas of the country have been shattered for as long as anyone can remember, with the people who live there long relegated to invisibility. One of the poorest cities in the nation, Washington, D.C., is infamous for high crime rates, failing schools, infant mortality rates comparable to those of developing countries, and extraordinarily high levels of food insecurity. Janet Smith grew up in neighborhoods like this, as did her mother and grandmother. Well-paid jobs never moved out of her community because they were never there in the first place.

While Janet received TANF benefits, she also got job training and career counseling. After completing a class in basic office skills, she was placed as an intern in a law office. Unfortunately, she could not keep the job after the internship because of her poor reading and writing skills. Janet's situation illustrates the challenges of developing effective training and development programs for low-skill workers. "Workforce development can be a promising strategy, but by itself it cannot compensate for inadequate schools, the serial disadvantages of poverty in early childhood, and a labor market that often leads only to more low-wage jobs," write Joan Fitzgerald and Andrew Sum of Northeastern University.[21]

The chances are slim that Janet will obtain a job in a better-paying sector of the economy than low-skill services. But she remains hopeful for her two children, who enjoy school and are doing well there. She wants them to go to college. Working hard and getting good grades in school is no guarantee that the children will escape poverty, but it gives them a much better chance of doing so.


Margaret W. Nea

Many analysts now say that the highest priority in education should be preparing very young children from poor families for school.

The Union Premium

Joining a union has lifted many low-wage workers and their families out of poverty. Union membership provides workers with collective bargaining power to negotiate wages and benefits. Workers who belong to unions earn higher wages than nonunion workers doing the same work. The lowest-paid 20 percent of the workforce gets the largest wage bump from union membership—a raise of 27.9 percent.[22] When total compensation is calculated—wages plus benefits such as health insurance and pension plans—the union premium amounts to a 50-percent raise above nonunion work.[23]

Benefits packages are a crucial part of what unions are able to offer. For families with young children, affordable health insurance is the all-important benefit. The cost of healthcare has been rising at twice the rate of inflation. While only 59 percent of nonunion workers are covered by employer-sponsored health insurance plans, the rate for union members is 86 percent,[24] and union-negotiated health insurance plans tend to have lower deductibles and offer a wider range of services.[25]

Working for a Change

- Reverend Derrick L. Boykin

James got out of prison a year ago. In and out of trouble for much of his adult life, he says he's glad to be back in the neighborhood among his family and friends, but he still hasn't got a clue how to turn his life around. No skills with which to find a job, no one who wants to hire him because of his past, he is stuck between a rock and a hard place.

Celia Escudero Espadas

One thing James knows how to do is hustle. He hustles to pay the rent. He hustles to put food in his belly. He hustles to keep his ex and kids from going hungry. Ashamed not to be able to provide for them legitimately, he has to tell himself it is all he can do to provide anything.

I live and work in the South Bronx, and I know lots of men like James. In 2006, the number of unemployed black men in New York City stood at slightly over 40 percent. Poverty and lack of opportunity in my community breeds crime. If a man can't get a job to sustain his family and meet his basic needs, he might feel forced to do what is necessary to make ends meet. I don't condone it, I don't excuse it, but I know it happens. I'm a minister, so I see it every day.

An estimated 16 percent of all black men are either in prison or have a prison record. In every state the proportion of blacks in prison exceed their proportion in the general population. This is a national emergency that government policy must address. In my ministry I encourage ex-felons to go back to school. Some say yeah, schooling would be great, but they have to make ends meet today. Returning to the streets after doing their time, black men have little chance of finding a job that pays a living wage. A white man with a prison record has a better chance of finding a job than a black man without a record, studies show.

Addressing the problems of urban unemployment must begin by helping young black men understand there can be a future for them outside the penal system, but few resources exist to help in their rehabilitation. In addition, there are policies that impede their progress to self-sufficiency, policies which must be changed. For example, black men exiting prison are utterly powerless. They don't even have the right to vote, a right that would give them power to change the system that seems intent on ensuring they stay powerless.

I know I am fortunate compared to James and the others who never had what I had. By that I mean I have a job. I have college degrees. I can provide for my wife and daughters. But I know the difference between James and me is measured by a thin line that divides one period of my life from the rest of it. That line was drawn when I was 15. Until then, I was living in poverty with my mother in Brooklyn. By the grace of God, I moved to Long Island to live with my uncle and aunt. Out of poverty for the first time in my life, I had a chance to experience a completely different world of possibilities—and I had a father for the first time in my life. I never knew my biological father. My uncle became my father and it could not have happened at a more important time in my life.

Everything changed for me. I graduated high school—I don't know I would have done that in Brooklyn—and I had a chance to attend college. Later I heard my calling to preach the gospel, and now I minister to people in the community of my youth. To be a change agent, I believe you must work to empower those inside the community where change needs to occur.

My father continues to set an example of manhood that I strive to emulate. He remains my closest friend and wisest counsel.

Reverend Derrick Boykin is the northeast regional organizer for Bread for the World.

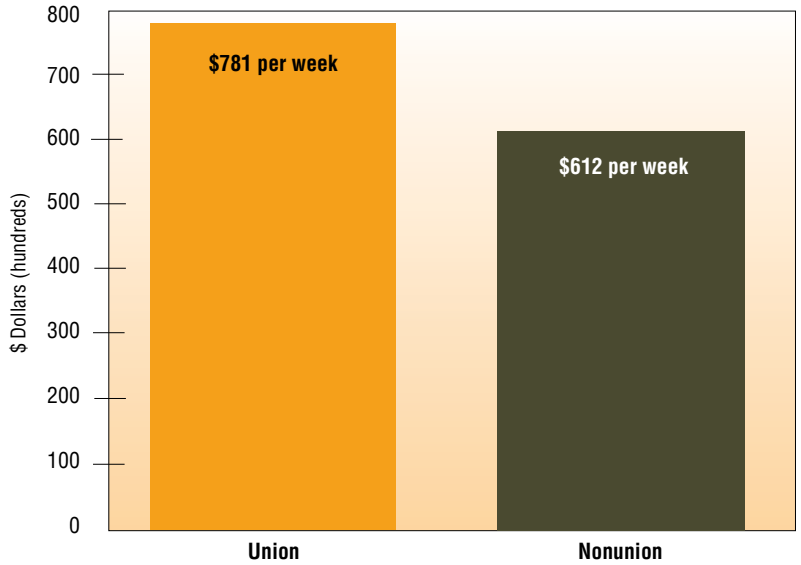
Celia Escudero Espadas

'Out of poverty for the first time in my life, I had a chance to experience a completely different world of possibilities.'

At the height of the union movement in the 1950s, one in three U.S. workers belonged to a union. Economists refer to this period as the "great compression," when wages at the bottom of the income scale grew quickly while wages at the top rose more slowly, compressing the overall differences between low-wage, middle-income and high-wage earners. Unions have been in decline for several decades, and presently only 7.4 percent of Americans working for private sector businesses belong to a union.

Figure 3: **Median Weekly Earnings (2004)**

Union members get paid 28% more than their nonunion counterparts.



Source: U.S. Bureau of Labor Statistics.

Yet millions of low-paid workers stand to benefit by joining unions and exercising their rights to organize and bargain collectively. They are retail workers, cashiers, janitors, stock clerks and order fillers, cooks and servers, child-care workers, maids and housecleaners, health aides, security guards, landscaping and grounds-keeping workers, and the list goes on.[26] These jobs are unlikely to provide health insurance or paid sick leave, nor do they usually offer flexibility in scheduling and other benefits parents need to ensure adequate child care.

Making a Living in an Age of Globalization

Over the past 25 years, the U.S. economy has changed profoundly. Globalization—the term used to describe this deepening integration of the U.S. economy with other national economies—has been blamed for a number of domestic problems. The strongest backlash against globalization has come from the loss of U.S. manufacturing jobs. Two key factors are driving the rapid contraction of the country's manufacturing job base. First, new technology is helping to increase productivity, a move that allows companies to produce more, often with fewer employees. Second, many companies are moving their operations to countries with cheaper labor forces. One expert estimates that between 1979 and 1999, 6.45 million manufacturing jobs were lost in industries faced with heavy import competition.[27]

On the other hand, globalization has also benefited the U.S. economy quite extraordinarily—one trillion dollars over the last 40 years—thanks to lower trade barriers and greater economic integration.[28] Low-wage workers like Janet Smith benefit from lower trade barriers because household goods such as food, clothes, school supplies and paper products cost less. And workers like Janet with low-skill service jobs are not in competition with workers overseas—these jobs cannot be exported.

Finally, people concerned about global hunger and poverty realize that more open trade rules have brought benefits to workers overseas. Over the

last 30 years, unprecedented economic growth in China has helped to lift more than 200 million people out of poverty.[29] India's improved economic performance has also helped drive its progress toward meeting the Millennium Development Goals—particularly Goal One, to cut hunger and extreme poverty in half by 2015.

In many respects, the U.S. economy looks quite strong. Since the end of the 2001 recession, the economy has been growing at an annual rate of 2.9 percent, with stronger growth occurring over the last three years.[30] The unemployment rate has dropped since 2003, and millions of new jobs have been created. Look back further and the improvements are still more obvious. Between 1992 and 2001, the economy grew at a rate of 3.7 percent annually. During the same period, unemployment dropped to a level unseen since the late 1960s, and nearly 21 million new jobs were created.[31]

The problem with this picture of the growing economy is that the wage growth it brings has not been distributed evenly. Since 1979, the top 30 percent of wage earners has enjoyed hourly wage increases of 10 percent, and the top 10 percent increases of 27 percent.[32] Over the same period, though, the bottom third of wage earners had increases of only 3.5 percent, and the bottom 10 percent actually experienced a decline in real wages of 2.3 percent.[33] Considering the exceptional strength of the economy, these divergences represent an alarming trend, or, in the words of experts at the Economic Policy Institute, "a stunning disconnect."

In 2006, the United States imported $765 billion more in manufactured goods than were exported—a sevenfold increase since 1989.

A New Partnership for Government, Business and Workers

A rapidly changing economy presents new opportunities as well as challenges. Meeting these challenges requires new thinking about the kind of partnership that exists between government, business, and workers. Increasingly, globalization has changed the dynamics of the partnership, but it has not rendered it obsolete. Partnerships entail mutual responsibility. Workers must enter the workforce with the knowledge and skills needed to boost productivity and increase profits. In return for their hard work, businesses are expected to offer the wages and benefits needed to ensure workers' economic security. The government's role is to guarantee that employers and employees have the tools needed to hold up their ends of the bargain. None of this is extraordinary, because theoretically this partnership already exists. But it has obviously broken down. Based on the data above, low-wage workers have reason to ask what happened. In the past few decades, the experience of those at the bottom of the wage scale has been quite different from the experience of those at the top. The old expression "A Rising Tide Lifts All Boats" no longer seems to be true—although real tides come in and go out and, fortunately, economic tides can too.

Globalization, Work and Policy

- Asma Lateef

More and more countries are experiencing high rates of economic growth as a result of increased participation in the global economy. The U.S. economy also continues to grow and benefit from global integration. But that is the big picture. A closer examination reveals a growing divide between those who are benefiting and those who are being displaced or marginalized, and so the impact of globalization has been mixed at best.

iStock

In the United States, the public is growing increasingly skeptical about globalization. They blame globalization for job losses, the export of entire industries to countries with lower labor costs, and the stagnation of wages over time. But globalization is not a new phenomenon; the world has always been interconnected, and one could argue that globalization is as old as trade. What is different now is the pace of integration. Technology is allowing information, people, goods and services to move around the world faster than ever before.

The anxiety produced by globalization is really about how vulnerable people feel in this fast-paced, high-tech global economy. The chances of a worker's experiencing a drop in income of 50 percent or more over a two-year period jumped from 7 percent in the early 1970s to 17 percent in the early 2000s. Income instability is as high among college-educated workers now as it was among workers with less than a high school education in the 1970s, and the erosion of employer-sponsored benefits like health insurance continues unabated.

Reducing the vulnerability of today's workers should be at the heart of the policy solutions that are being debated. Skills and education, access to healthcare, markets, technology, and infra-

structure, and safety nets are what seems to separate those who have flourished under globalization from those who are suffering its effects. Government policy is the key to harnessing the good in globalization and protecting vulnerable people from the bad.

Policymakers routinely lift up the most politically expedient solutions. If you go by the sound bites or what you hear on the local news, you would think that the only solution is to restrict trade, particularly with China, or to build a fence around the country. These approaches are neither feasible nor advisable, as they would not address the underlying issues and may harm the development efforts of poor countries. Long-term, sustainable solutions will require difficult choices—ones that may be more costly in the short run but would have a more meaningful impact in helping workers adapt to the new economic and technological realities.

Gene Sperling, former National Economic Advisor in the Clinton Administration, has argued for "a new consensus on globalization," one that acknowledges the costs and benefits of globalization and supports policy solutions to help defray the costs. Sperling recommends working with developing countries to improve the enforcement of international labor standards and providing trade-related incentives to improve workers' rights and working conditions. Establishing universal primary education in developing countries is another way to protect workers, especially child laborers.

To build an "agenda for job creation" and address the vulnerability of workers here at home, Sperling calls for a combination of policies to help those who have been laid off make ends meet while they retrain and retool for new opportunities. He suggests ways to improve the investment climate, particularly in rural areas, and reduce the cost of doing business, including a universal health care plan. Research and education are also essential to keep the United States at the cutting edge of technological advances and to provide a path for higher-paying jobs.

Sperling's approach is forward-looking and addresses the very real challenges that workers face here and all over the world. These are the kinds of policy solutions that should be at the heart of the debate around globalization.

Asma Lateef is Director of Bread for the World Institute.

'The world has always been interconnected, and one could argue that globalization is as old as trade.'

Let Workers Form Unions

For much of the twentieth century, the union movement played a central role in strengthening the partnerships between government, employers and workers; for much of the twentieth century, government supported the rights of unions and the fairness they sought in the workplace because it could not afford to do otherwise. When one in three workers belonged to a union, labor strife and the disruption of commerce that might result could not be taken lightly.

But pressure from unions should not be the only reason government pays attention to issues of fairness in the workplace. At the beginning of this chapter, we said that families with children dramatically alter the discussion about low-wage jobs. Families are the core of society, and one of government's main roles—if not the main role—should be to support family life. For the nation to prosper, the economy needs to be strong. Businesses need to succeed. But strength does not have to come at the expense of working families. Government and business cannot ignore economic inequalities and profess to be concerned about the well-being of families, because so much of a family's well-being stems from conditions in the workplace.

Rick Reinhard

Employers have put up stiff opposition to unions, and in many cases, they have been able to intimidate workers who want to form unions with virtual impunity. Some 60 million American workers say they would join unions if they could.[34] A poll conducted in 2002 found that "a majority of nonunion workers now desire union representation in their workplace."[35] But according to a report by Human Rights Watch in 2000, the basic right of U.S. workers to organize, a right enshrined in domestic and international law, is systematically violated with little response from the federal government. Workers seeking to form a union, the report found, "are spied on, harassed, pressured, threatened, suspended, fired, deported, or otherwise victimized in reprisal for their exercise of their right to freedom of association."[36] This scenario has changed little in the years since the report was issued. The union movement would undoubtedly grow if Congress passes new legislation such as the Employee Free Choice Act, a law aimed at strengthening the rights and protections of workers to organize. The act would enable workers to negotiate better wages and benefits without fear of employer reprisal.[37]

Invest in "Human Capital"

The economy has already changed dramatically, but government and businesses have been slow to invest in "human capital," or what is more commonly referred to as people. Employers are cutting health insurance at a time when health care costs are rising. Today, only about 56 percent of workers have access to that benefit. According to the Economic Policy Institute, nearly 70 percent of all workers had access to employer-sponsored health insurance in 1979. For low-wage workers the numbers are worse, 60.5 percent covered in 1979 versus only 46 percent today.[38] Low-wage workers fair no better when it comes to employer-sponsored pension plans.[39] Employer-sponsored benefits have eroded for all workers, but the problem is most troubling for low-wage earners who can least afford to purchase assets such as health insurance on their own.

Through Trade Adjustment Assistance (TAA) the government provides assistance to workers whose jobs have been lost because of trade pressures that forced U.S. firms to shut down or move overseas.[40] The former employees of Electrolux were eligible for TAA as they transitioned from one career to another. Of the 2,700 former employees, approximately 1,100 have gone back to school for retraining.[41] Although TAA was authorized in 1964, the millions of manufacturing jobs that have been lost in the last decade have brought new attention to this program. In addition to money for skills training and education, TAA also provides families with cash assistance, and some individuals are eligible for medical care. In 2006, nearly $1 billion was provided for TAA and served 80,700 displaced workers.[42]

TAA is an important program, but there are many other workers who stand to benefit from more public investment in training and education programs. Thirty-five percent of low-income working families have at least one parent who did not finish high school or earn a GED.[43] Job training and skill-building must complement back-to-school programs. Some people have a clear need for a specific type of skill; for example, offering English language classes for non-native speakers can help expand their economic opportunities. The United States is near the bottom of a group of 12 high-income countries in providing job-related education and training.[44] Between 1985 and 2003, federal spending on worker training through the Department of Labor was cut by 29 percent.[45]

Investments in human capital really begin much earlier in a person's life. Without sufficient education, one has little chance of qualifying for a job that pays well enough to support a family. The traditional advice to children, "Study hard and do well in school," remains sound. Education is one of the best ways to break the link between being born into a low-income family and poor earning power as an adult. The federal government needs to devote

Berhann Shitaye, an immigrant from Ethiopia, speaks five languages, has a Master's Degree in Agricultural Engineering and is treasurer of Alexandria Union Cab Company in Alexandria, VA.

far more attention and resources to public elementary and secondary education—now it contributes only 8 percent of the funding for K-12 education, leaving state and local governments to pick up most of the costs.[46]

Underperforming schools receive plenty of attention from critics of public education. What should be getting more attention is how the shortage of resources for public education perpetuates inequalities rather than helping to end them.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Improving wages and benefits and investing in training and workforce development are strateties that will provide a springboard for progress—not just a safety net.

David Shipler, author of the prizewinning book *The Working Poor*, asked a teacher at an elementary school in Watts, one of the poorest communities of Los Angles, what problems could be solved with more money. "Practically everything except the trauma the kids are exposed to," the teacher said. "And with more money we could provide services to deal with that better."[47]

Critics of increased spending on education point to current budgets that already favor low-income students. Of course, solving the problem of underperforming schools is not as simple as pouring more money into education—but the fact is that the United States spends less on education than other industrialized countries with higher rates of social mobility.[48]

The problems of public schools in poor neighborhoods cannot be separated from the larger problems of the neighborhoods. A host of difficulties confront teachers, parents and children, despite the courageous efforts of many. The trauma mentioned by the teacher in Watts is a case in point. In poor urban school districts, every student in a typical class might know someone who has been murdered. These children may be witness to unspeakable horrors—as well as harsh day-to-day struggles to survive—and they bring these experiences to school with them every day.

Commit to Higher Wages and Better Benefits

What families need from work is straightforward: wages and benefits that provide a decent standard of living. The federal government can help or hinder through policies like the minimum wage. In 2007, the national minimum wage was raised for the first time in more than nine years. Previously set at $5.15 per hour, the new minimum wage will reach $7.25 per hour by July 2009.

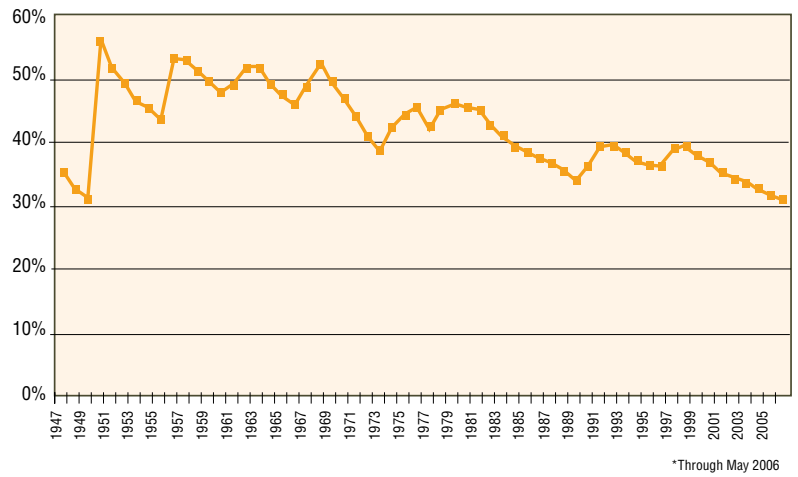
During the period that the minimum wage remained unchanged, the cost of living in the United States increased by 26 percent.[49] Adjusted for inflation, the minimum wage in 2006 was at its lowest level since 1955. According to the Economic Policy Institute, raising the minimum wage will directly benefit about 6.6 million workers who are now paid less than $7.25 per hour. Raising the minimum wage is also expected to have "ripple effects," helping to increase wages for an additional 8.3 million workers earning near minimum wage.[50]

At $7.25 per hour, the minimum wage will increase to 40 percent of the average national wage. This is a vast improvement over $5.15, but $7.25 is still too low to make up for 10 years in which the minimum wage was not indexed to inflation. Moreover, workers will soon start to lose their gains because Congress did not index the new $7.25 minimum wage to inflation.

The Center for American Progress (CAP) has proposed raising the wage to $8.40 per hour—50 percent of the average wage in 2006—and indexing this to inflation to preserve the raise over time.[51] Raising the minimum wage to 50 percent of the average wage would restore the minimum wage to its equivalent value in the 1950s and 1960s, when working full time at minimum wage put a family above the poverty line.[52] The Urban Institute studied both the effect of raising the minimum wage to $7.25 and the CAP proposal to raise the wage to 50 percent of the average hourly wage. At $7.25 per hour, 475,000 people will be lifted out of poverty, but the CAP proposal would raise 1.7 million people out of poverty.

The minimum wage sets a price floor for the cost of labor, but it also says something fundamental about the United States. Robert Reich, former Secretary of Labor in the Clinton administration, puts it best: the minimum wage "demarcates our sense of decency with regard to work."[53] It reflects concern for the public good in the same way as other laws to protect people as members of society. Air quality, water quality and other environmental standards are in place because they are in the best interest of everyone. The minimum wage is no different. How we treat the lowest-paid workers in relation to everyone else says a great deal about the economy, society, and our degree of concern for low-income families.

Figure 3: **The Minimum Wage Relative to the Average Wage, 1950-2006***



*Through May 2006

Source: Economic Policy Institute.

In 1968, a person working full-time for minimum wage earned 120 percent of the poverty line for a family of three. But today, a full-time job at minimum wage does not come close to reaching the poverty line, and without food stamps and other government assistance programs, a family with one minimum-wage worker would be living on the absolute edge of desperation. Chapter 3 examines government work supports, programs that help provide a safety net when wages are not enough for families to get by. But the need for such supports would be minimized if the country takes the steps needed to address economic inequalities. Improving wages and benefits and investing in training and workforce development are strategies that will provide a springboard for progress—not just a safety net.

The Best Anti-Poverty Program Needs an Overhaul

By Andrew L. Stern, Service Employees International Union

Meet John Wilson, Alma Hernandez, and Angenita Tanner—the faces of a new union movement that provides the best hope for empowering working families in today's global economy to lift themselves out of poverty.

Angenita Tanner, a Local 880 shop steward, represents childcare workers in Chicago.

- John Wilson is an African American security guard at a big office building in Los Angeles—one of a million workers in that industry in the U.S. Until recently, most security officers in L.A. made near minimum wage without health benefits, sick leave, or paid vacations. Now, Wilson and more than 5,000 others in L.A. have won recognition of their union, a training fund, and the right to negotiate other improvements. Their campaign relied on the financial and political support of the mostly Latino immigrant janitors union in their city. In addition, they drew on alliances between their union—the Service Employees International Union (SEIU)—and counterparts in Australia that were able to put pressure on a major Australian bank that owned some of those L.A. buildings, as well as with Scandinavian unions that influenced America's largest security company, owned by a Swedish multinational corporation.
- Alma Hernandez, an immigrant from Mexico, is one of 5,000 janitors in downtown office buildings in Houston who more than doubled their take-home pay and won their first affordable health coverage after a month-long strike. These Latino workers received crucial support from African American religious leaders, elected officials, and community organizations, while SEIU's union allies in other countries organized actions to pressure multinational building owners in Italy, Germany, Mexico, and other countries.
- Angenita Tanner is an African American childcare provider in Illinois, one of more than 49,000 who receive payments from the state to care for more than 200,000 low-income children in their homes. For years, providers like Tanner made as little as $9.48 per day per child without health care and as individuals had no way to negotiate with the state for improvements. Now, they have won the legal right to form a union and have negotiated their first contract, including pay increases, health coverage, and new training opportunities.

Andrew Stern, the president of the Service Employees International Union, walking with nursing home workers from Local 4.

These are just a few examples of how unions can continue to be the world's best anti-poverty program—provided that they rapidly adapt to today's economy. The 21st century service economy is as far from the era of the New Deal—when the great industrial unions emerged in the mass production factories of that time—as that era was from the craft and farm economy of the Civil War period. Globalization has produced the greatest wealth gap in history, but also provides a new opportunity to improve the lives of working people around the world, if unions are able to change fast enough to meet that challenge.

Since the labor movement's peak in the 1950s, it has dropped from 33 percent of the workforce to less than 8 percent today in the private sector. The result has been a decline in living standards and opportunity not only for union members but for all working people. In addition, the drop in unionization has contributed to a reduced focus on economic issues in American politics and less support for politicians dedicated to alleviating poverty and rewarding work. In 2004, for example, while regular churchgoers voted for George Bush by a 21-point margin, churchgoers who were union members voted against him by a 12-point margin—a 33-point difference. A similar disparity applies between union and nonunion gun owners, union and nonunion white men, and so on. Unfortunately, though, there just aren't enough union members anymore to decide many elections based on economic issues.

Yet while the union movement as a whole continues to shrink, SEIU has nearly doubled in membership in the past ten years, from one million to nearly two million members. Here are some of the lessons learned from that experience:

A focus on the jobs that can't easily be moved overseas. There are at least 50 million such jobs in industries such as health care, construction, retail sales, hospitality, transportation, property services, and food production and distribution. These industries are the focus of the seven unions that in 2005 left the AFL-CIO to form a new federation, Change to Win, which is dedicated to building a reenergized workers' movement in the service sector.

New models of organization. Winning the legal right for childcare workers like Angenita Tanner to form a union and win improvements for themselves and the families they serve is just one example of innovative ways to empower the millions of workers who have nontraditional employment situations. Since 1999, about 400,000 home care workers in such states as California, Oregon, Washington, and Michigan have also won that right. Home care workers provide vital services so elderly or disabled people can stay in their homes and communities instead of being housed in institutions. Paid by the state to care for low-income seniors and disabled people, but with no legally recognized "employer," they traditionally had no way to join with other home care workers to win improvements. By forming unions, they have made it possible for more of them to provide continuity of care to their clients, reducing the high turnover caused by workers having to leave for jobs at places like McDonald's that have paid more.

SEIU Photo

New global alliances. As more service jobs are controlled by global corporations, the union movement is learning to become global as well. Recently, unions from Europe and the U.S., along with the nongovernmental organization, War on Want, have joined with counterparts in Africa to expand a campaign to win a global agreement for 500,000 workers employed by Group 4 Securicor, the largest private security corporation in the world and the largest transnational employer on that continent. A University of Malawi study of Group 4 Securicor guards in three cities in Malawi found that they are barely subsisting on average wages of $27 per month. At the same time, Union Network International, a global union federation, has coordinated actions on six continents to support organizing by airport janitors and security guards and the kick-off of a campaign to organize hundreds of thousands of security officers in India.

New relationships with employers. Empowering workers to lift themselves out of poverty requires a new ability to partner with employers who are willing to reward work—and hold accountable those who are not. Building on models with Kaiser Permanente and New York's League of Voluntary Hospitals, more than 19,000 service workers for Catholic Healthcare West, the largest hospital chain in California, mounted a four-year campaign that resulted in a new relationship with management that involves SEIU members in decisions such as staffing levels that greatly affect the quality of care for patients, while providing affordable health care coverage for the workers themselves.

'Since 1999, about 400,000 home care workers in such states as California, Oregon, Washington and Michigan have won the right to form unions.'

Innovative approaches on social policy. Some problems are so big that they can't be solved employer by employer. One example is an immigration policy that forces an estimated 11 million people to live in the shadows so that their hard work is not rewarded and pay and benefits are dragged down throughout the economy. Rejecting the exclusionism of many unions in the past, SEIU and unions such as the hotel and restaurant workers have joined with grassroots organizations across the U.S. in sponsoring the huge rallies and marches that have helped shine a spotlight on the need to create a clear path to citizenship for hard-working, taxpaying immigrants.


SEIU Photo

Another key issue that requires a national solution is health care. As the nation's largest union of health care workers, with one million members in that field, SEIU's strategy has been to help create the political will to finally get our elected leaders to act to ensure quality, affordable care for all, without regard to employment status. Those efforts have included creating Americans for Health Care, the largest grassroots organizing project on the issue, with campaigns to win improvements in 20 states and nearly 500,000 committed "Health Care Voters" signed up across the country. SEIU has also joined with community groups to shine a spotlight on inadequate employee health care coverage at Wal-Mart, which as the world's largest private employer sets standards for the whole economy. At the same time, SEIU has joined in several different coalitions with the leaders of Wal-Mart, AT&T, Intel, Kelly Services, the Business Roundtable, and AARP to call on the nation's elected leadership to act.

There is no one magic solution to empowering the working poor to lift themselves up. For unions and their allies, it will continue to require a combination of innovative approaches and the courage to change. As security officer John Wilson said, "The reality is that we protect lives and multi-million dollar properties, but we go home to our city's most impoverished communities and earn poverty wages. With our union, we now have a clear path to improve our lives and improve our communities."

Andrew L. Stern is president of the Service Employees International Union (SEIU), which with 1.9 million members is the fastest growing union in the U.S., the largest union of health care workers and of property service workers, and the second largest union of public service employees.

Poverty:
Mismeasured, Misunderstood

2

Richard Lord

The name Mollie Orshansky is not well known to most Americans, but she is central to our understanding of how poverty is measured in the United States. In the late 1950s, Orshansky, a statistician at the Social Security Administration (SSA), set out to study what low-income families needed to get by, attempting to break down household expenses into a rough budget for subsistence needs.

Before joining the SSA, Orshansky worked for the Department of Agriculture (USDA), where one of her projects was to develop a series of food plans that would ensure low-income families an adequate diet at minimal cost. Thus her work at USDA made her an ideal candidate to address the broader household budget for SSA.

Orshansky knew something about what it means to grow up poor through the hard-knocks experience of her own early years. Born in 1915, she was one of six children in an immigrant family that settled in New York City. As a child, she waited in relief lines to collect food packages with her mother and shared a bed with her sisters in the tiny apartment where she grew up. Through experiences like this, Orshanksy's sensibilities were fine-tuned to the problems of poor families.[1]

At USDA, the food plans she developed were painstakingly detailed and included portion sizes for meats, grains, fruits and vegetables. She based the plans on data which showed consistently that on average, low-income families spent one-third of their household income on food. Once at SSA, her task of breaking down an entire household budget proved far more difficult and uncertain. There were many additional considerations, such as rent, utilities, clothing and other nonfood household goods. Fortunately, she had her work on the food plans to fall back on. Using the least expensive version of her no-frills food plan, known as the Economy Food Plan (later renamed the Thrifty Food Plan),[2] she put together a subsistence budget by multiplying the cost of food by three. Simple, if not very scientific, it seemed to suffice for a time.

Nearly 50 years have passed since Orshansky studied household budgets. Many facets of the U.S. economy have changed dramatically since the late 1950s, but the government still clings to the same method to determine how many Americans live in poverty. Over the years, experts have argued that the government needs to rethink how it measures poverty. In 1995, for example, a panel of experts working under the auspices of the National Academy of Sciences recommended a new approach. The costs of living no longer were the same as when Orshansky calculated her household budget, the panel argued, and the new economic realities no longer conformed to her assumption that a low-income household could spend a third of its budget on food.

The panel offered several recommendations to update how household budgets are calculated,

including deductions from income for out-of-pocket medical expenses, transportation and child care as well as additions to income for non-cash benefits like food stamps, housing vouchers and tax credits. The panel admitted that it would not be simple to implement all of its recommendations. But using the new methodology would pay off by providing a far more accurate definition of poverty.

The panel's recommendations were not rejected—they were simply ignored. Politics, not science, was the arbiter. Using the new methodology recommended by the panel would have put the U.S. poverty rate at 24 percent higher than under the old definition—and the increase in poverty would have been concentrated mostly in families with children under five.[3]

The Economic Realities of Being Poor

According to the most recent Census Bureau data, one in seven families with children is living in poverty.[4] Poverty rates vary when broken down by race and ethnic origin: 9.3 percent of white families with children live in poverty versus 28.4 percent of African American families and 23.4 percent of Hispanic families.[5] Whites outnumber African Americans and Hispanics in the United States, so there are more white people living in poverty even though the percentage of poor white people is lower. Poverty thresholds are calculated based on income and family size. Figure 1 includes poverty thresholds based on family sizes.

Families that are surviving on low incomes can supplement their wages with a variety of government benefits, from tax credits to nutrition assistance

Figure 1: **Poverty Thresholds for 2006 by Size of Family and Number of Related Children Under 18 Years**

Size of family unit	Related children under 18 years								
	None	One	Two	Three	Four	Five	Six	Seven	Eight or more
One person (unrelated individual)									
Under 65 years	10,488								
65 years and over	9,669								
Two persons									
Householder under 65 years	13,500	13,896							
Householder 65 years and over	12,186	13,843							
Three persons	15,769	16,227	16,242						
Four persons	20,794	21,134	20,444	20,516					
Five persons	25,076	25,441	24,662	24,059	23,691				
Six persons	28,842	28,957	28,360	27,788	26,938	26,434			
Seven persons	33,157	33,394	32,690	32,182	31,254	30,172	28,985		
Eight persons	37,117	37,444	36,770	36,180	35,342	34,278	33,171	32,890	
Nine persons or more	44,649	44,865	44,269	43,768	42,945	41,813	40,790	40,538	38,975

Source: U.S. Census Bureau.

Social Inclusion: Another Approach to Understanding Poverty

In other countries, poverty is generally understood quite differently than in the United States. In fact, no other country measures poverty as the United States does: based on an assumption that food costs are a certain percentage of a household budget that remains fixed from year to year. Developed nations in Europe and elsewhere define poverty using the concept of "social inclusion." The United States could learn from this approach when establishing its own poverty-reduction goals.


Eugene Mabane, Jr.

Proponents of adopting a social inclusion model in the United States argue that the concept goes well beyond our limited poverty definition in its ability to communicate a full range of means for social policy to boost income and build human capital. Social inclusion is a relatively new way of thinking about poverty in the United States, whereas it has informed policy debates in Europe for decades, and some people question whether the United States is ready—or would ever be—for such a change.

A social inclusion model views income inequality as only one of many barriers that contribute to exclusion from participation in the social and economic life of one's nation or community. Other barriers include limited health care options, fewer educational opportunities, and reduced access to quality housing or to a full range of financial services. Taken together, the approach leads policy-makers to a holistic agenda rather than disconnected, piecemeal solutions.

But how does one measure social inclusion in economic terms? European nations draw the line at 50 percent of median income. Below 50 percent of the median is an unacceptable standard of living relative to the rest of the community. "Relative" is the key word here. Median income can change from year to year, but 50 percent below the median would still determine the poverty level. In the United States, however, the poverty line has never been tied to a certain percentage of the median income. The U.S. poverty line today amounts to just under 30 percent of the median income. Interestingly, when the poverty line was first set in the 1960s, the poverty line did correspond to roughly 50 percent of the median income.

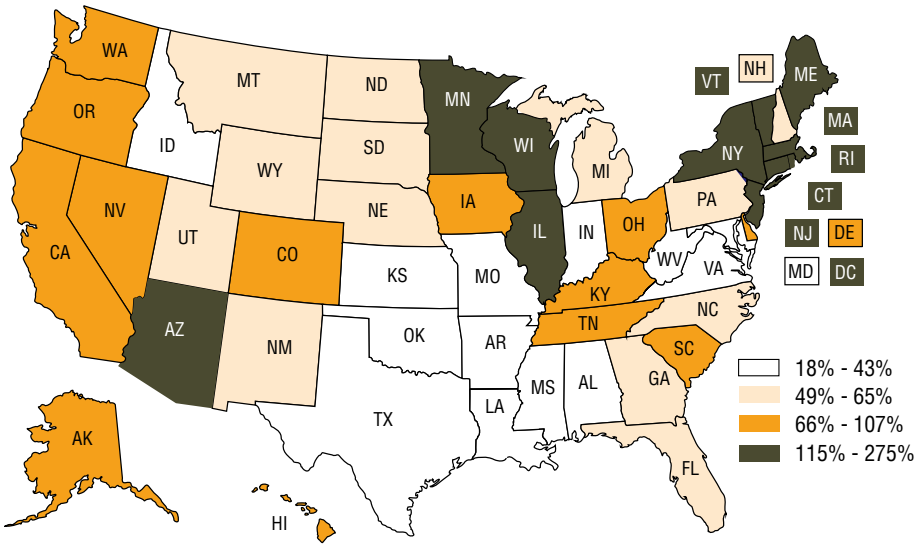
A social-inclusion goal goes much further than a poverty-reduction goal in expressing the need for a comprehensive set of policies. If the goal is to raise people's living standards based on faulty assumptions about what it means to be poor, i.e. the Orshansky model, we may well hit our target but miss getting at the crux of the problem. Few would agree that anyone should be excluded from participating in society. Solving a problem like social exclusion requires us to think in fresh ways about what kind of society we have and what kind we want—for everyone.

For more information about social inclusion, please see the article "Social Inclusion for the United States" at http://www.inclusionist.org.

to healthcare to housing and other living expenses. Eligibility for more than 25 different federal assistance programs is linked to the poverty line. The group of programs created by the federal government and administered by states provides a lifeline for poor families. Some critics have even charged that poverty data are inaccurate because the official measure does not count transfer payments from government assistance programs as household income. Unfortunately, not all families benefit equally from government assistance.

Several factors determine whether a family receives benefits. Some are logistical: for example, not having access to a car or public transportation may determine whether a family can get to a social services office and apply for benefits. Nationwide, most people who do not have access to a car live below the poverty line, and there are significant gaps around the country in the reliability of public transportation.[6]

Figure 2: **Income Eligibility for Parents Applying for Medicaid by Annual Income as a Percent of Federal Poverty Level, 2006**



Source: The Henry J. Kaiser Family Foundation.

In addition to logistical problems and concern among some families about the stigma attached to many government benefits programs, lack of information about programs and eligibility rules can also be a barrier. A report published in 2007 found that tens of thousands of eligible immigrants in New York City do not apply for Food Stamp Program benefits based on misinformation that they could be deported for seeking government assistance.[7]

Sometimes access problems are structural: Not all programs are equally available to all low-income people. Most federal programs are administered by states, which often leads to considerable variation in the income limits set for eligibility. For example, Medicaid has vastly different income limits depending on the state (See Figure 2), ranging from 18 percent of the poverty threshold in some states to 275 percent in others.

As the National Academy of Sciences panel of experts has shown, income may not be a comprehensive way of looking at family economic status. But for now, it is the best baseline available to help us understand how much families need to get by. In the following sections, we examine how far a family's income will go toward meeting some of today's most basic household expenses.

Food

Based on Orshanky's fixed ratio of food costs to all other items in the household budget, food ostensibly makes up one-third of a household budget, and everything else the other two-thirds. But this is no longer true. For many years now, researchers have known that low-income families spend less than one-third of their income on food. For all U.S. families, regardless of income status, food costs account for roughly 10 percent of household income.[8] Families below the poverty line dedicate a greater share of their income to food, but it is still less than the one-third that Orshansky estimated. Studies by the Bureau of Labor Statistics in 2000 indicated that household food spending by families receiving government assistance varied between 16.8 and 25.6 percent.[9]

Figure 3: **Definitions of Food Security and Food Insecurity**

General categories (old and new labels are the same)	**Detailed categories**		
	Old label	**New label**	Description of conditions in the household
Food security	Food security	**High food security**	No reported indications of food access problems or limitations.
		Marginal food security	One or two reported indications – typically of anxiety over food sufficiency or shortage of food in the house. Little or no indication of changes in diets or food intake.
Food insecurity	Food insecurity without hunger	**Low food security**	Reports of redced quality, variety, or desirability of diet. Little or no indication of reduced food intake.
	Food insecurity with hunger	**Very low food security**	Reports of multiple indications of disrupted eating patters and reduced food intake.

Source: U.S. Department of Agriculture.

One of the most serious problems facing low-income households is not being able to afford healthy foods. Calories are cheap in the United States; it is the nutrients that are expensive. There is a plentiful supply of high-fat, low-nutrient foods that help shoppers save money. "From 1985-2000, the real price of fresh fruits and vegetables went up almost 40 percent in the United States," reports the Institute for Agricultural and Trade Policy, "while the real price of fats and sugars declined."[10] The potential consequences of relying on a steady diet of unhealthy foods include obesity and malnutrition. Obesity occurs at all income levels, but is especially common in low-income households. Its effects on health include increased rates of diabetes, high blood pressure, cardiovascular disease and some forms of cancer.[11]

'One of the most serious problems facing low-income households is not being able to afford healthy foods.'

Hunger, or what USDA is more comfortable calling "very low food security," has been drastically cut since the 1960s. Nutrition programs like the Food Stamp Program and the National School Lunch Program deserve much of the credit for this, yet hunger still exists in the United States regardless of what it is called. In 2005, 35 million people in the United States reported being food insecure at some time during the last calendar year[12]

Housing

Over the past 50 years, food expenses have decreased as a percentage of overall household spending, but other living expenses have not. The rising cost of housing has more than made up for what low-income families have gained by reduced food costs. The largest expense for most U.S. families is housing, and for those struggling in low-wage jobs, it can be an overwhelming expense. By the 1990s, it was estimated that low-income families

were spending nearly 60 percent of their incomes on housing, compared to 30 percent in the early 1970s.[13] In the lowest income quintile, housing costs account for nearly 75 percent of income.[14]

In 2006, the average hourly wage needed to afford housing in the United States for a two-bedroom rental unit was $16.31 per hour.[15] If a husband and wife each made $8.16 per hour—and if they worked 40 hours per week, 52 weeks per year—together they would reach the threshold of the average hourly wage. Now imagine the challenges of finding affordable housing for a single-parent family. This is actually a more realistic scenario, as most families living in poverty are headed by a single parent, usually a woman.[16] Marriage has a profound effect on a family's financial status. The disproportionate numbers of single-parent families living in poverty bear this out. Nearly two-thirds of all children in poverty are living in single-parent families.[17]

In most big cities, funding for housing assistance has been frozen for at least a decade. Less than 25 percent of all households eligible to receive government assistance with their rent actually receive it.[18] Government housing subsidies require families to put 30 percent of their income towards housing. So families receiving subsidies are quite fortunate—there is not a housing market in the country where a person earning poverty-level wages could find a modest two-bedroom rental without paying more than 30 percent of his or her income.

Renee Musser Hummell and her family live in Staunton, VA.

Renee's story, Part 3

In poverty, you struggle to find anything you can control in your life. Food is the kind of expense you feel like you have a little bit of control over. We saved by buying food on clearance that had passed the expiration date. I cooked from scratch and never ate out; it took a lot of time but it sure saved a lot of money.

I shopped carefully, using coupons, looking for the specials in the newspaper. I made lists before going to the supermarket. If it was not on the list, I didn't buy it. I taught my daughter to do math by shopping for groceries. If it was in the basket she could add up exactly how much the bill would be before we got to the checkout line.

When you're poor you have to do things to stretch the food. I remember we scraped the seeds out of a Halloween jack-o-lantern so that we could dry them to eat. I watered down my daughter's apple juice. I watered down her formula, but stopped doing that when she became anemic. That time I got really scared.

I used to go to the food bank and pantries whenever I could. They set limits on how many times you can come back in a month. I used to mark which day I went to one, so I would know exactly when I could go back next time. You see all the others on those days doing the same thing. It's one of the rare times you realize you're not as alone as you feel.

This is the third of five entries in Renee's story. The next entry appears on page 59. Previous entries appear in earlier chapters.

Childcare

A structural change in the U.S. economy since the 1960s has been the increasing number of women who have entered the workforce. In two-parent families, it is common now for both spouses to work. In a great many of these families, this may be the difference between financial well-being and hard times.[19] "Even with two people in the workforce, after they pay their basic expenses, today's two-income family has less cash left over than its one-income parents had a generation ago," writes Elizabeth Warren, author of *The Two-Income Trap: Why Middle Class Mothers and Fathers Are Going Broke*.[20]

Another change since the 1960s has been the dramatic rise in the number of single-parent households. Between 1970 and 2004, the percentage of children growing up in a female-headed household more than doubled, from 12 percent to 28 percent.[21] The number of children growing up in African American single-parent households is especially high. Currently 65 percent of African American children are growing up in a single-parent household.[22]

In 1996, Aid to Families with Dependent Children (AFDC), the federal government's main welfare program since the 1930s, was renamed Temporary Assistance for Needy Families (TANF). It became mandatory for adult welfare recipients to get a job or participate in job training in order to continue receiving benefits. Low-income working families, whether or not they receive TANF, need help to afford quality childcare. Most former welfare recipients continue to be poor, or nearly poor, after entering the labor market. Full-time care for a preschooler in a licensed center could cost as much as $10,000 per year, according to the National Association of Child Care Resources and Referral Agencies, and infant care costs more than that.[23]

The federal government provides states with Childcare Development Funds, but there is simply not enough funding: according to the National Women's Law Center, only one in seven children eligible for childcare assistance actually receives it. "Two-thirds of poor working families headed by single mothers spent at least 40 percent of their income on child care," the Annie E. Casey Foundation reports.[24]

Rick Reinhard

Healthcare

Barbara Bergmann, an economist and a senior staff member on the President's Council of Economic Advisors during the Kennedy Administration, remembers a time when "the hospitals and the medical profession had a centuries-old tradition of giving free services to the poor and near-poor, a system that was largely still in place in the 1960s."[25] The notion that healthcare would be free to all seems about as quaint today as television shows like *Father Knows Best* in an age of *Survivor*.

Celia Escudero Espadas

A lot has changed in the last several decades, and perhaps nowhere is this more apparent than in the healthcare industry. Skyrocketing healthcare costs mean that American workers are using an increasing share of their income to pay health insurance premiums. Low-wage workers often do not have the option to participate in group health insurance plans. In a 2002 survey by the Census Bureau, only 26 percent of workers earning $25,000 or less reported having health insurance offered by their employer,[26] and the situation is not improving.

The result is many low-income families do not have health insurance because they simply cannot afford plans for individuals with their much higher price tags. Forty-seven million people—roughly one in six Americans—have neither health insurance provided by an employer nor a government-subsidized health care program. The vast majority of uninsured people are working low-wage jobs. Nearly 90 percent of those without health insurance are low income, defined as earning less than 200 percent of the poverty level; one-third of the uninsured live below the poverty line.[27] These statistics are even more troubling since lower-income people suffer higher rates of chronic illness, disease, and disabilities than the population as a whole.

Most uninsured people report that they lack insurance because their employer does not offer it or because they do not qualify for government assistance or because they cannot afford a private plan.[28] Of course, when people decide not to purchase health insurance, they are betting that they will not have a serious illness or injury, and it is devastating to lose that bet. Half of all personal bankruptcies are caused by illness and medical debt,[29] and the number of personal bankruptcies has risen 430 percent in a single generation. But it's not hard to understand why people working low-wage jobs don't purchase health insurance: the average total premium represents nearly the entire annual salary of someone working full-time at minimum wage.[30]

Transportation

High transportation costs are another significant problem for low-income families. Transportation spending accounts for slightly less than 20 percent of a low-income family's household budget.[31] Unlike the other major expenses described above, almost no government assistance is available to

help families pay for transportation. Some state and local governments make an effort to help, such as by offering programs that make owning a car more affordable, but what is being done does not come close to meeting existing needs.

One dilemma for low-income families is deciding whether to invest in a car. Owning a reliable car can be a tremendous boon to poor families, if they can afford the initial purchase and are not saddled with too much debt trying to pay off the interest on their loan. A car expands employment options and saves precious time—for example, time saved by driving to work can mean less money spent on childcare. It means having a greater range of food choices, since people can travel further to purchase groceries. A car not only increases economic security, but it can mean physical security as well. Driving home from work at night in one's car is safer than walking home in the dark.

Gareey Stinson

Researchers have found that people with cars are more likely to work, and car ownership is associated with higher earnings.[32] Three-quarters of all poor people live in the inner city or a rural area, while three-quarters of all jobs are outside these areas, usually in suburbs. Since the 1960s, jobs that had been located in major metropolitan areas have been moving to the suburbs, following the migration of middle-class homeowners. Poor people in cities have become isolated as the suburbs expand across every major metropolitan area of the country. Jobs are still available in urban areas, but the better-paying jobs are increasingly located in suburbs. Without a car, urban residents, mostly African Americans, face tremendous barriers in commuting to the suburbs. Getting to work requires long trips that combine several stages of rail and bus transit; the available public transportation rarely delivers urban residents straight from their homes to the doorsteps of their workplaces.

Government assistance programs such as food stamps restrict the value of cars that participating familes are permitted to own, so the cars are likely to be less reliable and costlier to maintain.'

But the cost of owning and maintaining a car can be prohibitively expensive for a low-income family. Cars with lower purchase prices may be in worse condition, meaning higher maintenance costs later. With a lower down payment, a buyer may pay higher interest rates on vehicle loans. Lower-income drivers may also be charged higher insurance rates. A report on insurance rates in Maryland, for example, found that a driver in Baltimore City paid 60 percent more than the same driver would pay in Baltimore Country.[33] Finally, government assistance programs such as food stamps restrict the value of cars that participating families are permitted to own, so the cars are likely to be less reliable and costlier to maintain. These and other factors help explain why transportation presents a major challenge for low-income families.

Geographic Issues and Poverty

Margie Johnson has spent her entire life in rural Alabama. She estimates that she is about 80 years old. She has never lived in a home with a flush toilet. Residents of the poorest inner cities may enjoy the benefits of modern plumbing but confront murder and other violent crime at rates that are staggering in comparison to Ms. Johnson's rural area. Poverty manifests itself differently in different places, but it is universally difficult and unappealing for those who must live with it every day.

The urban/rural dichotomy is one way researchers have contrasted poverty based on geographic differences. Another variety is suburban poverty, which has been growing rapidly. So far researchers have spent little time studying suburban poverty. It is bound to start getting more attention, though, because in 2005 the number of poor people living in suburbs exceeded the number of poor people in urban or rural areas for the first time on record.[34]


Richard Lord

Urban areas typically have the highest concentrations of "extreme poverty," defined by researchers as an area where 40 percent or more of the residents have family incomes below the poverty level. Close to 8 million people live in extreme-poverty neighborhoods; 6 million of these are in big cities like Cleveland, Detroit, Philadelphia and New York.[35] In contrast to the concentrated nature of urban poverty, rural and suburban poor people are spread out over larger geographic regions. Eighty-eight percent of persistently poor counties—those which have had poverty rates above 20 percent in every decade since the 1960s—are located in rural areas.[36] Historically, poverty rates in rural areas have been higher per capita than in non-rural settings. Incomes are lower in rural areas, but often so is the cost of living. This is an important factor that is presently ignored when the government calculates the poverty rate. Food, housing, transportation, other basics—all are presumed to cost the same across the country.

The cost of living has been on the minds of poverty researchers for some time. As early as 1976, a government report called this "one

of the most troublesome concepts of poverty measurement."[37] In 1995, the National Academy of Sciences panel recommended that the poverty line be revised to reflect regional differences in cost of living, but as noted earlier, none of the panel's recommendations were adopted. In 2006, USDA published a study on the impact of taking cost of living differences into account when calculating poverty rates. Food costs, for example, are 11-14 percent lower in rural areas than in urban areas.[38] But what rural families gain in lower food costs, they lose in higher transportation costs, because rural households with vehicles consume 40 percent more gasoline.[39] As mentioned earlier, a vehicle also entails maintenance and insurance costs that may be prohibitively high for low-income families.

USDA concluded that due to cost of living differences, rural poverty rates are currently calculated as too high and urban poverty rates as too low. It would appear that poor people in rural areas have the advantage in terms of eligibility for government benefits. But more benefits go uncollected in rural areas. There are also fewer social service offices, meaning that a lot of people have to travel farther to gain access to services than they would in an urban area.

Lisa Morrison, who lives on the Cheyenne River Indian Reservation in South Dakota, has neither a car nor access to public transportation. She used to have a car of her own, but she sold it to avoid losing her food stamp benefits. The car—newer and more reliable than the cars she'd owned before—put her household over the asset limit for the Food Stamp Program. Lisa carpools with neighbors to the nearest supermarket, 40 miles from her home. When a neighbor tells her she is going to the store, Lisa pays her share of gas to ride along, and that is how she makes sure her cupboard stays full. Resourcefulness may be the most important factor of all in how poor families cope with their economic realities, and yet it is the most difficult thing to measure.


Richard Lord

Poverty manifests itself differently in different places, but it is universally difficult and unappealing for those who must live with it every day.'

Meeting Basic Needs

While welfare reform was taking shape in the mid-1990s, Diana Pearce, working with the advocacy group Wider Opportunities for Women (WOW), proposed a "Self-Sufficiency Standard" as an alternative to the federal poverty measure. The Self-Sufficiency Standard shows the gap between what people earn and what they need to pay their bills. Pearce's objective was to shift the debate from moving people off welfare to moving them towards economic independence.[40] The Self-Sufficiency Standard focuses on a family's basic needs, and in this way it is similar to what Orshansky tried to do. Data are now more widely available than in Orshansky's time, so it has become easier to calculate a precise household budget.

Table 1: **Basic Needs Budget for a Single-Parent Family of Three**

	Chicago	Jefferson County
Rent and Utilities	$10,812	$6,168
Food	$5,302	$5,302
Child Care	$9,924	$7,200
Health Insurance	$2,212	$2,212
Transportation	$900	$3,949
Other Necessities	$4,351	$3,097
Payroll and Income Taxes	$2,445	$889
TOTAL	**$35,946**	**$28,817**
Hourly wage needed 40 hours/week, 52 weeks/year	$17/hour	$14/hour

Source: National Center for Children in Poverty.

Since the 1990s, WOW has refined the Self-Sufficiency Standard, while other groups, most notably the National Center for Children in Poverty (NCCP) and the Economic Policy Institute, have developed alternate models.[41] All three come to roughly the same determinations of how much money families of different sizes in different parts of the country need to support themselves. Table 1 applies NCCP's Basic Needs Budget to compile living expenses for a single-parent family of three in two areas of Illinois: urban Chicago and rural Jefferson County. These costs reflect what a single-parent family of three needs to sustain a modest standard of living without state or federal subsidies for food, housing, transportation, childcare, healthcare or other necessities. The differences in the total budgets ($35,946 for Chicago and $28,817 for Jefferson County) reflects cost of living variations. The table also includes the hourly wage needed to cover these expenses—$17/hour in Chicago and $14 in Jefferson County. In either location, the hourly wage for a family of three is well above what most low-wage jobs pay. To achieve self-sufficiency in Chicago, a family of three essentially needs an annual income that is twice the poverty level.

In several communities around the country, advocates for low-income people have persuaded state and local policymakers to use the Self-Sufficiency Standard to help them develop strategies to address the basic needs of families. Once policymakers get over the "sticker shock" of seeing what it takes to live self-sufficiently in their communities, they can begin the hard work of doing what needs to be done to help struggling families get by.

The Self-Sufficiency Standard was developed in 1995, at about the same time that the National Academy of Sciences released its report to Congress recommending changes in the way the poverty level is calculated. The reason that the Self-Sufficiency Standard gained supporters, while the Academy's report had virtually no impact, is probably the mobilizing force of advocacy. The Self-Sufficiency Standard was intended to be a tool for activists and com-

munity organizers to push for change at state and local levels of government. Reports to Congress may seek to mobilize similar political will to change the status quo, but the release of a report is an event, not a campaign, and advocacy work was never part of the researchers' mandate.

Community advocates around the country have responded to the Self-Sufficiency Standard. In Georgia, the Self-Sufficiency Standard was used to promote affordable housing, in Oklahoma to fight cuts to Medicaid, in Maryland to improve employment training, and in Pennsylvania to gain support for increasing childcare subsidies.[42] Nebraska, South Dakota and West Virginia have used the Self-Sufficiency Standard to evaluate economic development proposals.[43]

The most widespread and perhaps the most commonsensical response has been to institute a living wage. Thirty states and the District of Columbia have mandated a living wage higher than the national minimum wage.[44] In 2007, federal policymakers finally agreed to raise the national minimum wage. It had been frozen at $5.15 per hour for 10 years, the longest period without a raise since the national minimum wage law was enacted in 1964. Federal policymakers could not have missed the fact that so many states and local governments had recognized the inadequacy of the national minimum wage—years earlier. In 2009, when the raise is fully phased in, the minimum wage will be $7.25 per hour. However, this is still far less than what families need to live self-sufficiently anywhere in the United States.

Table 2: **Alternate Ways of Measuring Poverty**

Self-Sufficiency Standard	Federal Poverty Standard
• Based on the costs of housing, food, transportation, medical are, child care, miscellaneous costs,* taxes, and the benefits of tax credits. • A basic family survival budget, with no frills—no take-out pizza, no movies, no budget for emergencies, car repairs or long-term savings. • Incorporates regional and local variations in costs of living. • Calculated for 70 different family types, describing costs for every family composition from a single adult with no children to a two-parent family with three teenagers.	• Based on the cost of a single item—food. • Assumes a fixed ratio between food costs and all other family costs. • No provision for state or local variations in costs of living. • Assumes a stay-at-home mom and working dad family model. • Does not reflect changes in consumption patterns among low-income families over the past 40 years.

* miscellaneous includes clothing, paper products, diapers, cleaning products, household items, personal hygiene items, telephone, and non prescription drugs. It does not include recreation, entertainment or savings.

Asset Poverty

Most people think of poverty as a lack of income, and this is how we have discussed it so far. But by limiting our understanding of poverty to income alone, we miss a critical piece of the resources families need to get by.

Assets provide a different frame for thinking about the financial well-being of low-income families. Assets are the building blocks of wealth. It may sound odd to be talking about helping families build wealth when they barely have enough income to live on, but the two are not disconnected and a more long-term, sustainable approach to reducing poverty would encourage families to build assets as well as use government assistance to supplement their income.

Families use income to pay the rent and buy food, put gas in the car and pay their bills. They acquire assets to build up financial security and protect themselves if they fall ill or lose their jobs—any event that causes a period of lost income. The assets most commonly held by middle-class and wealthy

families include a house, pension, stocks and bonds and other savings. Low-income families often have none of these. When a family with assets experiences a period of unemployment or other loss of income, its members have a cushion; they might be able to get by without lowering their living standards too dramatically. The consequences would be far harsher for a family that is asset-poor.

An asset-poor family is one whose assets are valued at less than poverty-level earnings for 12 weeks. Imagine a family in which the head of the household loses his or her job and is unemployed for 12 weeks. This happens all the time—in a typical nonrecession year, there are between 25 and 35 million new unemployment cases.[45] Some are unemployed for less than 12 weeks, but on the whole, periods of unemployment last longer than they did a decade ago. Thirty percent of families with children are considered asset poor, and among minority families it is 44 percent.[46] Most of these families are not living below the poverty line, since only one in ten families qualify as poor based on their income. Thus, the data on assets show that millions of families who are not considered poor have an extremely tenuous grip on financial security. One fairly common misfortune would consume their entire financial cushion.

The United States has a high degree of income inequality, and it's on the rise, but income inequalities are dwarfed by inequalities of wealth. The lowest-earning 40 percent of U.S. workers take home 10 percent of the nation's income, but own just 1 percent of the wealth.[47] In their book *Black Wealth/White Wealth*, Melvin Oliver and Thomas Shapiro expose the shocking inequalities of wealth along racial lines in the United States. A typical African

Brian Duss

Buying Power: Is it Power?

It is clear that poor families have experienced some dramatic improvements in their living conditions in recent decades. Not to recognize this would be harmful to building a case for policies that will reduce poverty. Consumer goods once out of reach are now common in households below the poverty line. In 2001, for example, 91 percent of poor families owned a color television, 55 percent owned a VCR, and 45 percent had a dishwasher.[48] Computers, high-speed Internet, mobile phones—these too are not only within the realm of possibility, they are increasingly found in poor households. Critics of government assistance programs point to these consumer goods as evidence that the problem of poverty in the United States must be overstated. Images of poverty in Africa and Asia only add to the confusion. Where do we see conditions like this in the United States?

Kenn Kiser

One reason that poor families can afford to own color televisions and computers is that these products cost much less to produce than they did a generation or two ago. Only in a society where there is no innovation or technological advancement does it make sense to compare the consumer goods available cheaply to one generation with those of an earlier generation. Adam Smith, author of *The Wealth of Nations*, reached this conclusion in the 18th century. The father of modern capitalism observed, "In present times, through the greater part of Europe, a creditable day laborer would be ashamed to appear in public without a linen shirt, the want of which would be supposed to denote that disgraceful degree of poverty which, it is presumed, nobody can well fall into, without extreme bad conduct. Custom, in the same manner, has rendered leather shoes a necessary of life in England."[49] If Smith were alive today, he might marvel at the wealth of consumer goods now available to people of all social classes. Indeed, custom would have many things different today than in his time.

But the impact of owning consumer goods, while not irrelevant to a family's well-being, should not be overstated. For example, one of the most tangible effects of poverty is on health. Low-income people generally have poorer overall health than people with higher incomes. African Americans, as noted earlier, experience poverty rates three times as high as whites in the United States; African Americans also suffer more health problems and have shorter life spans than whites. It turns out that African Americans also do not live as long as adults in Bangladesh and China, two countries where per capita incomes are substantially lower than per capita incomes for African Americans. The shorter life spans are true for both men and women.[50] The point is that a problem as complex as poverty must be understood in terms of all that it means. Facile explanations will not do.

American family earns 66 cents in income for every dollar earned by a white family. But in terms of wealth, African American families own just 7 cents for every dollar owned by white families. Hispanic families do slightly better with 11 cents for every dollar of white wealth.[51] This means that when many African American and Hispanic families are in a financial bind, they depend almost exclusively on their wages. Oliver and Shapiro argue that closing the wealth gap is the paramount civil-rights issue of our time.

In Chapter 4, we will look at asset development as a strategy to help all low-income families reduce financial insecurity and improve the opportunities available to them.

Setting a Goal to Reduce Poverty

One of the recommendations of Working Harder for Working Families is to set a national goal of cutting poverty in half in the United States by 2015. This is not an arbitrary date, because 2015 is the timeframe for the achievement of the U.N. Millennium Development Goals (MDGs). The United States, along with nearly every other country, has agreed to the MDGs in principle. Besides reducing global hunger and poverty by half, the MDGs seek to improve maternal and child health, slow the spread of infectious disease, ensure universal primary education, provide wider access to basic services such as potable water and sewage treatment, and more. The MDGs have specific, attainable benchmarks as indicators of their achievement. Bread for the World Institute strongly supports the MDGs as a framework for the development agenda.


Jim Stipe

The U.S. Millennium Development Goals call for reducing world hunger and poverty in half by 2015—why not in the United States too?

The United States can demonstrate its commitment to the MDGs by embracing a strategy to achieve them at home. The problems that confront the developing world are not as extreme in the United States, but they exist on a scale that is completely unnecessary for a country as wealthy as ours. Halving hunger and poverty in the United States could be done if the political will to do so were there. In some ways, hunger is the easier of the two. The nutrition programs run by the U.S. Department of Agriculture provide effective tools to quickly reduce hunger and food insecurity. Solving the problem of poverty is more complicated. There is no single policy instrument to do the job. Rather, it will take a series of coordinated and coherent steps toward a clearly defined goal.

This chapter has shown that the U.S. government methodology used to measure how many people in the United States live in poverty is flawed and

must be revised. The alternative methodology proposed by the National Academy of Sciences (NAS) in 1995 is an adequate replacement. More than a decade has passed in which experts have had the opportunity to debate the merits of the NAS alternative; some argue that it should be more precise, but even its critics concede that it would be a vast improvement over the current methodology.[52] In the short term, measuring poverty with the NAS method would provide a more honest assessment of the economic challenges facing the country. Over the long term, "anti-poverty programs can only be improved by using a poverty measure that does a better job of tracking changes in the needs of the poor," explained Dr. Patricia Ruggles of NAS in her testimony before a Congressional Committee on Income Security and Family Support in August 2007.[53]

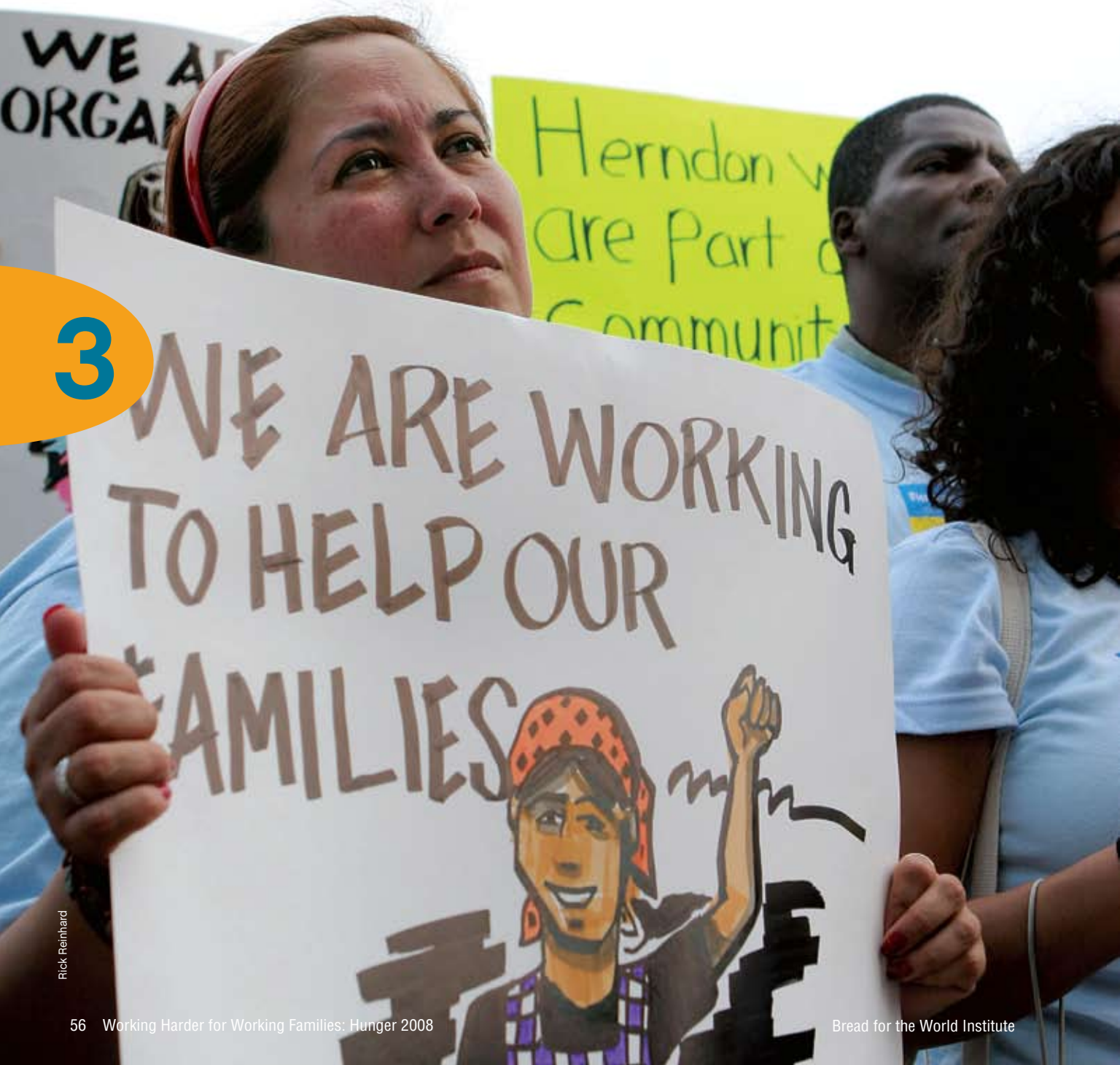
One of the goals of public policy is to improve the lives of families living in poverty. But a goal is meaningless unless real targets are set. The targets then become a powerful means of focusing the nation's efforts and driving policy in the right direction. The MDGs are formulated for such constructive action. A goal-setting success story is the United Kingdom starting in the mid-1990s, when the Labor government entered office committed to ending child poverty within a generation. The administration set concrete goals of reducing child poverty by a quarter by 2005, half by 2010, and completely by 2020. In 2005, child poverty rates had fallen by 18 percent—not quite as high as they were shooting for, but impressive gains that any country could be proud of.[54] Anybody who thinks poverty is an intractable problem should pay close attention to the British experience. Setting ambitious goals makes dramatic progress possible.

Anti-poverty programs can only be improved by using a poverty measure that does a better job of tracking changes in the needs of the poor.'

Todd Post

Work Supports:
Welfare Reform and Beyond

3



Rick Reinhard

In 1996, Congress passed landmark legislation aimed at changing the way the federal government helps families in poverty. The Personal Responsibility and Work Opportunity Reconciliation Act ("welfare reform") directed states to move families on welfare into the workforce. Prior to the passage of welfare reform, the work requirements imposed on families who received welfare were far less stringent.

Welfare reform affected a wide assortment of programs, but the biggest change was the replacement of the main federal welfare program, Aid to Families with Dependent Children (AFDC)—an entitlement program since the Great Depression—with a new program, Temporary Assistance for Needy Families (TANF). The word "temporary" was included for a reason. The legislation set a strict limit: five years of welfare assistance over a recipient's lifetime. States were allowed to set shorter time limits than this, and some did.

Welfare reform was meant to address a long-standing criticism that welfare policies promoted dependency on government assistance. But in fact, the overwhelming majority of AFDC recipients left the program within two years—it was the small number of long-term cases that got the media attention. These were the cases frequently touted by critics hostile to welfare, who argued that the welfare system was doing little to promote either self-esteem or self-reliance, and worse, maintained that the few long-term cases were representative of everyone who received AFDC.

It is true that there were structural problems with welfare. AFDC offered little incentive to leave the program because taking a low-wage job could put families in worse financial shape than when they were receiving welfare payments. Yet the vast majority left the program anyway: critics had underestimated the depth of the stigma associated with welfare. This was true of AFDC and, in spite of the structural changes to the program, is true of TANF as well.

In addition to reducing dependence on the government, legislators in 1996 believed that welfare reform could play an important role in helping low-income families build the self-esteem and practical skills necessary to break out of poverty. Holding down a job, supporting one's family—these would boost participants' self-esteem by helping them reach independence.

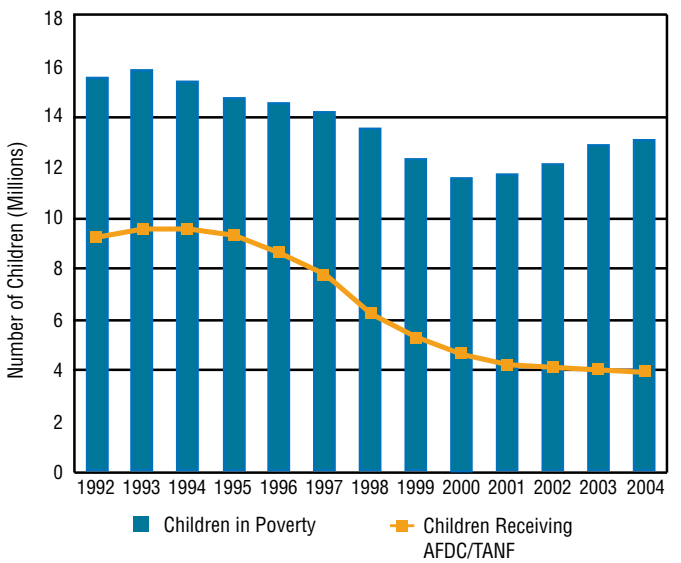
Maria Medellion, a single parent of two small children, illustrates the success legislators were hoping for. In 1998, the Medellion family was on welfare. After participating in an employment-training program as part of TANF, Ms. Medellion landed a job with the United Parcel Service (UPS) for $8.50 per hour. Three years later, she moved into a supervisory role with UPS while pursuing a nursing degree. In 2002, Ms. Medellion was invited by President Bush to the White House for an event honoring families who were no longer dependent on welfare. "It was a challenge to overcome the statistic of being a single minority female with two children on welfare," Ms. Medellion told a crowded room. "Being able to raise my children and provide for them is my greatest source of pride. Just showing my children that I'm strong enough and can succeed is more than enough for me."[1]

Other families who left welfare and entered the workforce have success stories similar to the Medellions. But there are many other families stuck in dead-end jobs with poor salaries and little or no benefits. TANF-leavers tend to earn between $6.00 and $8.50 an hour.[2] At these wages, families still need help putting food on the table and are eligible to participate in federal nutrition programs. In most parts of the country, more than half of their income will go to pay for housing, unless they receive government housing assistance. Less than a quarter of them will have private or government-subsidized health insurance.[3] "Welfare reform was about telling everyone they need to work," says Bruce Katz, director of Metropolitan Policy at the Brookings Institution. "What it didn't do is provide everyone with the means to succeed."[4]

Federal legislators took a bold step in 1996, recasting welfare as a work program. The original intent was that if families did their part by entering the workforce, the government would do its part by providing enough assistance to meet their basic needs. How effectively is the system working to support families who need assistance? Clearly, this is an important question to answer if we want to gauge the success of what government is doing to help working families get ahead. It is an issue that affects many more families than those receiving TANF: 39 percent of all children in America are growing up in households struggling to make ends meet.[5]

The programs discussed below, while not designated as a formal work-support system, are intended to provide working families struggling to get

Figure 1: **Share of Poor Children Receiving Welfare**



Source: Center for American Progress, *From Poverty to Prosperity: A National Strategy to Cut Poverty in Half.*

Participation Rates in AFDC/TANF

The number of eligible families receiving TANF started to shrink soon after welfare reform legislation was passed in 1996. This was due in some measure to a strong economy in the late 1990s, but also because welfare reform allowed states to take a series of policy and procedural steps to make welfare more difficult to access. States did just that. We can see this in the accompanying graph. In the 1970s, 1980s, and early 1990s, 75 to 85 percent of eligible families received AFDC. By 2004, the number of eligible families receiving TANF was down to 42 percent.[6] Meanwhile, between 2000 and 2004, TANF caseloads continued to fall as poverty was on the rise.

by on low-wage jobs with important income supplements. Readers familiar with government assistance programs may ask why the discussion is limited to just these. For instance, housing and transportation assistance are not discussed in this chapter. Housing is certainly important, and there are working families who receive subsidized housing assistance, but the program is not intended exclusively for working families. A family without reliable transportation to work has a much narrower range of job possibilities. Several proposals have been made about helping low-income families own cars, especially in rural areas where public transportation is limited. Improvement in the overall public transportation infrastructure is vital to addressing the transportation problems of all low-wage workers.

We do not attempt to cover every area of support, but the programs we do discuss would be part of anyone's list of supports for working families.

Earned Income Tax Credit

Ronald Reagan, no faint hearted critic of welfare, called the Earned Income Tax Credit (EITC) the best anti-poverty program ever invented. Conservative welfare reformers like the EITC because it provides a clear incentive for people to work. Liberal reformers like it because it is less bureaucratic than other anti-poverty programs and it restores some parity to the tax code. Nearly all funding goes directly to workers, rather than to pay for administrative costs. From 1984 to 1996, before welfare reform, the employment rate for single mothers with children jumped 9 percentage points, an increase that experts credit partly to improvements made in the EITC.[7]

The EITC was enacted in 1975 with the goal of making the federal

Renee's story, Part 4

Renee Musser Hummell and her family live in Staunton, VA.

When I was on welfare, I had to visit the Social Services office regularly to see my caseworker, whose job it was to verify my eligibility. The other part of her job was to give me encouragement. Encouragement included congratulations for holding a job. I got a certificate from the office saying congratulations for being employed—a whole three weeks. It made me feel like I was being patted on the head and told I was a good little girl. Maybe they meant well, but it was humiliating. I was motivated to do better, to get out of poverty and have a job, and it was like—come on, does anyone really believe in me?

When I went to meet the caseworker, she led me into a room—no windows, nothing pretty on the walls. All it had was a desk and a couple of chairs. It's nobody's desk, just a space they use to conduct interviews with clients. In this room, it is the same for everyone who comes for help. You need to verify all sources of income. You need to tell them exactly how much money you have in your pocket. You need to tell them if you have received any gifts of money from anyone.

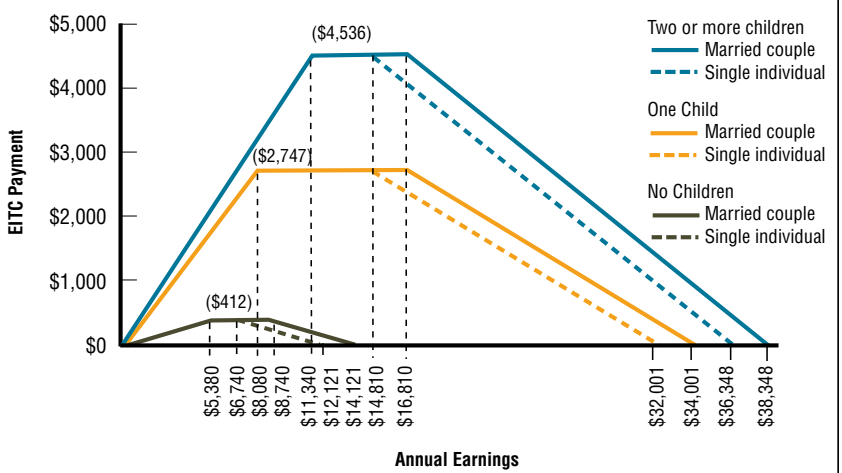
Years later, I ended up being an eligibility worker myself. I'm certain I was hired because of my experience on the other side of the table. My eligibility worker wrote a reference for me and said I would be great. I believed in the ability of the people I worked with to turn their lives around. I believed I could see in them what they couldn't see in themselves. I never lied to anybody about it being easy to get out of poverty. Mostly I made statements like, "I've been there. It doesn't have to be like this forever—not if you don't want it to be."

At one time, there were people who said to me, "Why don't you see what we see in you?" I couldn't because all my life, the only message I had in my head was I am worth nothing. It happens that way. People who criticize the poor for being poor don't understand what kind of lives exist behind the walls of statistics.

This is the fourth of five entries in Renee's story. The next entry appears on page 81. Previous entries appear in earlier chapters.

tax system more equitable to poor families, who were losing a larger percentage of their income to payroll taxes than wealthier families. The EITC is a refundable tax credit that families receive through their federal income tax return, reducing their tax liability and returning a portion of federal taxes. "If the credit amount is larger than a family's income tax bill, the family receives a refund check," explains the Center on Budget and Policy Priorities. "This refundability allows families to take full advantage of the credit even if they owe little or nothing in federal income taxes, as is the case for most poor working families."[8]

Figure 2: **Federal EITC Payment Structure, Tax Year 2006**



Source: National Center for Children in Poverty.

Benefits are calculated based on the size of families and their annual income. See Figure 2. Single individuals are also eligible to receive the EITC, but the program is designed primarily to help families with children. In 2006, a family with one child received a maximum of $2,747 and a family with two or more children $4,536, while the maximum a single person received was $412. In 2003, 22.1 million households applied for the EITC and received $39.2 billion in benefits, an average of $1,782 per household.[9] That year, an estimated 4.4 million people, including 2.4 million children, were lifted out of poverty as a result of getting the EITC—meaning that the EITC helped more people out of poverty than any other government program.[10]

The EITC is an all-around popular program. Nineteen states, including the District of Columbia, have adopted their own versions, so eligible households receive benefits through their state income-tax returns too. The EITC is popular with its intended recipients—close to 85 percent of eligible house-

A Child Tax Credit for all families

The Child Tax Credit (CTC) is a federal tax credit worth up to $1,000 for each child under 17 claimed on a worker's tax return. The CTC provides close to $50 billion in subsidies to families with children every year. Unfortunately, it is not available to families with income below $11,300, meaning there are nearly 10 million children living in poverty who will not benefit from the credit this year because they have insufficient tax liability to qualify. In 2005, half of all African American children, 46 percent of Hispanic children, and 18 percent of white children were in families that did not qualify at all or for less than the full amount of the credit.[11]

holds receive the EITC. Stigma is generally not a factor—those who receive the benefit are anonymous except to their tax preparers—and there is less red tape than with other anti-poverty programs.

The EITC is not perfect. Families with two children can receive a larger refund than families with one child, but there is no further adjustment for family size. This is a serious problem because poverty rates in families with more than two children are significantly higher than in families with two children.[12] Restructuring the EITC to increase with family size would put additional money in the pockets of low-income families struggling to raise three or more children.

The EITC has also been criticized for its so-called "marriage penalty." For two single low-wage workers who want to marry, EITC policies may make it seem like a better financial decision to remain single, because combining their two incomes could put them above the income-eligibility ceiling for the EITC. Anti-poverty programs should not create barriers to marriage. Having two parents who are married and living in the same household is associated with lower poverty rates and other benefits for children.[13]

Another problem is that filing for the EITC is complicated, leading most eligible families to use commercial tax preparation services. But these services come at a high cost. EITC filers pay hundreds of millions of dollars every year—money they need to support their families—for tax preparation service and other charges like electronic filing. Tax filers are also tempted to surrender more of their refund with Refund Anticipation Loans (RALs), which are short-term, high-interest loans based on the tax filer's expected refund. Between the cost of the tax preparation and the RAL fees, the typical family loses nearly 5 percent of its federal tax refund.[14]

Margaret W. Nea

The Food Stamp Program

"Food Stamps Make America Strong," reads the tagline used by the U.S. Department of Agriculture (USDA) to describe the country's largest nutrition program. A longer version might say, "Food stamps protect the health of low-wage workers and their families." People are rarely in top form when they are hungry, and employers cannot count on the best from workers who are hungry on the job. Roughly twenty-five million people per month receive food stamp benefits, so the Food Stamp Program has a significant effect on the nation's economy. The Food Stamp Program is a work support that helps individual workers and the whole country to perform on the job.


Todd Post

Lupita Sanchez of Brownsville, Texas has used the Food Stamp Program to help feed her family. Standing beside her are daughters Sandra (l) and Silvia (r). Husband Sergio and their youngest child, Luis Añgel, are not pictured.

Once a household qualifies to receive food stamps, the head of the household must register with a state welfare or employment office if he or she is not already working full-time. Food stamp benefits are provided on the condition that the head of household will pursue employment. If offered a job, he or she is required to accept it and cannot quit or work less than 30 hours a week without a legitimate excuse—for example, because of a disability or to care for a sick child or other relative.[15]

The Food Stamp Program is important to whole families, not just the breadwinner. Half of all those who participate in the program are children. USDA reported that in 2000, the Food Stamp Program reduced child poverty by 4 percent, lifting 500,000 children out of poverty.[16] Research shows that parents cushion children from the effects of hunger as long as possible, so programs which reach hungry children are also helping hungry parents. Even from a purely financial point of view, food stamps are worth every cent. Hungry children are more likely to get sick. One short hospital stay to treat a childhood illness costs significantly more than providing the child's whole family with food stamp benefits for a year.[17]

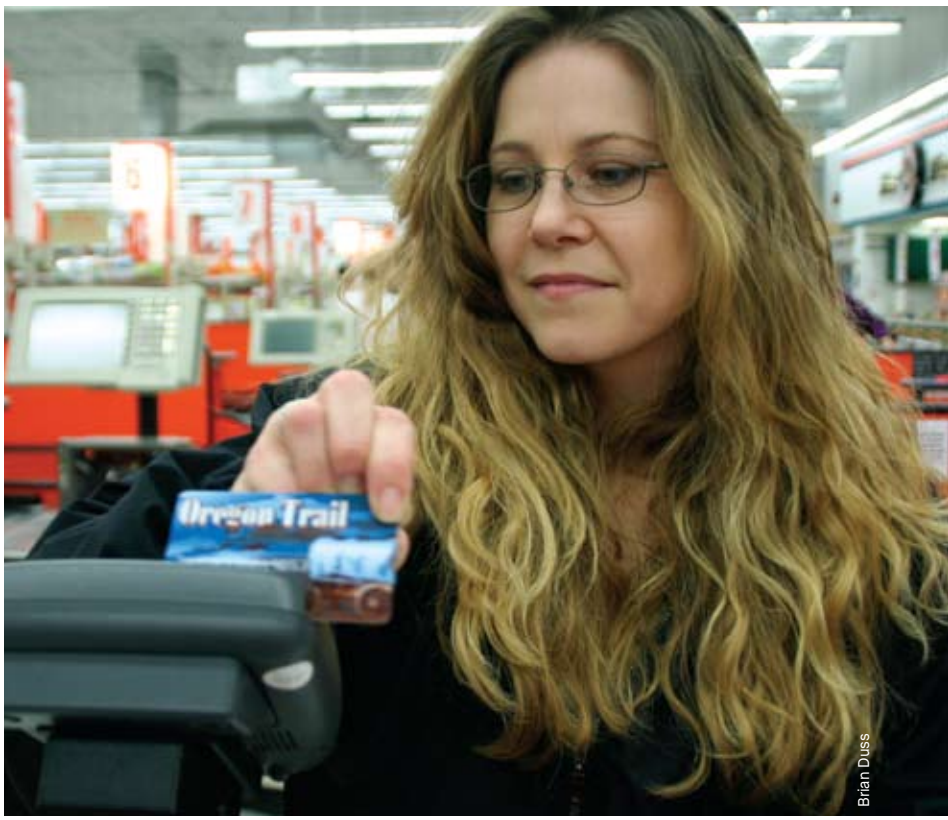
The value of the food stamp benefits a family can receive is based on a budget calculated by USDA to reflect the cost of an adequately nutritious diet. Benefits are accessed electronically at the checkout line of grocery stores, using a debit card that draws down on a monthly account. The card has contributed to more efficient operation of the Food Stamp Program. For example, payment errors—both overpayments and underpayments—are down since the transition to a debit card from the paper coupons the Food Stamp Program was named for. The debit card has also helped to reduce stigma, although stigma remains a factor in why families choose not to par-

ticipate. The percentage of eligible people participating in the program has increased every year since 2000, but the national participation rate is still only two-thirds of those eligible.

Outreach efforts—handled primarily at the state and local level—are critical to increasing participation. Oregon is one state that has done a remarkable job with outreach. Between 2000 and 2005, Oregon progressed from having the highest hunger rate in the nation to 17th place among the states. As part of its outreach efforts, the state government took a number of simple steps such as developing a shorter application form and allowing applicants to schedule appointments to see case workers rather than waiting in line for hours at the social service office. Oregon also expanded eligibility for food stamps by using a federal waiver that allowed the state to include people with incomes up to 185 percent of the poverty line, rather than the federal standard of 130 percent.[18] The drop in hunger that occurred in Oregon can be replicated elsewhere, if the political leadership is there to drive the efforts.

In a laboratory setting food stamp benefits may be able to feed a family for a month, but rarely is that the case in the real world. According to recent evidence, 80 percent of food stamp benefits are exhausted by the second week of the month.[19] A more realistic scenario would increase food stamp benefits and allow shoppers more flexibility in the foods they can choose. Many food stamp rules were written in an era where two-parent families were the norm and most mothers were full-time homemakers. Today's economic and social realities have changed dramatically.

Nutrition programs are critical to alleviating immediate hunger and food insecurity, but the most sustainable solution to hunger is a steady job that pays an adequate wage—one that supports a family and enables people to purchase healthy foods.



DeEtte Peck of Portland, Oregon exchanges Food Stamp Program benefits for groceries.

Childcare Subsidies

Federal funding reaches only about one in seven families eligible for child care assistance under federal law.[20] In 2002, families living on 100-199 percent of the poverty level spent 13 percent of their income on child care, while families below the poverty line spent 25 percent.[21] Little has changed since then to lessen the financial burden on poor and low-income families. From 2002-2005, federal funding for child care actually decreased. There were

250,000 fewer children receiving child care assistance in 2005 than in 2000, even though poverty was on the rise in each of the intervening years.[22]

Affordable child care assistance makes all the difference in whether parents are able to participate fully or only partially in the work force. A family with two young children—one a toddler and the other in elementary school—can pay anywhere from $8,000 to $24,000 per year in child care costs, depending on which state the family lives in.[23] It is one of the costliest items in a household budget. Without some form of child care assistance, parents of modest means are forced to compromise on the quality of care and the amount they can afford.

"State child care assistance policies continue to fall short of providing the support children and families need," writes the National Women's Law Center. "There are still far too many low-income families who are unable to qualify for child care assistance, remain trapped on long waiting lists, strain to pay their co-payments even if they are receiving assistance, or cannot find good care for their children because state reimbursement rates are too low."[24] Focusing on the states alone will not solve the problems with subsidized child care. In 2004, about half of states had waiting lists or had stopped taking new applications because of the lack of federal funding for CCDF.[25] What the states need most is a better partner in the federal government.

Welfare reform included promises by federal lawmakers that parents would receive help in paying for child care. States are permitted to use up to 30 percent of their TANF funding for child care assistance.[26] Welfare reform legislation also established the Child Care and Development Fund (CCDF), which provides child care subsidies to a larger group of families than those participating in TANF. Through CCDF, federal money is given to the states to distribute to families, and the families must find child care providers who accept the federal vouchers.

Not all child care arrangements are the same. Licensed providers have better-trained staff who can help children develop socially and intellectually. Indeed, the biggest return on investment in education may well occur at the preschool level. Studies have repeatedly shown that children who receive good child care starting at a young age do better in school and have fewer behavioral problems than those who receive lower-quality care. This is important not only for the children themselves but also for reducing the transmission of poverty from one generation to the next. Economist Robert Lynch argues that an increased investment in early childhood education now would pay for itself within a couple of decades by boosting lifetime earnings and decreasing rates of criminal activity, thus adding to the nation's Gross Domestic Product. Within 25 years, Lynch says, the benefits would outweigh the costs by $31 billion.[27]

The Child and Dependent Care Tax Credit

The Child and Dependent Care Tax Credit (CDCTC), not to be confused with the Child Tax Credit (page 60), is another way to offset the cost of child care. In 2003, more than 6 million tax filers claimed the federal CDCTC credit and received more than $3.2 billion in tax benefits. In tax year 2005, low-income families were eligible for a credit of up to $1,050 for one child or dependent or $2,100 for two.

Subsidizing child care through the tax system can be an effective way of getting aid to low-income families because many already file for the Earned Income Tax Credit (EITC) and are familiar with tax credits. However, less than 10 percent of the low-income families receiving the EITC are able to claim the CDCTC. The problem is that unlike the EITC, the CDCTC is not a refundable tax credit. In 2005, a single parent with two children filing for the EITC had to earn $23,700, well above the poverty line, to begin qualifying for the CDCTC.[28] When families file for the EITC, they reduce their tax liability, which can have the side effect of disqualifying them for the CDCTC.

Head Start has been the nation's premiere early education program for disadvantaged children since 1964. Children who attended Head Start have achieved greater economic success later in life than children from families with similar incomes who did not. Yet Head Start serves less than half of all children who are eligible based on their family income.[29] Expanding the quality and quantity of child care programs would serve the dual purpose of helping working parents participate in the workforce and contributing to the long-term educational needs of low-income children. A number of policymakers have supported moving toward a universal preschool program, and the best place to start would be with economically and educationally disadvantaged children who are currently not served by a preschool program.[30]

Medicaid and State Children's Health Insurance Program

Currently the United States has a higher percentage of people without health insurance than any other industrialized country. Not surprisingly, the two groups with the highest percentages of uninsured are those living below the poverty line and those living below 200 percent of the poverty line.[31]

Regardless of family income, a lack of insurance is associated with a lack of health care. According to the National Center on Health Statistics, children in poor families which lack insurance were three to four times more likely not to have visited a doctor over a 12-month period than children in poor families with health insurance.[32] Families lacking health insurance are far more likely to forego treatment of minor conditions. Left untreated, these conditions run the risk of becoming serious.


Celia Escudero Espadas

Medicaid and the State Children's Health Insurance Program (SCHIP) are the two main health insurance programs for poor and low-income families who are not covered by an employer-based plan. Medicaid covers 13 percent of the insured population in the United States, including 28 million children. Overall, the United States does a better job of insuring children than adults. Many children have been declared eligible for Medicaid even though their parents do not qualify based on their state's income limits.[33]

In 1997, Congress enacted SCHIP to cover children who are not covered by an employer-based health insurance program and who do not qualify for Medicaid. As a result, between 1997 and 2006, the percentage of children without health insurance in low-income families dropped from 23 percent to 14 percent. In 2006, SCHIP covered 6 million low-income children. Despite these significant successes, more than 9 million children still lack some form of health insurance.[34]

It is not surprising that people living in poverty have much higher rates of illness and avoidable health conditions than the rest of the U.S. population.[35] Poor health makes an already precarious financial situation worse, especially if it reduces a wage earner's ability to work. Children in poverty are more vulnerable to health problems right from birth, because women in poverty are more likely than other women to give birth prematurely and to have low-birthweight babies. Poor families are also exposed to a variety of environmental hazards that increase their risk of adverse health effects.[36] Poor neighborhoods are more often located near

industrial areas or highways where pollution is greater, contributing to disproportionately high rates of asthma in poor children. Poor neighborhoods are more likely to have substandard housing, increasing the risk of children's exposure to unsafe levels of lead. As children grow up, they have a much higher risk of developing a number of other health conditions, including learning disabilities and behavioral problems.

Todd Post

Protests like this one were common in 2007 when President Bush and Congress fought over spending bills to increase federal funding for SCHIP.

Government should guarantee health insurance coverage to every working family in the United States. When employer-based programs are not available, the best options currently are Medicaid and the State Children's Health Insurance Program (SCHIP). Controlling the rising costs of these programs remains a problem, but they are rising no faster than those of health care in general. Experts agree that Medicaid is a low-cost health insurance program compared to private insurance. Over the last several years, the per capita costs of Medicaid have grown more slowly than health spending for privately insured people.[37] Moreover, the evidence shows that these health insurance options work. A study in 1996 found that when Medicaid coverage was expanded from 1979 to1992, there were clear improvements in children's health outcomes. A 30 percent increase in Medicaid eligibility among mothers aged 15-44 led to an 8.5 percent decrease in infant mortality.[38]

Polls show that the public is alarmed by the number of uninsured children.[39] Americans overwhelmingly favor increasing funding for SCHIP, even in difficult economic times and even if it means raising taxes.[40] It is an economic issue as much as it is a moral issue. Uninsured children are five times more likely to use an emergency room as their primary source of care.[41] Every dollar spent on primary care to treat children for asthma saves three dollars in emergency care.[42] The extra costs of being uninsured are passed on to the public, driving up private insurance costs for everyone.

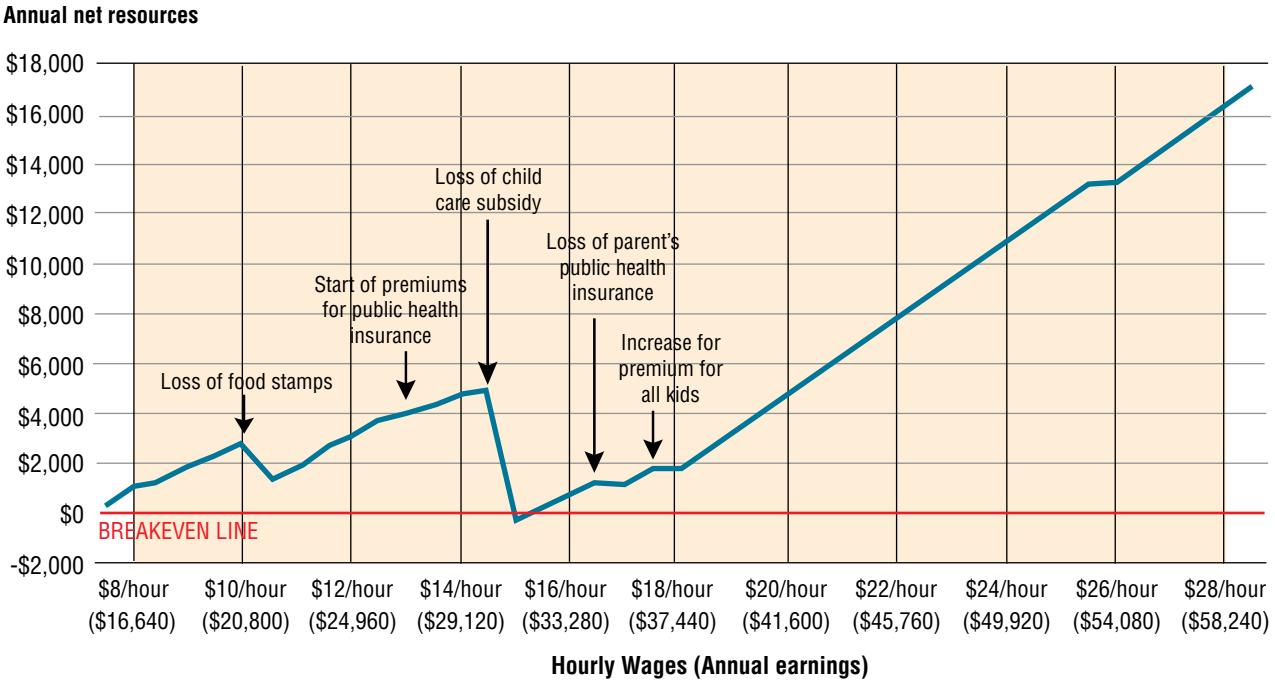
Making Work Supports Work

The programs described above are the key elements of a federal work support package. These programs are vital to families working in low-wage jobs. But because these programs are means-tested, benefits phase out as a family's income rises above the poverty line. This seems logical, but the numbers show that earning more money does not guarantee that a family will be

any better off overall. For example, a single mother with two young children in Chicago will have no more net resources at the end of the year if she earns $36,000 than if she earns $18,000. Figure 3 shows how this family's financial resources change as its income increases and work supports are phased out.

There is no coherent system governing eligibility and phase out rules in different programs. Benefits may decrease gradually, as with the EITC, or they may terminate suddenly at a point when family income reaches the eligibility limit, as with Medicaid. Under Medicaid rules, one additional dollar of earnings can result in a complete loss of benefits. It seems unfair that a family's financial condition would worsen as it earns more, but that is what can happen because of a lack of coordination among work-support programs. Standardizing the way benefits phase out would be an important first step toward better program coordination.

Figure 3: **Net Family Resources as Earnings Increase, Chicago**



Source: National Center for Children in Poverty. Analysis based on NCCP's Family Resource Simulator, Illinois 2006; single parent with two children, ages 3 and 6.

Reaching More Families

Literally millions of families struggling to get by on low wages do not receive work supports, so increasing participation in existing programs must be a priority. *Working Harder for Working Families* argues that federal and state income eligibility rules exclude far too many families. In many states, for example, it is impossible for families earning above the poverty line to get subsidized childcare. In more than half the states, adults with incomes below the poverty line are ineligible for Medicaid.

In Chapter Two, we showed how the poverty line is a poor way to gauge whether families are able to meet their basic needs; in fact, 200 percent of

The New Hope Project: Helping Families Build a Future through Work

– Meg Munroe


Celia Escudero Espadas

Wisconsin is one of the leading states in the country in providing work supports for low-income parents. Affordable childcare and health care benefits are available to people with a wide range of incomes. Some of this success is due to the New Hope Project, a community-based organization that ran a welfare demonstration program in the years leading up to welfare reform.

The New Hope Project originated in a community organization whose mission was to help people find, get and keep jobs. New Hope's current Executive Director, Julie Kerksick, was on staff at the community organization that ultimately developed The New Hope Project. In 1990, frustrated with sending people to jobs that didn't pay enough, she and her colleagues began rallying support for a new experiment to find out if offering people work supports would enable them to be more successful in the low-income workforce.

To fund their initiative and raise awareness of what they were doing, they put together a broad coalition of community members, nonprofit organizations, private businesses, and researchers. Together, these groups conceived of an experiment: for three years, a group of Milwaukeeans would be given access to a childcare subsidy, health insurance, a wage subsidy, and help with a job search. If they couldn't find a job right away, New Hope would pay to place them in a community service job to help them build skills. The research organization MDRC would follow this group, plus a control group of people who did not receive the help of New Hope, and compare their success.

With this experiment, Kerksick and her partners were hoping to figure out the best way to help people help themselves. "The New Hope idea is that you're trying to build on a person's individual initiative to take responsibility," explains Kerksick, "but you're also saying to that person that 'we recog-

nize that you can be playing by the rules, doing everything you can,and still be poor, so we will try to make up the difference.'" The program assumed that people working low-income jobs were just as capable as anyone else of finding and keeping a job; they just needed support.

This hypothesis was borne out by the results of the study: MDRC found that compared to the control group, New Hope participants worked longer and more often and experienced less poverty. The children of these participants were more likely to be placed in licensed childcare settings and performed better in school.

The story of one participant, Lakeisha, exemplifies this success. Lakeisha entered the program in 1994 with no high school degree and little work experience. Through New Hope, she worked at a community service job, which eventually led to full employment. As of 2004, she and her boyfriend were about to get married and were planning to purchase a house. She was working steadily at the same agency that had provided her initial community service job, for a little over $17,000 with fringe benefits.

The New Hope Project ran initially for eight years, and many of its features, such as the hefty childcare subsidy, were incorporated into the W-2 program, or Wisconsin TANF, as state legislators decided how to implement welfare reform. However, New Hope leaders were disappointed that the final design and implementation of the W-2 program failed to make poverty reduction an explicit goal. In Wisconsin, the second half of the 1990s saw a sharp reduction in the welfare rolls. While some of this reduction reflected people leaving welfare because they were working steadily, many other people appeared to fall through the cracks. Today, New Hope works with its allies to try to improve the state's TANF program by sharing lessons learned from their past and current employment programs. New Hope is also making an effort to shape policies in other states and at the federal level so that those who want to work can work—and they will truly get out of poverty through work.

The experience of the New Hope Project demonstrates just how far a little understanding and support can go in helping people trying to support themselves with a low-income job.

Meg Munroe was a project assistant at Bread for the World Institute from July 2006 to June 2007. She is now a Peace Corps volunteer in Mali.

We recognize that you can be playing by the rules, doing everything you can and still be poor.'

the poverty line comes much closer to what families need to be self-sufficient. None of the federal programs we discuss guarantees access to families earning up to 200 percent of the poverty level. To reduce the effects of poverty on working families, policymakers must adopt rules that make sense given families' actual financial situations.

Moreover, it is important that programs are administered more consistently from state to state. So-called "entitlement" programs, like the Food Stamp Program and the EITC, are required to serve all eligible families. Other programs, like SCHIP and child care subsidies, are state block grants, meaning that states have considerable leeway to alter federal rules. States must match federal funds in order to receive a block grant, and if they cannot meet this requirement, federal funding levels are reduced. The poorest states are least able to find resources to meet the match requirement. A family eligible for federal work supports should not miss out because they happen to live in a poorer state.

So far, federal and state governments have not been willing to boost funding levels to achieve the improvements that are needed in programs which support working families. The costs of reform will be significant, but reaching more families in need depends on it. "The question of the true cost of meaningful work support reform is a legitimate one, and it must be addressed," says Nancy Cauthen of the National Center for Children in Poverty. "But the question of "affordability" cannot be addressed in a vacuum. We must also ask: what are the costs of not addressing the needs of our nation's lowest paid workers and their children—there is plenty of evidence that those costs are considerable."[43] The costs of not supporting low-wage workers are illustrated throughout *Working Harder for Working Families.* Low-income families and the communities they live in pay the costs directly, but everyone in the United States ultimately pays through a less productive workforce and the resulting lost economic potential.


Todd Post

Until the problem of inadequate resources is addressed more fully, policymakers should not slow their efforts to save money in ways that would make programs available to more of those who qualify. States have developed some innovative strategies to streamline application processes and improve efficiency. In Maine, because families can apply for Food Stamp Program and Medicaid benefits together, participation has increased in both. In Nebraska, once families are registered for SCHIP, they automatically receive information about childcare subsidies. Technology also improves efficiency. Community Catalyst, a nonprofit organization in Massachusetts, has developed a web-based system called RealBenefits that helps people determine what programs they qualify for; so far, it has connected more than 50,000 people to more than $200 million in benefits.[44]

Employers and Work Supports

Little has been said about the role of employers in this chapter. The work supports we are discussing are government programs, so the focus has naturally been on government. But the increasing importance of these programs stems from conditions in the workplace that employers have helped create and maintain. Eroding wages and lack of benefits are not, after all, forces of nature that humans are powerless to change. Employers, particularly those with ample profits and personal compensation, can and must do better by their workers. So far government has done little, either through legislation or public pressure, to get employers to fulfill more of their responsibilities to their workers. This has been a political choice, not a result of ignorance, and it is putting an unfair and unacceptable burden on both U.S. taxpayers and low-income families.

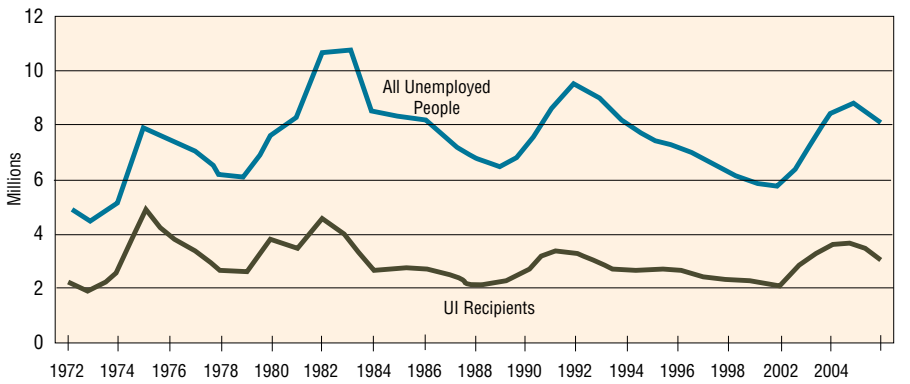
Again, rather than waiting for comprehensive improvements in the low-wage work sector, small-scale but significant reforms can be made now. For example, employers could work to improve the bad reputation of "welfare programs" by expressing support for them and helping low-wage workers apply for benefits. Any assistance in streamlining the process will help both parties—workers who must take time off for multiple visits to social service offices and employers who are impacted by their absences. Of course, assistance must be offered in a way that respects the privacy of workers—the stigma associated with applying for "public assistance" should never be underestimated.

Eliminating Asset Tests

Some government assistance programs use an asset test: families with assets that exceed a certain limit are not eligible for the program, no matter how low their income may be. Asset limits vary across programs; the same family could qualify for Medicaid based on its asset rules but fail to qualify for food stamps. This not only causes a great deal of confusion for the people who have to disentangle the rules of different programs, but it highlights again how little coherence there is in program policies.

The purpose of asset tests is to ensure that government assistance is not used to support families capable of providing for themselves, an idea that sounds logical until you see the very low asset limits currently in effect. The Food Stamp Program uses an asset limit of $2,000 per household—with the family's car exempted up to a market value of $4,650. A reliable car is a necessity in areas of the country where public transportation is lacking or spotty, and reliability is almost sure to be an issue for cars valued at $4,650 or less. In 2008, a $4,650 car really does not draw the line between families in need and those who are "freeloading." States are allowed to waive the asset test, but most do not.

Figure 4: **Number of Unemployment Insurance (UI) Recipients and Unemployed People**



Source: Congressional Budget Office.

Asset limits conflict with basic common sense about what families need in the event of a financial hardship. It simply does not make sense to discourage families from saving money that might help carry them through a job loss or some other setback that could force them into debt for years to come. Unemployment insurance reaches so few people who are out of work (Figure 4) that it only underscores the importance of owning assets.

Finally, asset tests limit a family's ability to plan for the future. In 1990, the *Wall Street Journal* reported that a woman in Milwaukee had been charged with welfare fraud because she had saved $3,000 to put toward her child's college education. The $3,000 was seized, and though she was allowed to continue receiving welfare, she was warned not to try to get away with saving money again.[45] It is an amazing story, but more amazing is that in spite of all the changes made in welfare policy since this story appeared, restrictions on assets have remained basically the same.

Establishing financial security depends on families being able to save for long-term investments like a child's education. Not changing asset limits was a glaring oversight in the 1996 welfare reform legislation. No one can get ahead without a good job, nor can they do so without building assets, and this is why asset development is the subject of the next chapter.

Summary of Work Supports

Policy	Description of Benefit	Strengths	Weaknesses
Earned Income Tax Credit	Refundable tax credit that reduces tax liability. Maximum credit for families with two or more children: $4,536 (2006).	• Federally funded entitlemant: all eligible families and individuals who apply are entitled to benefits. • Relatively high participation rates. • Low stigma because administered through the income tax system and not associated with welfare. • Gradual phase out of benefits as income rises.	• Typically received as a lump sum at the end of the year so can't be used to offset expenses as incurred. • Many married-couple families face marriage "penalty." • Large families receive same benefit level as families with two children. • Low benefits for workers without (resident) children.
Food Stamp Program	Food assistance for low-income families and individuals. Maximum annual benefit for a family of three: $4,896/year.	• Federally funded entitlement (states pay only a portion of administrative costs); all eligible families and individuals who apply are entitled to benefits.	• Benefits usually run out by the end of the month. • High stigma because of association with welfare. • Strict asset eligibility limits. • Familes can face a signif-icant benefit "cliff" when they lose their benefits
Child Care Subsidy	Subsidizes child care expenses, enabling parents to work or engage in work-related activities.	• Makes child care more affordable and facilitates employment. • Reduces child care expenses as they are incurred. • Has the potential to make higher quality early care and learning experneices available to low-income children.	• Inadequate funding: federal block grant with state matching requirements. • Only 1 in 7 eligible familes served; few subsidies available to non-welfare families. • Low provider payment rates jeopardize quality of care in many states. • Families face a steep benefit "cliff" when they lose subsidy.
Medicaid and the State Children's Health Insurance Program (SCHIP)	Family health insurance coverage for parents and children with low incomes.	• Medicaid is a joint federal/state entitlement; all eligible families and individuals who apply are entitled to benefits. • Together, the two programs provide health insurance access to a substantial portion of children.	• Increases in Medicaid spending are stressing state budgets. • Inadequate funding; SCHIP is a federal block grant with state match-ing requirements. • Working-age adults have very limited access to public health coverage.

Source: National Center for Children in Poverty

Do "Work Support" Policies Effectively Support Work?

– Nancy K. Cauthen and Kinsey Alden Dinan, National Center for Children in Poverty

Millions of this country's children have parents who work yet do not earn enough to cover the cost of basic family necessities. On average, families in the United States need an income of about twice the official poverty level—about $34,000 a year for a family of three—to cover basic expenses. That's more than twice the earnings of a full-time, year-round worker making, for example, $8 an hour. To help make ends meet, many low wage workers turn to public "work support" benefits for assistance. Such benefits include earned income tax credits, health insurance coverage, child care assistance, and food stamps.


Todd Post

To encourage employment as the primary path to financial security for all who can work, a comprehensive work support system should accomplish two goals: First, it should provide adequate family resources. If parents work full-time, their earnings, combined with public benefits, should provide the resources necessary to cover basic family expenses. Second, it should reward progress in the workforce. When parents' earnings increase, their families should always be better off.

But are our public policies effective in supporting work? In some states, policies are generally successful in meeting the first goal of providing adequate family resources. In others, parents are unable to afford basic expenses even with a full-time job and multiple benefits. No matter where a family lives, however, rewarding advancement in the workforce remains a challenge. Small increases in family income can trigger sharp reductions in benefits, leaving families no better off—or even worse off—than before.

Angela and Her Family, with Work Supports and Without

As an example, consider Angela—a single parent living in Chicago with two children, one preschool-aged and one school-aged. Angela has a full-time job, working 40 hours a week, 52 weeks a year. She earns $8 an hour, for annual earnings of close to $17,000—approximately the poverty level for a family of three.

Using results from the Family Resource Simulator, a policy analysis tool developed by the National Center for Children in Poverty, we find

that full-time, low-wage workers in Chicago cannot afford basic family necessities—including housing, food, health care, child care, and transportation—without the help of public work supports. Without such benefits, a single-parent family of three needs about $36,000 a year to cover basic expenses in Chicago. That's more than double the poverty level and the equivalent of full-time earnings at about $17 an hour.

To help low-wage workers provide for their families, Illinois provides a number of important work support benefits. Supports for workers are more generous in Illinois than in many other states, and with their help, Angela can make ends meet (See Figure 1). With a full-time job at $8 an hour plus federal and state earned income tax credits, public health insurance

Figure 1: **Angela's Resources and Expenses with Full-time Employment at $8/hour**

	Employment *plus* • EITCs • Food stamps • Public health insurance • Child care subsidy	Employment *plus* • EITCs • Food stamps • Public health insurance	Employment *plus* • EITCs	Employment alone (no work supports)
Annual Resources				
Earnings	$16,640	$16,640	$16,640	$16,640
Federal EITC	$4,158	$4,158	$4,158	$0
State EITC	$208	$208	$208	$0
Food Stamps	$3,005	$3,977	$0	$0
Total Resources	**$24,011**	**$24,983**	**$21,006**	**$16,640**
Annual Expenses				
Rent and Utilities	$10,812	$10,812	$10,812	$10,812
Food	$5,302	$5,302	$5,302	$5,302
Child Care*	$962	$9,924	$9,924	$9,924
Health Insurance*	$0	$0	$2,212	$2,212
Transportation	$900	$900	$900	$900
Other Necessities	$4,351	$4,351	$4,351	$4,351
Payroll and Income Taxes	$791	$791	$791	$791
Total Expenses	**$23,118**	**$32,080**	**$34,292**	**$34,292**
Net Resources *(Resources minus Expenses)*	$893	-$7,097	-$13,286	-$17,652

*This chart shows income and expenses from the perspective of the family. Because health insurance and child care benefits are paid directly to the provider, families experience them as reduced expenses rather than increased income.

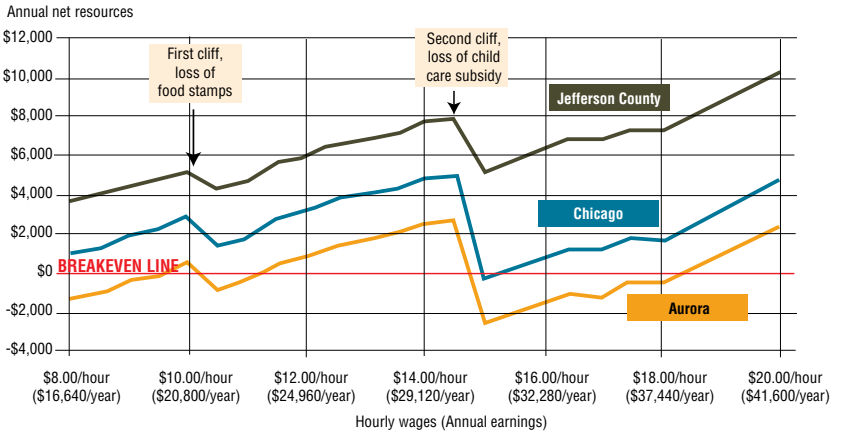
Source: Anaylsis based on NCCP's Family Resource Simulator, Illinois 2006 (www.nccp.org), with the following assumptions: children are in center-based care settings while their parent works (the older child is in after-school care); family members have access to employer-based health insurance when not enrolled in public coverage.

coverage, child care assistance, and food stamps, her family has a small surplus of about $900 left at the end of the year after basic expenses are paid.

In practice, however, few families receive all of the benefits for which they are eligible. Without a child care subsidy, Angela would be more than $7,000 short on annual expenses—even with tax credits, food stamps, and public health insurance. Without any work support benefits, Angela's family would face a staggering annual deficit of close to $18,000.

Angela Gets a Raise, the Family's Resources Plummet

Figure 2: **Change in Net Resources as Earnings Increase, Single Parent with Two Children in Three Illinois Localities**



Annual net resources: Annual resources minus annual expenses.
Annual earnings: Assuming full-time work (40 hours/week, 52 weeks/year).
Breakeven line: Where family resources equal the cost of basic expenses.
Work supports: (when eligible) Federal EITC, State EITC, food stamps, public health insurance, and child care subsidy

Source: Anaylsis based on NCCP's Family Resource Simulator, Illinois 2006 (www.nccp.org), with the following assumptions: children are in center-based care settings while their parent works (the older child is in after-school care); family members have access to employer-based health insurance when not enrolled in public coverage.

Eligibility for work support programs is typically based on income, so as families make progress in the workforce—and particularly as their earnings rise above the official poverty level—they begin to lose eligibility for benefits. In some cases, eligibility rules mean that even a small raise can lead to a substantial benefit loss, which is often referred to as a "cliff." As a result, parents can work and earn more with no financial benefit for their families. Indeed, as parents' earnings rise, their families may actually be worse off. For example, under federal rules, when a family's total income exceeds 130 percent of the official poverty level, the family loses its entire food stamp benefit.

Figure 2 shows how increases in Angela's earnings would affect the net resources available to her family (see the blue line for Chicago results). As we saw in Figure 1, Angela is able to make ends meet by combining full-time earnings at $8 an hour with tax credits, public health insurance coverage, child care assistance, and food stamps. But as her wages rise above $8 an hour, her family's net resources fluctuate.

Angela faces two significant benefit cliffs—the loss of food stamps when her wage hits $10.50 an hour and the loss of child care assistance when her hourly wage reaches $15. The loss of child care assistance causes the family's net resources to drop below zero—that is, the "Breakeven

Line"—the point at which total resources equal basic expenses. Thus at $15 an hour in wages, Angela's family faces a deficit of about $500.

To make matters worse, an additional increase in Angela's hourly wage from $15 to $16.50 puts her over the income eligibility limit for public health insurance (though her children remain covered). While this example assumes that Angela's employer offers health insurance, in reality, only a minority of employers provide this benefit to low-wage workers. Without employer-based health insurance, Angela would likely become uninsured, as she would be unable to afford coverage on the open market.

The most striking part of this scenario is that as Angela's earnings double from $8 to $16 an hour, her family actually loses ground. Only when Angela's earnings exceed $18 an hour—the equivalent of about $37,000 annually—do further wage increases lead to steady improvements in her family's bottom line.

In practice, few families receive all of the benefits for which they are eligible.

While the cost of living varies across the state of Illinois, the same basic findings hold. Throughout the state, it takes far more than poverty-level wages to make ends meet. In rural Jefferson County, for example, a single parent with two children must earn roughly $29,000 a year—the equivalent of a full-time job at $14 an hour—to cover basic needs without the help of work supports. In suburban Aurora, on the other hand, a single parent needs full-time employment at $19 an hour to cover basic expenses for herself and two children.

Moreover, while work supports can help, benefit cliffs mean that working more does not always provide increased self-sufficiency. Figure 2 shows how net resources change as income rises for a single-parent family of three living in Chicago, rural Jefferson County and suburban Aurora. While the level of net resources varies across these localities, the pattern of fluctuation is the same.

Work Supports and the American Dream

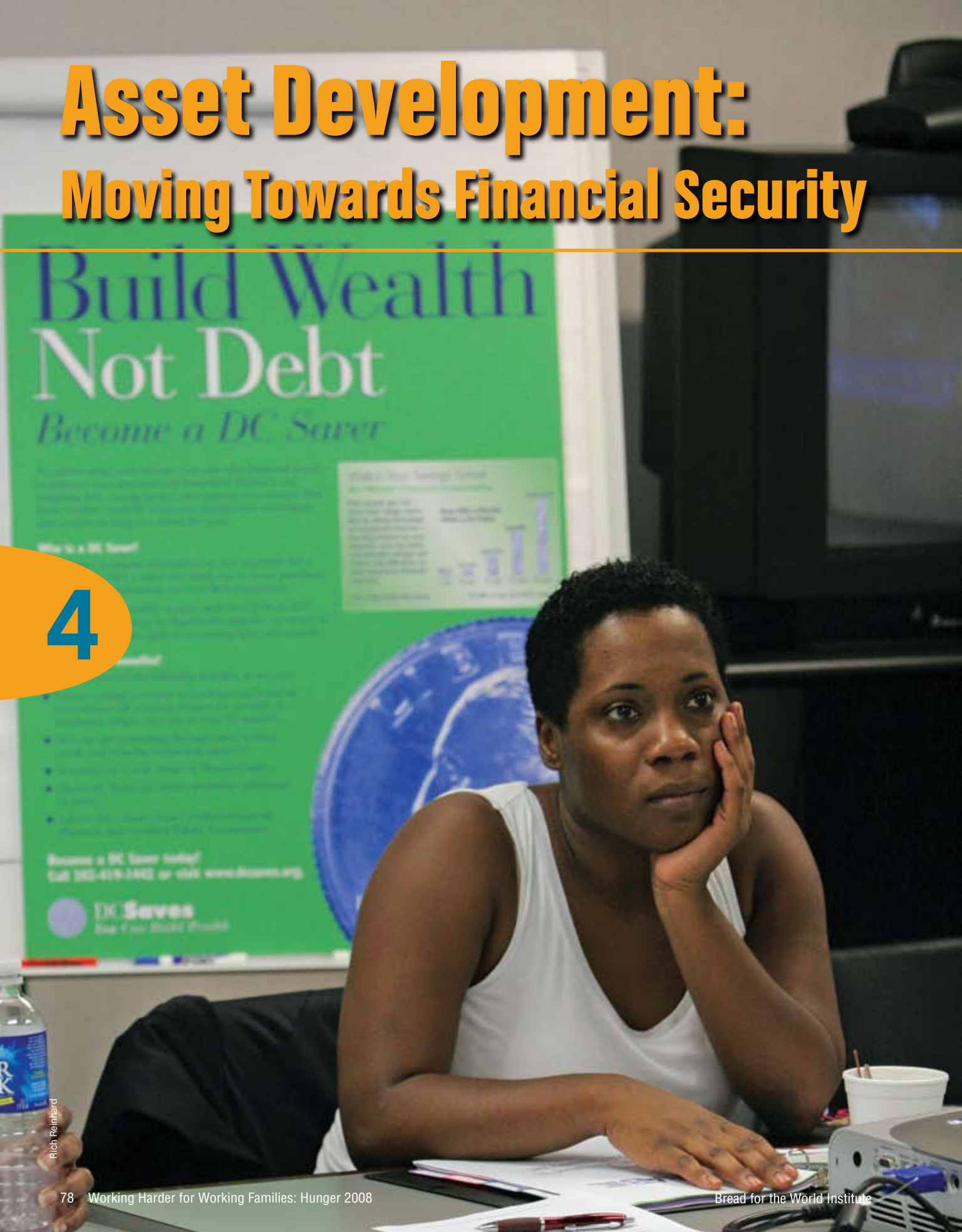
The inability to gain financial ground through hard work and higher earnings can have serious consequences for low-income families. Workers are forced to choose between their long-term success in the workforce and their family's immediate financial stability. If workers feel compelled to turn down small raises or additional hours of work to retain their health insurance or child care benefits, they lose future opportunities for promotion.

They have little incentive to work harder or to invest in training and education that would, in the short run, have little net payoff. In this way, our current work support system betrays the promise of the American dream.

This article is adapted from *Supporting Work in Illinois: The Challenges Ahead* by Kinsey Alden Dinan and Nancy K. Cauthen at the National Center for Children in Poverty (www.nccp.org).

Asset Development:
Moving Towards Financial Security

4



Rich Reinhard

Families cannot achieve true financial security simply by going to work at low-wage jobs; in fact, full-time work at low wages finds many families still living in poverty. The federal government response should be to strengthen work supports, as discussed earlier, and to assist families in developing assets, the subject of this chapter.

"Asset" is a broad term. The policies addressed in this chapter concern the accumulation of financial assets and how they lead to greater financial security. Financial assets are homes, cars, jewelry and other valuables. They also include stocks and bonds, savings accounts, pensions and retirement plans. Financial assets are not the only assets people need in difficult times. A large and supportive extended family and community of friends and neighbors are also assets. So are a stable marriage, good health, and specialized job skills. We would be remiss not to identify all of these as valuable assets, but here we focus on assets which can provide the financial cushion families need to stay out of poverty for good.

Assets and Poor People

Michael Sherraden of the Center for Social Development is credited with identifying asset development policies as an important "gap" or missing piece in anti-poverty programming, and he remains a major figure in the asset development field. With his 1991 book *Assets and the Poor* and subsequent writing, Sherraden has led a movement to broaden asset development policies at the federal, state and local levels to be more inclusive of low-income families. Sherraden's message is timeless. "Few people have ever spent their way out of poverty," he writes in *Assets and the Poor*. "Those who escape do so through saving and investing for long-term goals."

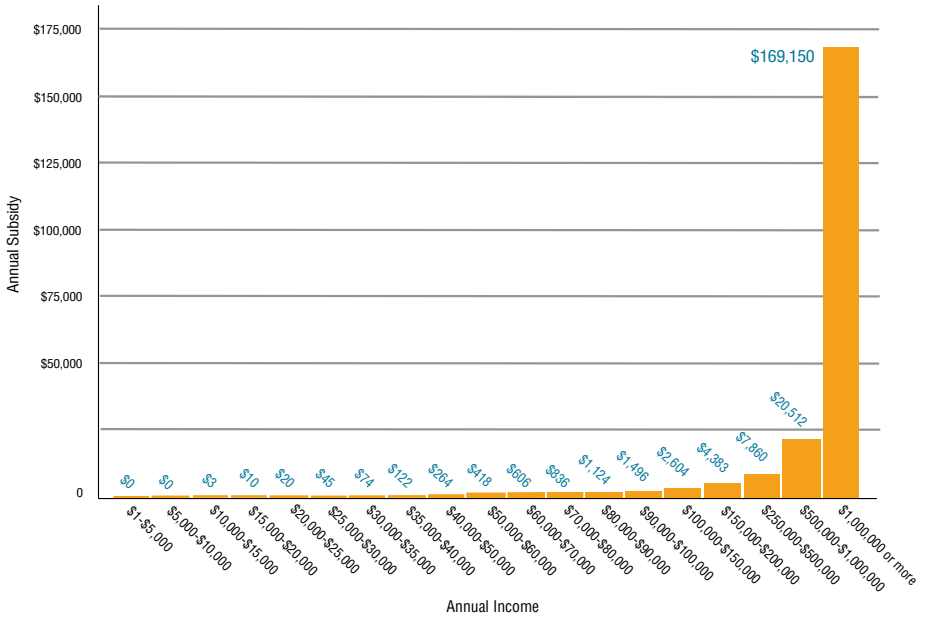
While interest in asset development as a poverty reduction strategy has increased since publication of *Assets and the Poor*, government policies to promote asset development as a way to fight poverty have not kept pace. Asset development policies for poor people still receive only a fraction of the support provided for policies benefiting those who are not poor—provisions like favorable tax treatment for IRAs, 401(k)s and other pension-related contribution plans and mortgage deductions for homeowners. In fact, of the $407 billion in resources dedicated to asset building in the 2007 federal budget, all but $18.9 billion benefits primarily families earning above the median household income.[1] The richest 10 percent of households receive nearly half of all federal support for retirement savings, and nearly 90 percent of the homeowner's mortgage deduction goes to households with adjusted gross incomes of more than $50,000.[2]

"The top fifth of taxpayers (those with incomes greater than $80,000) receive 88.7 percent of asset-

building benefits," reports the Corporation for Enterprise Development. "In contrast, the lowest 60 percent of households get a bit less than 3 percent of the benefits."[3] Asset-building subsidies for poor people are not only scarce compared to those for wealthier people—they are also scarce compared to funds for traditional poverty-reduction programs like Temporary Aid for Needy Families (TANF), the Food Stamp Program and Medicaid. The irony of this is that asset development could help some families reduce their reliance on these income-support programs.

Figure 1: **Distribution of Asset-Building Subsidies (Fiscal Year 2005)**

Tax benefit, in dollars, from the mortgage interest deduction, property tax deduction, and preferential rates on capital gains and dividends to households by income level.



Source: Corporation for Enterprise Development, based on data collected from the Institute on Taxation and Economic Policy.

We need to be clear that asset development cannot replace the traditional anti-poverty safety net. The best way to think about asset development is as a complement to traditional safety net programs. It takes time to build financial security, especially for those starting with few resources, and so a strong safety net remains as important as ever.

Those most likely to benefit from asset development may still be struggling but are able to see past this month's bills. Earlier in this report, we introduced you to Janet Smith, a single mother with two children living below the poverty line in Washington, D.C. Janet's children are good students, and Janet wants very much for them to go to college. She wishes she knew more about saving. She sees commercials on television, but it seems like they are meant for someone other than her. She is correct. The commercials overlook her aspirations because she is poor, but what do they really know about Janet?

The notion that poor parents want something different for their children than do parents of children in higher-income families is contradicted time and again by people like Janet.

Do Poor People Save?

Some well-meaning people are initially startled by the idea of supporting poor people's efforts to save money. "Don't they have to spend everything they earn to get by?" Of course it is harder for poor people to save, but it is a misperception to think they don't or won't. Research shows that even people with incomes well below the poverty line save to acquire assets.[4] Poor people can be as disciplined about saving for their goals as anyone else. The problem

is less about having the will to save and more about having a structure and a plan that allow savings to multiply.

For most people, having a structure that makes it easy to save means that they are more likely to do so. Bank accounts are a common example of such a structure. But low-income neighborhoods are often ignored by banks, a problem discussed in more detail below. Employers provide another structure by including a 401(k) plan in their benefits package. But in the jobs held by low-wage workers, options like this are seldom offered.

Beginning in 1997, a national research study known as the American Dream Demonstration (ADD) was launched to test the effectiveness of asset development programs for poor people. Results from the ADD should dispel doubts about the usefulness of tailoring asset development programs to low-income households. See Table 1. From 1997-2003, researchers examined 14 small-scale pilot programs set up as Individual Development Accounts (IDAs), a new model to promote saving with matched contributions by a government or private entity. The IDA movement has grown since the launch of the ADD, and there are now more than 500 IDA programs operating around the country.[5] More than half of all states include IDAs in their TANF programs—a good example of how structures to encourage saving can be incorporated into anti-poverty programs.

Most IDAs require that the savings be used only for a home purchase, post-secondary education or establishment of a business. Account holders can withdraw their savings at any time, but they risk losing their matching funds if they withdraw savings to spend on something other than the approved purposes. The match may be $1 contributed by the federal government or a private entity for every $1 saved by a participant. Some matches are 2:1 or higher—each program sets its own rules.

So far, it appears that the most successful IDAs are those administered by a nonprofit institution that also provides financial education for participants—

Renee's story, Part 5

I started taking photography seriously six years ago. Now I am developing a business at it. Initially, I know it will only supplement my income from my other work, but someday I hope it will be my full-time job.

I used to take photos at my daughter's Girl Scout troop meetings. Some of the other mothers there said I was good enough to be professional. One of them was getting married and asked if I would photograph her wedding. I've done dozens of weddings since then, but I have not charged money for them, instead asking for donations.

This is the first year I'm putting a price tag on my services. I have a lot to learn about running a business. I ask people who have their own business for advice. So far this year I've made about what I spent on my equipment and on marketing. I have researched what I can charge. Most wedding photographers charge $2,000 per event. I'm going to charge $250 per hour starting out, or about $1,500 for a day. I have a brochure. I even had t-shirts made with the name of my business.

I probably waited longer than other people would before launching into this. I knew I wanted to do it for years. I suppose I still wrestle with self-esteem issues. You can't go through the kinds of experiences I have and expect to leave them behind forever. It's been a slow process accepting that I can run a business, but I'm ready to do this now because I feel good about where my life is heading.

This is the final entry in Renee's story. Previous entries appear in earlier chapters.

Renee Musser Hummell and her family live in Staunton, VA.

critical because account holders often enter the program with minimal skills in managing finances. Results from the ADD study of IDAs suggest that 10 hours of financial education is sufficient to explain how saving works and recommend some strategies for managing money. ADD studied a group of 2,000 people participating in IDA programs. Their average household income was 116 percent of the poverty level, and their average savings per month was $19.07. With an average match of 2:1, the amount saved per participant was approximately $700 per year.[6]

Table 1: **Highlights from the American Dream Demonstration**

Deposit, Withdrawals and Savings Outcomes
• Average monthly net deposits per particpant were $19, and average gross deposits were $40
• Net deposits for the average participant were $528, and net deposits plus match per participant were $1,543
• With an average match rated of about 2:1, participants accumulated about $700 per year
• 32 percent made a matched withdrawal at time of data collection (more did so later), with an average value of $878 and $2,586 with matches
• Matched withdrawals were used for home purchase (28%), micro enterprise (23%), higher education (21%), and home repair (18%)
• About 64 percent of participants made unmatched withdrawals, and the average amount removed was $451
• The average participant contributed 51 cents for every dollar that could have been matched
• The average participant made a deposit in about 6 of every 12 months
• On average, the contribution rate was 1.6 perent of monthly income

Source: Center for Social Development.

Obviously it takes time to accumulate a substantial asset base, but a small business can be capitalized with a few hundred dollars and a home purchased with a down payment of a few thousand dollars. Most participants in the study were saving to purchase a home, followed in order by small business development, post-secondary education and home repair. In interviews with participants, researchers found that the IDA motivated people to stay employed longer and to work more hours. An impressive 93 percent of participants said they felt more confident about their future, and 85 percent felt more in control of their life.[7]

Investing in Hope

Several studies have documented the positive effects of asset ownership on poor families. Asset ownership is associated with increased economic security and well-being among families receiving government assistance.[8] Children in low-income families with assets do better in school and stay in school longer than children in families without assets.[9] Teenagers in families with assets are less likely to have children than teenagers in families without.[10] Other studies show positive correlations between asset ownership and physical and mental health, both in adults and children.[11]

Assets also pay other kinds of dividends, some of which are hard to measure precisely. They provide financial stability and a sense of security during periods of unemployment. A study of nearly 200 out-of-work autoworkers found that homeownership was a significant factor in the reduction of stress because of its perceived contribution to economic security. Homeownership also increases social and political involvement at the local and neighborhood levels. When families build assets, the communities they live in also benefit, and so does society, because healthy communities require far less in the way of government resources to remedy social problems caused by poverty. [12]

One should never underestimate the power of hope. Testimonials like the

following from Jamie Gaunt of Indianapolis are common from people participating in IDA programs: "With getting this IDA, and starting my floral classes, it has really helped boost my self-esteem. Every time I accomplish a class—I have finished five now—every time I receive a little certificate I just feel that much greater about myself that I accomplished something else, and that I can do it. Ten years from now I see myself having my own floral shop, owning my own home, my daughter having everything she needs, and living a very stable life."[13] Testimonials like this corroborate what Sherraden has been saying since publication of *Assets and the Poor*: asset accumulation gives families "an orientation towards the future," or more simply, "hope."

Asset Stripping in Low-income Communities

In low-income neighborhoods across the nation, predatory financial practices strip away that hope. Payday lenders and check-cashing outlets are the most conspicuous examples. "To most Americans, these services are invisible," writes Howard Karger, author of *Shortchanged: Life and Debt in the Fringe Economy*, "but they are part of the landscape that makes up poor neighborhoods." In fact, there are now more payday lenders and check-cashing outlets than all McDonald's, Burger Kings, Targets, Sears, and Wal-Marts combined.[14]

The Center for Responsible Lending estimates that payday lenders cost American families $4.2 billion every year in predatory fees.[15] Studies of the payday lending industry routinely find annualized interest rates of 450-600 percent.[16] Here is how a payday loan works. The borrower who takes out a loan for $300 receives $250 in cash from the lender and pays a $50 finance fee. The $300 must be repaid within two weeks. If the borrower cannot make the payment, he or she ends up renewing the loan, paying still more in fees. Nine in ten borrowers take out at least five payday loans per year, and nearly a third take out 12 or more loans.[17]

Payday lenders appeal to low-income consumers because they provide ready cash without the credit checks that take time and might disqualify them from other types of loans. Two out of three borrowers are women, according to a national survey—a statistic that speaks to the industry's success in marketing to families on TANF.[18] Discrimination based on gender and race runs rampant in the payday lending industry. A 2005 study on payday lending in North Carolina found that compared to white neighborhoods with similar income demographics, African American neighborhoods had three times more payday lenders per capita.[19] Anecdotal reports suggest the same situation elsewhere around the nation.

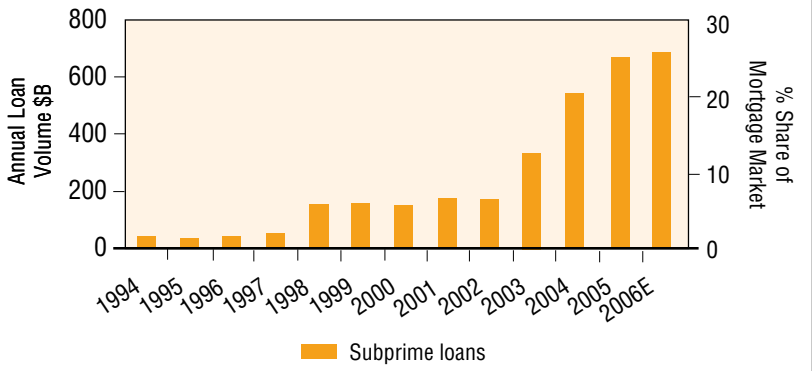
Another asset stripper in low-income communities is the subprime interest mortgage loan. Subprime loans carry interest rates that are much higher than those paid by borrowers with good credit histories. Low-income

Rick Reinhard

Payday loan stores are disproportionately located in African-American neighborhoods and around military bases.

families have a harder time establishing good credit ratings, and as a result, they often pay subprime rates to finance large purchases such as a home or car. Subprime interest rates on car loans can be double—or triple—the rate for prime borrowers.[20] The financial consequences of taking out a subprime loan are significant: over the course of a 30-year mortgage, a 13-percent subprime interest rate on a home loan of $107,500 will cost a homebuyer $184,977 more than a 7-percent prime mortgage.[21] Yet for many low-income families with shaky credit histories, the only way they will ever be able to purchase a home is with a subprime mortgage loan.

Figure 2: **Subprime Mortgage Market Growth**



Source: Inside Mortgage Finance.

The number of subprime mortgages began rising dramatically during the 1990s, increasing nearly tenfold over the decade. There is a wealth of evidence to demonstrate that subprime lending is concentrated in low-income and minority communities. Between 1995 and 2005, minority homeownership grew nearly as fast as white homeownership, due to the explosive growth in subprime lending. By 2005, one in four home loans was made at a subprime rate.[22] See Figure 2. Again, African Americans were singled out as targets for these loans by lenders. Studies have found that African Americans were 450 percent more likely to receive a subprime loan than whites, even when they qualified for a prime-rate loan.[23]

Another financial practice that strips resources from low-income families is the Refund Anticipation Loan (RAL) offered by tax-preparation firms ("So you get your tax refund faster.") RALs are extremely popular with low-income households that qualify for the Earned Income Tax Credit (EITC). As noted earlier in this report, the EITC is the largest federal anti-poverty program, lifting millions of people out of poverty every year. Households which receive the EITC collect an average of $2,100 in potentially asset-building savings.[24] But the EITC has also become a huge moneymaker for tax preparation firms like H & R Block and Jackson Hewitt, accounting for more than $1 billion in profits each year.[25] The National Consumer Law Center describes RALs as "usurious," and it is hard to argue otherwise when annualized interest rates on RALs run as high as 700 percent on a loan of $200.[26]

Asset Protection Strategies

To craft public policies that begin to address the phenomenon of such asset-stripping business practices in low-income communities, policymakers must admit that usury is real and widespread. Mainstream U.S. businesses have been caught red-handed exploiting low-income consumers. In 2002, CitiFinancial, Citibank's subprime lending subsidiary, was prosecuted for deceptive marketing practices and forced to pay $240 million to settle the

Payday Lenders and the U.S. Armed Forces

Studies show that military personnel are three times more likely than civilians to use payday lenders. "There can be no doubt that military families are among the targeted groups," says outraged Admiral J. L. Johnson, former member of the Joint Chiefs of Staff, expressing the views of many top military officials.[27]

The admiral's observations have been proven right by researchers using geographic information systems to study the location of payday lending businesses with their corresponding zip codes. Zip Codes where military bases are located have some of the highest concentrations of payday lenders. "There is irrefutable geographic evidence," conclude the authors of the study, "demonstrating payday lenders are actively and aggressively targeting U.S. military personnel."[28]

iStock

It is estimated that payday lenders cost military families $80 million per year in abusive fees, according to the Center for Responsible Lending.[29] What makes military families so susceptible? Besides the close proximity of bases to payday lending stores, families' youth and financial inexperience are two big reasons, according to the military's own analysis. Add to this the stresses associated with living on a soldier's pay, the long periods when service members are on deployment and away from their families, and the additional stresses associated with serving during wartime.

Officers are concerned that the stresses associated with soldiers owing money to payday lenders may be undermining troop readiness and morale.[30] In response, military brass lobbied hard and succeeded in getting Congress and the Administration to restrict how much payday lenders could charge on loans near military bases. The 2007 Defense Authorization Bill set a limit of 36 percent interest. Consumer advocates applauded the lawmakers for setting these restrictions. How much of a difference it will make only time will tell.

case.[31] In 2004, a federal court judge in Chicago upheld racketeering charges against H&R Block for the high interest rates it charged EITC recipients for RALS.[32]

Regulation is not a popular word among lawmakers, but there are many circumstances, like those described above, where it may be the most appropriate response. It is worth noting that it was the deregulation of financial industries in the first place that paved the way for subprime and predatory lenders to gain a foothold in low-income communities. Regulation of predatory lending might not mean an immediate increase in savings by low-income families, but at least there would be stronger protections to stop unscrupulous lenders from getting at those assets.

Gracey Stinson

Another first step would be for more banks to offer services that compete with payday lenders. In many areas of the country, banks have abandoned low-income communities. Payday lenders and check-cashing facilities do such a brisk business largely because they have little or no competition. "Banks make money off of people having savings and using other products," says economist John P. Caskey, who studies the relationship between financial services and low-income customers.[33] Minimum balance fees are used to stop people from keeping an account with a low or zero balance. Banks charge other finance fees that put a squeeze on an already tight budget. A bounced check of a few dollars can trigger an over-draft charge of $35. Banks frequently will not cash a check for people who do not have sufficient funds in their account to cover the amount. While bank fees are lower than those of payday lenders, the difficulty of accessing a bank and the many finance fees may make the payday lender more attractive. Around the nation, 13 percent of all households do not have a savings or checking account, and the vast majority of them are in low-income communities.[34]

'Those most likely to benefit from asset development may still be struggling but are able to see past this month's bills.'

Banks need incentives to adapt their services to the needs of low-income families. One incentive could be maintaining an acceptable rating under the Community Reinvestment Act (CRA). Established in 1977, the CRA is designed to ensure that financial services are available to low-income communities. The CRA was created primarily to address the problem of redlining—automatically excluding certain neighborhoods or entire ZIP codes from eligibility for bank loans—and to encourage banks to improve access to credit. But the CRA has been slow to adapt to changes in the financial services industry, including the emergent role of payday lenders. Giving CRA jurisdiction over a wider range of financial services would help stop payday lending by providing alternatives. Another way to provide a better choice is to strengthen Community Development Financial Institutions (CDFIs). These are credit unions and other nonprofits that provide competitive financial services in low-income neighborhoods.

There is an easy way to help families preserve more of their EITC refunds. In some communities, the Internal Revenue Service partners with local government, nonprofits and businesses to offer volunteer tax preparation services. It would be relatively simple and cost-effective to expand this initiative. Free tax-preparation services not only allow people to keep a larger share of their tax refund, but provide an opportunity to share other information about finances, such as savings opportunities or federal work supports that people may not know they're eligible for.

Both fair access to credit and structures to help families save will strengthen low-income neighborhoods. A less direct approach is to subsidize businesses that agree to serve poor communities. Federal and state governments are doing this through initiatives such as the New Markets Tax Credit. By improving community access to needed goods and services, these programs can complement traditional anti-poverty programs, which channel funding directly to families or to nonprofit organizations. Several such efforts are now underway: New York subsidizes banks that open in underserved low-income neighborhoods, California subsidizes car insurance rates for low-income drivers, and Pennsylvania provides subsidies to medium and large grocery stores that move into low-income neighborhoods. It may be too early to say whether these ideas work, but the results so far appear promising.[35]

Rick Reinhard

The GI Bill: Doing Something Great, Building Something Great

- Bob McIntyre

There are not many U.S. government policies that can truly be called transformative in that the outcomes fundamentally changed the nature of American society. What we know as the 'GI Bill' certainly has proven to be in that select category.

On June 22, 1944, just 16 days after D-Day, President Franklin D. Roosevelt signed The 1944 Servicemember's Readjustment Act (commonly referred to as the GI Bill) into law. Despite its reputation today, the GI Bill was a controversial piece of legislation which almost did not get to President Roosevelt's desk for signature. It was deadlocked in House-Senate conference, and was voted out only when a Georgia Congressman raced back to Washington to prevent the bill from being killed.

President Roosevelt signs the GI Bill of Rights.

Discussions in Congress had begun even before it was a certainty that the Allies were going to be victorious, because lawmakers wanted to mitigate the economic and social dislocations that historically accompanied the end of a war. The American government's failure to deal adequately with veterans' needs after earlier conflicts was part of the historical record.

When WWII came to an end, the number of veterans was going to be much larger than in any previous conflict. Approximately 16 million former servicemen and women were eventually going to return home, and the US government wanted to be prepared to handle their re-integration in American society, which had changed vastly since many of them had marched off to war. The American economy had since recovered from the Great Depression and was booming. No government official wanted to live through a post-conflict economic slowdown in which 16 million veterans were looking for a hand out or up.

There was much discussion about the advisability of permitting so many 'working class' men and women to attend college (previously available only to the privileged few), or putting them in a position to buy a single family house (once again, not usually within the means of the average American at that time). But the President and some forward thinking legislators, aided

by the American Legion, which drafted and championed the Act, eventually prevailed. The GIs got their ticket to join the middle class.

The principal provisions of the original GI Bill were: 1) to provide funding for college education (up to four years) or technical training; 2) to allow veterans to purchase a family home with extremely favorable terms (no down payment required, a lengthy repayment period, and the mortgage was guaranteed by the US government); and 3) to provide compensation for up to a year (which came to be known as the 'Fifty Two/Twenty Club') to assist veterans during their job search.

In 1940, the last census before the war, only 43 percent of American families owned their homes. By 2000, that number had grown to 66 percent. The GI Bill launched the process of America's becoming a home-owning society. During 1944-1952, the Veteran's Administration backed nearly 2.4 million home loans. In 1947 alone, the peak year of requests, the VA backed 640,000 loans for homes, farms and businesses. In addition to the immediate impact on the US housing industry, the creation of all of these "new" households had a significant ripple effect on many other consumer industries (e.g., automobiles and home appliances). The VA loan program indirectly impacted non-veteran families who also benefited from the increased supply of housing and lower cost consumer goods.

The same can also be said of the provision for educational assistance and technical training. By the time the original bill ended in 1956, 7.8 million of the 16 million veterans who were eligible for assistance had used their benefits to finance college education or training courses. Aside from the immediate impact of increasing the capacity of the American educational system, the ripple effects on the rest of American society followed soon after as these members of what is sometimes called the 'greatest generation' assumed leadership positions in US business, academia, and government. A look at a list of the leading members of American society in the 1950s-1980s shows that most of them directly benefited from the GI Bill.

The results of the GI Bill were as unexpected as they were transformative. It is fair to say that no one really knew what the impacts would be on the US economy, and no one predicted how successful the policies would be. But these programs created what we now regard as a middle class society.

Bob McIntyre is a retired Naval Intelligence Officer and a member of Bread for the World.

Looking Back, Looking Ahead

The United States has used broad-based asset development policies at other times in history. The Homestead Act of 1862 is an example of an asset development approach that was used to help U.S. families build wealth. Today, one-quarter of all citizens can trace their asset ownership to the Homestead Act.[36] The GI Bill is another example of an asset building program that enabled veterans from World War II and the Korean War to attend college and purchase homes. The GI Bill was an important catalyst for the expansion of the middle class during the 1950s and 1960s, providing more than 35 million Americans with tickets on the asset-building train.[37] "The baby boom generation, born between 1946 and 1964, marked a critical transformation in the American experience because a considerable number of them grew up in middle-class families that accumulated wealth for the first time," writes Thomas Shapiro.[38]

Trillions of dollars in assets have been transferred to children from parents who benefited from the asset development policies established after World War II. In fact, the United States became a middle-class nation largely because of government programs that helped families build and protect wealth. But many programs no longer exist or pale in comparison to what they offered decades ago. For years, Savings and Loan Associations provided loans for homeownership to low-income people and got special tax treatment from the federal government. These targeted programs were quite successful, but deregulation of the financial industry changed the way the associations operated, leading eventually to the infamous "Savings and Loan Crisis" of the 1980s. Pell Grants to attend college, another important benefit that members of the baby boom generation used to build assets, have not kept pace with the rising costs of college tuition. Today, a college education is out of reach for many young people who, in an earlier generation, could have attended college without taking on massive debt.


Rick Reinhard

Of course, not all families have had equal access to asset-building programs. Low-income families have been systematically excluded by the asset tests that are used to limit eligibility for government supports like the Food Stamp Program and Medicaid. The Food Stamp Program, for example, allows participants to have assets worth no more than $2,000. To enroll in the program, families are forced to choose between their savings and food. It is not difficult to guess what they choose. For many years, critics have pointed out that the asset tests pose a barrier to saving for low-income families, but only nominal reforms have been made. It is time that the government stops telling low-income families, "If you save for the future, you won't get our help today."

African Americans have been denied access to asset-building opportunities more than any other group. The 1995 book *Black Wealth/White Wealth*,

by Melvin Oliver and Thomas Shapiro documents the history. The authors show how structural barriers to building assets have been layered one on top of the other. This started, of course, with 250 years of slavery—what could be less conducive to saving money than being the legal property of someone else? After emancipation, African Americans did not share in the western expansion of the nation because the Homestead Act excluded them. Forty acres and a mule were not offered as promised. In addition, black codes and Jim Crow laws permitted the confiscation of African Americans' property with impunity.


Martin Luecders

Following World War II, the 1.2 million African American veterans were denied the opportunities given to white veterans to purchase homes and establish middle-class lives. For example, written into the charter of Levittown, NY was the following: "The tenant agrees not to permit the premises to be used or occupied by any person other than members of the Caucasian race," in clear violation of the equal protection clause of the 14th Amendment.[39] Given such a history, it is not hard to see the emergence of payday lending and the subprime mortgage industry as yet another structural barrier to asset development among African Americans.

One of the big ideas of asset development advocates is Child Savings Accounts (CSAs). Potentially, CSAs could be as visionary as the Homestead Act or GI Bill. A CSA works basically like an IDA—using matching funds. When a child is born, a CSA account is opened with a lump sum investment by the government. As the child grows up, the government continues to match funds that are added to the account. Funds may be contributed by the child's parents, relatives, church or others. When the child reaches a designated age, the funds can be withdrawn to help pay for post-secondary education.

'The establishment of a nationwide Child Savings Account program would be a major step toward promoting asset equality.'

The use of CSA funds is not necessarily restricted to college costs. Other uses could include purchasing a first home, investing in a business, or simply leaving the funds to continue growing into a retirement nest egg. A $1,000 lump sump investment maturing over 18 years at a 6 percent rate of return yields nearly $3,000 in and of itself. Add $100 per year in contributions and the return increases to more than $5,000. If $50 is contributed to the base amount each month, the total reaches more than $22,000.[40] CSAs can provide some real head-start assets for children to start their adult lives.

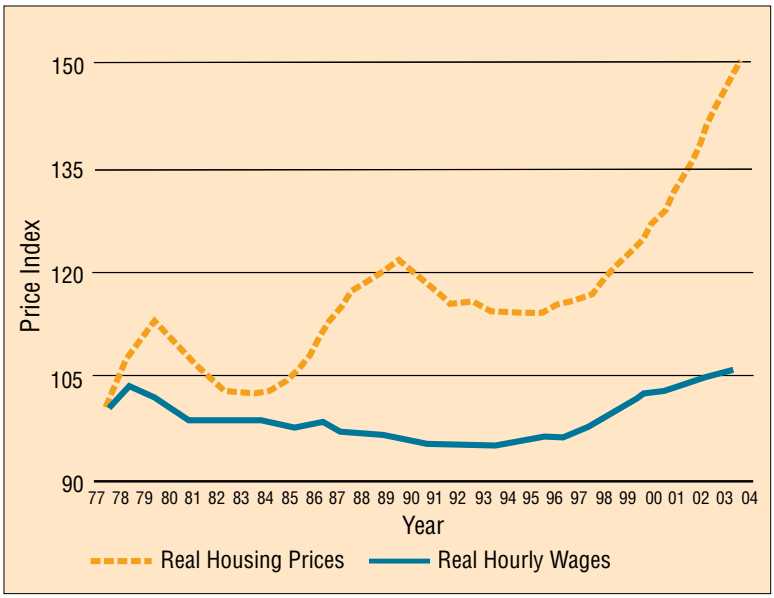
When people with assets are asked how they expect to use their wealth, about nine times out of ten they say they want to provide advantages to their children.[41] These could be anything from paying for college to setting up a trust fund to helping with a down payment on a house. Approximately

half of all wealth reaches owners through intergenerational transfers. But in low-income families, there is rarely any wealth to pass on. The establishment of a nationwide CSA would be a major step toward promoting asset equality in the United States. Currently, 26 percent of white children, 52 percent of African American children, and 54 percent of Hispanic children are starting life in households that have no resources whatsoever to invest in their future.[42] All U.S. children would benefit from a CSA, but low-income children would benefit most since they are "asset poor."

On the Way to Financial Security

Government can promote asset development for the poor "in the same way that it currently structures programs for the non-poor," says Ray Boshara of the New America Foundation, "—through employers, financial institutions, and other entities that reach or could reach low-income persons."[43] Our current national asset development policies provide the structure—an expansion is what is needed. So far in this chapter, we have focused on some ways that low-income families lose out on assets and how to protect those assets, and on mechanisms to help families save, such as IDAs and CSAs. Next we turn to the assets themselves: which types of assets help families build financial security? We focus on the "big four": homeownership, retirement savings, microenterprise and post-secondary education.

Figure 3: **Housing Prices and Hourly Wages**



Source: Center for Economic and Policy Research's Analysis of the Office of Federal Housing Oversight's House Price Index and the Bureau of Labor Statistics' Current Employment Statistics, various years.

Homeownership

A home is more than a roof over one's head. It is the asset that provides the greatest return on investment for most families. This is why homeownership remains the most widely accepted milestone in achieving the American Dream. However real or illusory the American Dream is in 2008, one thing that's certain is that for families who own a home, it is central to their asset portfolio. Home equity is the number one source of wealth in lower- and middle-income families.

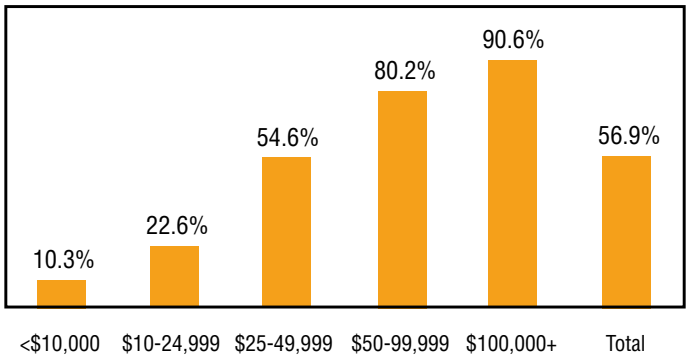
Wealth differences between homeowners and renters with the same incomes are striking. This is true for low-income people as for other groups. For example, in the Federal Reserve's 2004 *Survey of Consumer Finances*, the average net worth of homeowners with incomes below $16,000 was $73,000, compared to $500 for renters.[44] Home equity is 63 percent of the wealth of African Americans and 61 percent for Hispanics, compared to 38.5 percent for whites.[45] In spite of this, a significant gap of 25 percent remains between the homeownership rates of minority groups and those of whites.[46]

Homeownership is widely recognized as a social good that promotes healthy families and communities—outcomes that everyone can agree are desirable. But the cost of owning a home remains well out of reach for too many low-income families. Income growth has not kept pace with the rising cost of homes. See Figure 3. Between 1978 and 2003, the average cost of a home rose 30 percent more than the incomes of working families with children. According to a study by the Center for Housing Policy, the rate of homeownership for families with children is actually lower today than it was in 1978.[47]

The largest obstacle for first-time home buyers is the down payment. A refundable tax credit could be used to help first-time buyers save for the down payment. A tax credit of 50 percent on $1,000 saved, for example, amounts to a $500 benefit. This is just one of several ways that the federal government could make it easier to afford a home.

Homeownership is not a panacea, and not all families are ready to purchase a home. In the rush to buy houses, many low-income families have fallen victim to unscrupulous lenders. Affordable rental housing is another way to make it easier for families to build savings, but this has become harder and harder to find. Between 1993 and 2003, the number of units of affordable rental housing shrank by 13 percent.[48] The United States needs a balanced, comprehensive housing policy that not only offers more opportunities to buy a home, but also makes available more rental housing that low-income families can afford.

Figure 4: **Families with IRA or Retirement Plan from Current or Former Employer, 2004**



Source: U.S. Census Bureau.

Retirement Savings

Most people save for their retirement through plans sponsored by their employers. Unfortunately, low-income jobs are the least likely to offer an employer-sponsored retirement plan. In general, the lower one is on the income ladder, the fewer the benefits available through one's employer. Usually the problem is not that low-income workers are excluded from participating in a company plan—although that has happened—but rather that the employers they work for do not offer a retirement plan.

Social security is the bedrock of retirement security for low-income families. Currently, it is the only form of retirement income for a quarter of all people over 65.[49] Many Americans are anxious about their retirement, according to polling in recent years. The studies suggest that more Americans worry that they will not have enough money for retirement than worry about not being able to afford health care or about losing their jobs.[50]

High-income earners are privileged not only because their jobs are most likely to offer a retirement savings plan, including a generous employer match, but also because the tax code is designed to provide them with incentives to save. "For every dollar contributed to a 401(k) plan or to a regular IRA, a family making $30,000 per year is likely to get no tax benefit at all,"

explains Bernard Woser of the Century Foundation, "while a family taking home $400,000 per year is likely to get $0.40 or more [on every dollar]."[51]

The 2001 tax bill created a new program called the Saver's Credit that was intended to reward low-income families who save for retirement. The Saver's Credit includes a government match of up to 50 percent on a maximum annual contribution of $2,000 in any employer-sponsored retirement plan or a traditional or Roth IRA. But the Saver's Credit was flawed from the beginning. The credit can only be used to reduce tax liability, it is not refundable, and that means anyone who has negative tax liability is ineligible. By getting the EITC, many taxpayers end up with negative tax liability, making them ineligible for the Saver's Credit. The Tax Policy Center, a joint project of the Brookings Institution and the Urban Institute, estimates that if the Saver's Credit were made a refundable tax credit, 42 percent of the benefits would flow to individuals and families with incomes below $20,000 per year, and the credit would be available to 65 million people who are currently ineligible.[52]

Microenterprise

Studies show that low-income households often patch together a living from various sources of income, including a microenterprise, meaning a small business made up of five or fewer employees.[53] Sometimes employing just one person (the sole proprietor), a microenterprise can be a way to diversify the family's sources of income and acquire skills that can be transferred to wage employment.


Rick Reinhard

Farmers' markets function as microenterprises for many of the nation's small farmers and their families.

Microentrepreneurs range from carpenters to caterers to seamstresses to interpreters to massage therapists to any number of other professions. In a large-scale study of microenterprise development as part of a welfare-to-work strategy, researchers found that microenterprises raised average household income by more than 75 percent over two years—from $10,400 to $18,500.[54] Of the 20 million people who operate microenterprises in the United States, almost two-thirds are women, who often find it convenient since it allows more flexibility to balance home and work responsibilities.[55]

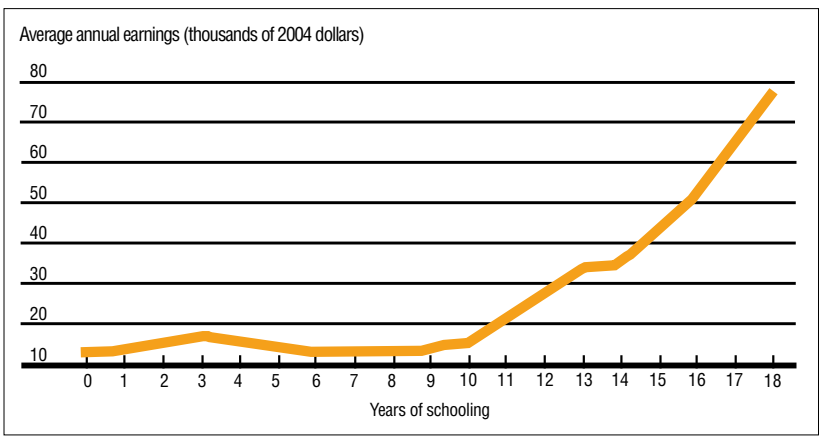
In the developing world, micro-enterprise development has been widely recognized as a poverty-reduction tool, especially for women. Muhammad Yunus was awarded the Nobel Peace Prize in 2006 for his work

on microlending with the Grameen Bank in Bangladesh. In the United States, microenterprise development programs exist but have been criticized for failing to reach the very poor.[56] Whether this is true depends on the individual program: in the American Dream Demonstration (ADD), the poorer the participants were, the more likely the goal they were saving for was a microenterprise.[57]

Microenterprise development programs can help people who want to start, strengthen or expand a small business. Clearly, the individuals who participate in these programs benefit from them, while less is known about whether and how communities benefit. In Bread for the World Institute's Hunger Reports on rural development, we have championed programs for rural America that encourage entrepreneurship and small business development, including microenterprises.[58]

Communities across the country, rural as well as urban, have experienced traumatic job losses when large employers go out of business or move away, taking their jobs with them. This is a common scenario in persistently poor areas of the country. Companies often leave in search of better prospects elsewhere. These communities need the creativity and entrepreneurial skills of their people, who have a key role to play in the economic rehabilitation of their neighborhoods and towns. The profits generated by local enterprises stay within the community and pass through other homegrown enterprises, rather than leaving the community for corporate headquarters in another part of the state or country. Thus, small business development is sustainable development that can build assets that benefit the entire community.

Figure 5: **Average Annual Earnings, by Years of Completed Schooling**



Source: U.S. Census Bureau.

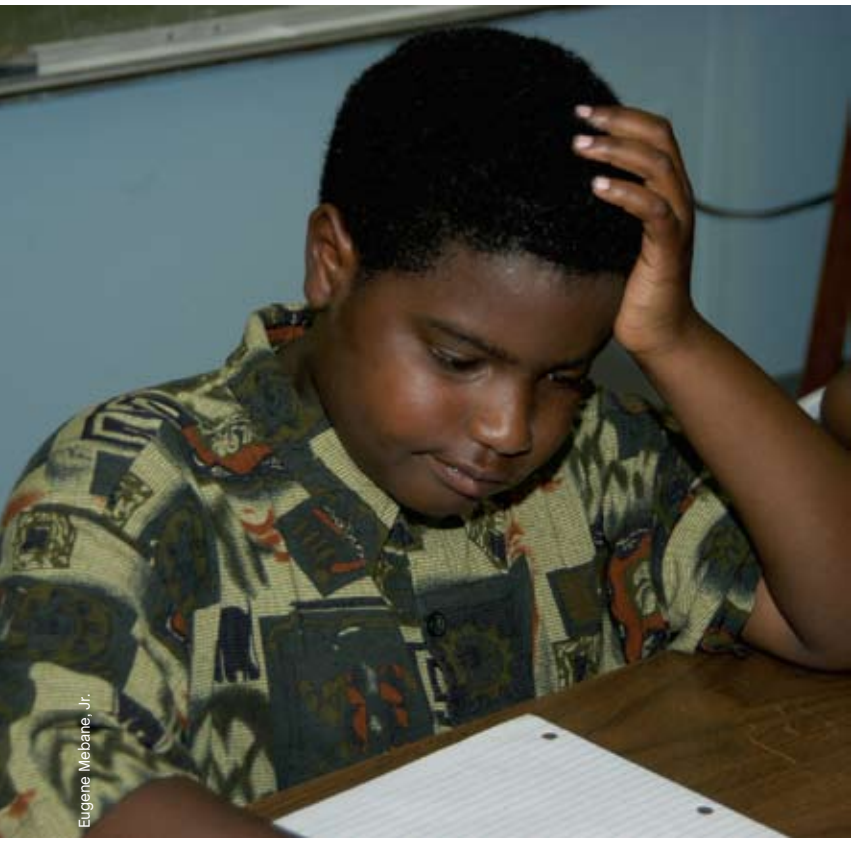
Post-Secondary Education

The importance of education as a pathway out of poverty cannot be overstated. People who graduate from high school earn more money over the course of their lives than people without a high school diploma. Likewise, people with college degrees earn more than high school graduates. Even some college coursework means higher earnings than none at all. A study of U.S. Census data suggests that for each year of schooling, earnings increase by more than 10 percent.[59]

A four-year college degree may not be right for everyone, but this does not mean education must or should stop with high school. Whether through vocational and technical schools, community colleges, or on-the-job training, people need access to education beyond high school to succeed in the work world. Elsewhere in this report we have discussed the importance of work-

force development strategies, including post-secondary education opportunities for adults. Here we focus on making post-secondary education affordable to low-income children.

Access to higher education, like access to preschool, is largely a function of a family's ability to afford it. Presently the average cost of college at a four-year public university is more than 70 percent of a low-income family's total income.[60] Beth Shulman, author of *The Betrayal of Work*, writes, "High school children from low-income families who had high scores on standardized tests were less likely to attend college than all students from the top income group."[61] At the nation's top colleges, less than 5 percent of the students are from the lowest income quartile.[62] Pell Grants once made college more available to low-income students, but today the average grant covers only about half the tuition costs of a community college.[63]


Eugene Mebane, Jr.

The 529 College Savings Plan is one way that families can save for a child's post-secondary education. These plans are popular with middle- and upper-income families. Currently there is no special advantage for low-income families who use them, but one possibility would be to expand the Saver's Credit to include 529 plans. For example, up to $2,000 per year in contributions to the 529 plan could be made eligible for a 50 percent government match.

The 529 College Savings Plan has also been recommended as a platform for a universal CSA. The 529s provide the "plumbing" for CSAs, as the New America Foundation describes it, with features such as "the ability to subsidize the cost of small accounts with larger ones, centralized accounting, a menu of investment options, and the state's role in providing outreach and incentives for participation."[64] Each state has its own 529. The state of Oklahoma, as part of a demonstration project, is testing the CSA concept by depositing $1,000 into the 529 accounts of 1,000 newborns and later comparing the outcomes to those of 1,000 children who did not receive such a financial contribution.

Improving access to post-secondary education will require a comprehensive, multifaceted approach. As it is now, higher education—the great equalizer in many people's minds—is all but out of reach for the 39 percent of U.S. children growing up in low-income families,[65] except for those bright and lucky enough to earn a scholarship or able to qualify for and pay back tens of thousands of dollars in loans.

Opportunity and Working Families

Lack of income means you don't get by. Lack of assets means you don't get ahead. These words are a mantra to many who want to focus more attention and resources on asset development in anti-poverty programs. As we said earlier, asset development cannot replace income support programs. The United States needs a safety net, but it also needs a ladder of opportunity. One is there to catch people when they fall, the other to allow them to reach higher levels. Some people are born into low-income families and never receive the opportunity they need to break their fall and begin to climb. All their lives they struggle against forces of poverty and hunger that seem as inexorable as gravity.

Metaphors, of course, are just that—metaphors. The real life experiences of families are cheapened anytime they are reduced to a catch phrase. In our experiences talking to low-income working families around the nation, we have yet to meet someone who does not dream or hope for a better life for themselves and their children and their children's children. It is why they go to work each day and why they work hard. Human beings are born with hope, and we have dreams and aspirations soon thereafter. Opportunity is where our birthright is put to the test. Since the society we live in is imperfect, opportunity is not equally distributed. Asset development is about making sure there is opportunity for all.

Eugene Mebane, Jr.

SEED Accounts

- Barbara Rosen, Corporation for Enterprise Development

What difference would it make if every child in America grew up knowing that she or he had a nest egg to go to college, buy a home, or start a business? What benefits would accrue to individuals, families, and society as a whole?

Like seeds, savings grow. And with them grow confidence, competence, connections, and capital—the elements of development. Like seeds, what starts small and unprepossessing gradually becomes significant and profound.

SEED accounts are long-term savings and investment accounts that are allowed to grow over the course of a lifetime. SEED stands for **S**aving for **E**ducation, **E**ntrepreneurship, and **D**ownpayment: a ten-year endeavor to develop, test, inform, and promote matched savings accounts and financial education for children and youth.

Corporation for Enterprise Development

SEED partners have established more than 1,400 accounts nationwide and are engaging different age cohorts, savings incentives, financial education approaches, and financial institutions. Seeded with an initial deposit of up to $1,000 and built by deposits from family, friends, and accountholders themselves, SEED savings are matched 1:1 and restricted for the primary purposes of financing post-secondary education, starting a small business, or buying a home.

Dena Jo Squyres

SEED has unleashed an entrepreneurial spirit in Dena and her fellow accountholders, who worked together to start an after-school business selling noisemakers and foam hands at athletic games. They have sold more than $3,000 in inventory and started to turn a profit, which they will invest in their SEED accounts.

Dena will be starting college a year early this fall to pursue her pre-medical degree. "I wasn't sure if it was possible to pay for college on my own and I had almost given up hope," she admits. "However, now, thanks to the SEED program, I am well on my way to saving for college."

The Cherokee Nation offers SEED accounts to 75 American Indian students at Sequoyah High School in Tahlequah, Oklahoma.

Madeline Spring

Seven-year-old "Maddie" has already started writing the business plan for the animal shelter she hopes to open one day. Maddie and 73 other second and third graders at Delmar Harvard Elementary School in St. Louis, Missouri received an initial deposit of $500 and can earn a dollar-for-dollar match and savings incentives up to $2000.

The elementary school has a unique approach to delivering financial education in a public school setting. SEED accountholders participate in weekly financial education classes during school hours and attend an after-school club to discuss the importance of saving. To further reinforce the habit of saving, kids receive $1 each week for attending the after-school club and make monthly trips to the bank to make deposits.

Corporatiion for Enterprise Development

Consider the Following

- More than a third of the 4 million American children born each year—and more than half of minority children—are born into families with negligible savings to weather emergencies or invest in their futures. Yet, 3 out of 4 poor American children live in families where someone works full or part time.
- An investment of $1,000 for 18 years at a 6 percent rate of return yields nearly $3,000. Add $100 per year and the sum jumps to more than $5,000. Contribute $50 per month to the base and the total reaches more than $22,000.
- People with bachelor's degrees earn over 80 percent more, on average, than those with only high school diplomas. The typical costs of attending a 2-year public college are below $2,000 per year; 4-year public college expenses are estimated to be just under $4,000 annually. Yet, 2 in 5 American children will never complete a single year of college.
- For the typical American household, home equity represents 30 percent of their net worth, far outreaching any other investment. While the average first-time homebuyer makes a down payment of less than $19,000, a typical homeowner has a net worth of more than $130,000 while a typical renter has only about $4,000.

Corporation for Enterprise Development

Dena Jo Squyers and some fellow SEED accountholders from her school.

Darlene Braboy

Losing her father at the age of four, Darlene Braboy grew up in a single-parent household in public housing in the Oakland-Bronzeville area of Chicago. "My mother did a tremendous job in raising seven children," she says. "Although we lived as a low-income family, we didn't seem poor. I remember my mother budgeting and saving not only to get the things that were needed, but also for some of the things we wanted."

In 2003, Ms. Braboy opened a SEED Account for her fourth-grade daughter, Darnecia. In May 2006, she participated in a policy briefing sponsored by the Shriver Center and the Federal Reserve Bank of Chicago. She spoke about how participa-

tion in the SEED program helped her focus on future goals for herself and her children and save more regularly. She, her husband, and their two children currently live in public housing, but plan to own their own home someday.

More than just a savings product, nationwide implementation of SEED accounts would move the United States closer to progressive and inclusive public policy in support of a universal savings and asset-building system for all Americans. SEED accounts can increase the savings rate, ensure a greater level of investment in children, improve the economic and social prospects for each succeeding generation, and increase the economic and social welfare of the nation as a whole. In no small sense, SEED accounts are an investment in the future of the economy.

Barbara Rosen is a Program Manager with the Corporation for Enterprise Development in Washington, DC. She works on the SEED Initiative.

The SEED Initiative is led by the Corporation for Enterprise Development, the Center for Social Development at Washington University in St. Louis, the Initiative on Financial Security of the Aspen Institute, the New America Foundation, and the University of Kansas School of Social Welfare.

The Initiative is funded by the Ford Foundation, Charles and Helen Schwab Foundation, Jim Casey Youth Opportunities Initiative, Citigroup Foundation, Ewing Marion Kauffman Foundation, Charles Stewart Mott Foundation, Richard and Rhoda Goldman Fund, MetLife Foundation, Evelyn and Walter Haas, Jr. Fund, W.K. Kellogg Foundation and the Edwin Gould Foundation for Children.

SEED Accounts: The Vision

Any SEED account policy should be:

Inclusive.

Accounts should be established at birth for every child in America.

Seeded with an initial deposit.

Every newborn should receive a modest but significant start-in-life deposit.

Designed to build lifelong assets.

Savings should be held until at least age 18 and should be used for only higher education/training, small business development, home purchase, or retirement.

Matched progressively.

Voluntary additional contributions from any public or private source (e.g. family, friends, relatives, community organizations, and parents' employers) should be incented by a public match that increases in value for lower-income families.

Simple.

Parameters of the account should be kept as simple as possible to enable low-cost, high- scale delivery (e.g. simple match rates, tax incentives, deposit structure, integration into tax forms).

Private-market oriented.

Accounts should be held primarily in private financial institutions that provide limited investment options.

Designed to build financial aspirations, knowledge, and skills.

Age-appropriate financial education should be delivered by a variety of sources (e.g. financial institutions, nonprofit organizations, youth development organizations, schools, and families).

Non-discriminatory to families on welfare.

Eligibility for means-tested programs should not be affected by savings in SEED accounts.

What Can You Do?

Conclusion

Margaret W. Nea

After reading a report like this, we imagine you may be asking, "Is there anything I can do?" There are a variety of ways to act on what you have learned, and this chapter offers some suggestions.

If you have read this entire report, it's clear that you value learning. We encourage you to continue to learn about hunger and poverty and to use that knowledge to be an advocate for necessary policy changes such as the ones outlined in this report. Ending hunger and poverty may seem like a monumental task, but in the end, it really comes down to political will. Changing the political dynamics of these issues starts right within our own circles of family and friends and spreads from there to our communities and beyond. By sharing this report with others, you can help mobilize the political will needed to end hunger and poverty in this country and around the world.

Bread for the World Institute can continue to help you to learn about hunger and poverty. The Institute is the research and education partner of Bread for the World, a collective Christian voice urging our nation's decision makers to end hunger at home and abroad. In addition to our annual Hunger Report, the Institute produces other educational resources for Bread for the World members and the public at large. The Institute helps people in the United States tell the story of hunger and poverty in their communities and around the world. You can learn more about the Institute and what we do by visiting our Web site at www.bread.org. You can also learn from other groups who work on the issues discussed in *Working Harder for Working Families*. We include the Web site information for several at the end of this chapter.

People of faith are often inspired to learn so that they can be better witnesses of Christ's love for hungry and poor people. As Bread for the World's president, Rev. David Beckmann, says, "Jesus has taught us we must use both our heart and our head." We can suggest many books by authors whose work will help to ground your learning in your faith. Larry Hollar, a Bread for the World organizer and Presbyterian elder, has produced a splendid series of books, *Hunger for the Word: Lectionary Reflections on Food and Justice* (Years A, B, and C). Bread for the World's founder, Rev. Arthur Simon, is a prolific author whose books include *How Much is Enough?* and *Grace at the Table: Ending Hunger in God's World* (with David Beckmann). There are many other helpful books, some classic and some new. Ronald Sider's book *Rich Christians in an Age of Hunger: Moving from Affluence to Generosity* was published in 1978 and remains as relevant today as ever.

In addition to learning and sharing knowledge, another way to make a difference is by voting in local, state and national elections for candidates who support programs to end hunger and poverty. 2008 is an election year; congressional candidates and possibly presidential candidates may pass through your community to give a speech or

conduct a town-hall meeting. You could use these opportunities to question candidates about how they intend to address hunger and poverty. We encourage you to get to know your elected officials and talk to them about hunger and poverty on a regular basis. Write a letter, call their offices, and visit them and their staff. View this as an opportunity to help them better understand the policy questions. They are responsible for representing your community on all issues, and it is not possible for them to be specialists on every topic. They may not see the web of connections associated with hunger and poverty as well as you.

Senator Ben Cardin meets with a Bread for the World delegation from Maryland during the annual Lobby Day in June 2007.

We encourage you to join Bread for the World if you are not a member already. When you join Bread for the World, you will be part of an organization with members from across the country who are advocating for hungry and poor people. Bread for the World members focus on using the power we have as citizens in a democracy to influence government policies affecting hungry people. It is the commitment, energy and faith of our members that makes Bread for the World effective.

Bread for the World members often form groups with others from their churches, communities or colleges. Some groups meet a few times a year to take specific action, such as visiting their members of Congress or planning a workshop for local congregations. Others are much more active and work in networks with other activist groups. Bread for the World member Jane Klopfenstein from Edwardsville, Illinois, describes how she works with other Bread for the World members in her church. Here is her report of a visit she made with five others to talk with Rep. John Shimkus, who represents their district, Illinois-19.

"I presented Representative Shimkus with a copy of the 2007 Hunger Report and briefly showed him what it contained. I pointed out that among the sponsors were the Lutheran Church Missouri Synod (his denomination) and Lutheran World Relief—as well as the Presbyterians, the Methodists, the Catholics, and many others.

"Our group had met at my house the night before and talked through everything we planned to say. We divided up the points we wanted to make, and had prepared a couple of paragraphs on each one, about half a page each. After each person spoke, she handed him the written piece summarizing what she'd said. I think we showed him that we do our homework and are a credible voice."

Bread for the World members have, in fact, been a credible voice on hunger and poverty since 1974. Bread for the World is 58,000 members strong and growing rapidly. Year after year, Bread for the World wins legislative victories

for hungry people because of people like you. Bread for the World members make a difference!

Some members use the media to bring issues of hunger and poverty before the public. Over the past decade, Bread for the World member Ellen Fisher of Cedar Rapids, Iowa, has cultivated relationships with three successive editors at the *Cedar Rapids Gazette*. Ellen has persuaded the *Gazette* to write a number of editorials related to hunger and poverty. Some of these caught the attention of her member of Congress, former representative Jim Nussle, who was the chair of the House Budget Committee and represented Ellen along with other residents of Iowa's first and second districts. In the past few years, Ellen has written op-eds for the *Gazette* and the *Des Moines Register*, recruited dozens of people to write letters to the editor, pitched ideas for articles, appeared on a local TV program, *Ethical Perspectives on the News*, and worked to get hunger issues covered in her presbytery's newsletter.

We encourage you to contact your local newspaper or television news show and ask them to devote more attention to issues of hunger and poverty. For example, have any of your local media ever discussed asset poverty? Have they investigated or reported on what it costs for a low-income family to get by in your community? "Newspaper editors and radio and television producers love to receive tips from their audience," says Shawnda Hines, Bread for the World's Grassroots Media Associate. Shawnda works with Bread for the World members to help them place articles in their local media outlets.


Jim Stipe

Mike McCurry (front left), Kevin Eckstrom (center) and Barbara Bradley-Haggerty (right) discuss the impact of media on hunger issues at a workshop on Advocacy and the Media at The Gathering 2007, a Bread for the World event that included the annual Lobby Day.

Perhaps you are already an experienced anti-hunger activist, and the question for you rather is, "How can I be more effective at what I am already doing?" *Working Harder for Working Families* goes beyond what are traditionally considered "hunger issues" to explore the relationships between hunger and a number of other issues you might not have considered. Families at risk of hunger are probably many of those using payday loans and check cashing outlets, for example. Find out what other advocacy groups in your community are doing on these broader issues. For example, hunger may be on the increase in your community because there is not enough affordable housing. Are there groups advocating on housing issues? We are certainly not suggesting that you divert your attention from the work you are already doing. No one can do everything, and you are experienced in working against hunger—but there are ways to support hungry families indirectly as well as directly.

Activists multiply their effectiveness when they are working within networks. Technology is helping activists connect with each other in all sorts of new and creative ways. Mike Batell, a Bread for the World faith outreach

Government Not Doing Enough to Fight Hunger and Poverty, Voters Say

– Emily Nohner

Over the past five years, U.S. voters have been growing increasingly more concerned about hunger and poverty in the United States and around the world, according to polling conducted by the Alliance to End Hunger over this period.

Increasing numbers of Americans also consider hunger and poverty important issues in deciding which presidential and congressional candidates to vote for. Alliance to End Hunger polling indicates that voters are willing to spend significantly more money on programs to address hunger and poverty. Seventy percent of those polled would support spending an additional 1 percent of the federal budget on meeting the needs of the world's poorest people, and 66 percent favor spending up to an additional $18 billion per year to expand nutrition programs like the Food Stamp Program and the School Breakfast Program.

In the most recent polling (June 2007), 42 percent of those questioned said "fighting hunger and poverty" was the biggest moral issue among all the choices offered, including protecting the environment, abortion and gay marriage. Voters also believe that while fighting hunger has pragmatic benefits both for hungry individuals and for society in general, the moral call to action is the strongest reason to support hunger programs. The polling results point to a significant opportunity for advocates to turn evolving public sentiments into lasting and effective political change.

Read more about the polling at
http://www.alliancetoendhunger.org/

Emily Nohner is a program associate with the Alliance to End Hunger.

organizer, tells a story about a visit he made to a college campus in North Dakota, where he suggested to a group of students that they create an online One Campaign page on Facebook. A student left the meeting and did just that, inviting 15 of his friends to join—who then invited other friends to join, and so on. Before he left campus the next morning, Mike learned that there were already 150 people participating. Through the page, they are keeping each other up-to-date on events like campaign stops by candidates, sharing information about hunger and poverty, and building stronger networks for advocacy.

New communication tools like Facebook, MySpace and YouTube are just a few of the ways the Internet is changing how activists work together. But less technology-driven forms of advocacy still work well too. It is for you to decide what works best for you. It all makes a difference for hungry people.

Other Organizations Making a Difference

Many nonprofit organizations are working hard to improve public policies in ways that better support working families. The ones below are a sampling rather than a comprehensive listing. All are good sources for further information about the issues covered in *Working Harder for Working Families.*

ACORN (www.acorn.org) is the nation's largest community organization of low- and moderate-income families and a leader in the living wage movement.

Center for Community Change (www.communitychange.org) supports and coordinates low-

income community organizing nationwide. A top priority of the Center is to increase the power of groups that are organizing to meet the needs of low-wage workers and their families.

Center on Budget and Policy Priorities (www.cbpp.org) conducts research and analysis to inform public debates about proposed budget and tax policies, and to help ensure that the needs of low-income families and individuals are considered in these debates.

Corporation for Enterprise Development (www.cfed.org) expands economic opportunity by helping Americans start and grow businesses, go to college, own a home, and save for their children's and their own economic futures.

Good Jobs First (www.goodjobsfirst.org) is a national policy resource center for grassroots groups and public officials, promoting corporate and government accountability in economic development and smart growth for working families.

Jobs With Justice (www.jwj.org) is a national network of more than 40 local coalitions of labor, community groups, students, faith communities and individual activists united to fight for workers' rights and economic justice.

National Center for Children in Poverty (www.nccp.org) is the nation's leading public policy center dedicated to promoting the economic security, health and well-being of America's low-income families and children.

RESULTS (www.results.org) is a nonprofit grassroots advocacy organization committed to creating the political will to end hunger and the worst aspects of poverty by lobbying elected officials for effective solutions and key policies that affect hunger and poverty.

Wider Opportunities for Women (www.wowonline.org) works nationally and in its home community of Washington, D.C., to build pathways to economic independence for U.S. families, women and girls.

The Working Poor Families Project (www.workingpoorfamilies.org) was launched in 2002 by national philanthropic leaders who saw the need to strengthen state policies affecting low-income working families. The national initiative is now supported by the Annie E. Casey, Ford, Joyce and Mott foundations.

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