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THE ECONOMIC AND SOCIETAL COSTS OF POVERTY

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

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THE ECONOMIC AND SOCIETAL COSTS OF POVERTY

WEDNESDAY, JANUARY 24, 2007

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The Committee met, pursuant to notice, at 10:07 a.m., in room 1100, Longworth House Office Building, Hon. Charles B. Rangel (Chairman of the Committee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE CONTACT: (202) 225–1721
January 17, 2007
FC–2

Chairman Rangel Announces a Hearing on the Economic and Societal Costs of Poverty

House Ways and Means Committee Chairman Charles B. Rangel today announced the Committee will hold a hearing on the economic and societal costs of poverty. The hearing will take place on Wednesday, January 24, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

FOCUS OF THE HEARING:

There are 37 million Americans living in poverty, an increase of over 5 million since the year 2000 (after prior years of steady decline). The average weighted poverty threshold in 2005 (latest data available) was $15,577 in annual income for a family of three and $19,971 for a family of four. Poor Americans suffer various hardships, including reduced access to economic and educational opportunities, substandard housing, inadequate diet, greater levels of crime victimization, and diminished health. Less recognized, however, are the costs poverty exacts on society as a whole. Nevertheless, studies indicate that poverty reduces our Nation's economic growth and directly increases crime, health and other expenses absorbed by all Americans. The Committee's hearing will examine the nature and extent of these costs.

In announcing the hearing, Chairman Rangel said, "We have a clear moral imperative to address poverty. It is a stain on our Nation's legacy to have one of the highest child poverty rates in the industrialized world. But we also should be driven by self-interest. Poverty is a drag on our economy, and it causes or worsens a variety of other costly social problems. Simply accepting, or even ignoring high rates of poverty is likely more expensive for our Nation than any comprehensive effort to address the problem."

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee Web site and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "110th Congress" from the menu entitled, "Committee Hearings" (*http://waysandmeans.house.gov/Hearings.asp?congress=18*). Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, completing all informational forms and clicking "submit" on the final page, an email will be sent to the address which you supply confirming your interest in providing a submission for the record. You MUST REPLY to the email and ATTACH your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business **Wednesday, February 7, 2007**. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721.

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The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at *http://waysandmeans.house.gov*.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman RANGEL. The Committee will come to order. This morning we are going to have witnesses to share with us the impact of poverty on our economy and how it relates to future economic growth.

We have 37 million Americans in poverty, millions more only one step away from poverty. It just seems to some of us that if we are going to grow our way out of debt, we cannot be impeded by the fiscal consequences of poverty, lack of education and unemployment. We have experts who come here not with bleeding hearts, but trying to share with us what the costs of poverty are now, as well as their projected costs, so that we can try to find out whether, from an economic point of view, it would make sense to make some initial investments to stop the hemorrhage.

I would like to recognize the ranking Member, Mr. McCrery, for whatever remarks he would like to make.

Mr. MCCRERY. Thank you, Mr. Chairman. Again, I have prepared remarks that I will submit for the record, and I will summarize those as we will ask the witnesses to summarize their testimony.

Certainly all of us agree that too many of our citizens in the United States are living in poverty, and we all want to reduce that number or have that number reduced. The question is, how do we do it?

In the 1996 Welfare Reform Act, we included a very strong work requirement that was successful in moving literally millions of people into work, and the result of that was a dramatic reversal in the

growth of the rate of poverty. We also included in that legislation an emphasis on marriage and encouraging folks to get married to have children, and those two items, work and marriage, seem to be the most important indicators of preventing poverty.

So, while we look at programmatic changes at the Federal level, I hope that this Committee will continue to look at the importance of work and family, work and marriage when it—as it relates to the reduction of poverty.

Thank you, Mr. Chairman.

[The prepared statement of Mr. McCrery follows:]

Prepared Statement of The Honorable Jim McCrery, a Representative in Congress from the State of Lousiana

I think we would all agree that too many Americans today live in poverty. At the same time, we have made great strides in reducing poverty over the past ten years, and it is important to learn from our experience.

Poverty rates fell in 2005 after rising in the years following the 2001 recession. Today's poverty rates—both overall and child poverty—are below the levels seen throughout all of the 1980s, and most of the 1990s. But with 37 million Americans still poor in 2005, it is important to ask what works to reduce poverty, and what doesn't, and what should we be doing to make further progress.

From the mid-1960s through the mid-1990s, the Federal government spent literally trillions of dollars on programs designed to reduce poverty. While these programs offered many poor Americans cash and other assistance, the overall poverty rate, after declining in the late 1960s, generally stabilized at between 12 and 14 percent.

Republicans, and many Democrats, now realize that promoting work and healthy marriage are the key steps to reducing poverty.

The evidence suggests the pro-work reforms in the 1996 welfare reform law, coupled with generous work supports like the Earned Income Tax Credit, and a strong economy, have spurred record numbers of poor parents to go to work and lift their families out of poverty.

Since the 1996 welfare reforms, child poverty has fallen 13 percent, and over 1.4 million children have been lifted from poverty. Poverty has declined sharply among blacks and Hispanics, and in families headed by single mothers. By 2001, our Nation recorded the lowest poverty rate in U.S. history for black children. That number—30 percent—was still far too high, but it was a remarkable improvement from 41.5 percent in 1995.

While poverty rose somewhat following the 2001 terrorist attacks and recession, today's rate remains below levels throughout the 1980s and most of the 1990s. And that's using the "official" definition of poverty—which ignores tens of billions of dollars in tax credits, welfare, food, and housing benefits millions of poor families receive. In fact, numerous studies, based on solid Census Bureau data and taking into account all the income poor households receive, suggest the "real" poverty rate is closer to 5 percent, instead of today's "official" poverty rate of nearly 13 percent. That is likely the most accurate picture of the persistent poverty rate, as well. The fact is, most poor families in America don't stay poor for long, which is important in the context of how can we best help poor parents lift their incomes and improve their children's prospects.

But despite the remarkable progress we have seen on the work side of the equation, we have seen less progress in building strong, married families. That is exactly what we need to make long-term progress against poverty, and especially among families that are most likely to be in poverty year after year.

In 2004, a record number of babies—nearly 1.5 million—were born to unmarried parents. Despite recent progress, today almost one-half of first unwed births are to teenagers. The odds that these children will be poor are extraordinarily high. For example, a recent study found that a child born to an unmarried teen mother who has not finished high school is nine times more likely to be poor than if the mother is a married adult who has finished high school. Overall, nearly four in ten children are born to unmarried mothers today; in some communities the share of unmarried births is 70 percent or more.

That's why Republicans reprogrammed some welfare funds last year to support faith-based and other private groups interested in promoting more healthy marriages and stronger families. These programs provide voluntary services and supports for teens, couples, and parents designed to inform them about the benefits of

marriage—for them and their children. If these efforts are successful, young families will have dramatically improved chances of getting out of poverty and into the economic mainstream.

Chairman RANGEL. Thank you.

I would like to concur because sometimes poverty and unemployment is an impediment to the institution of marriage, and so I want to work with you on that aspect of the problem.

We have an outstanding panel this morning. Dr. Sigurd Nilsen is the Director of Education, Workforce, and Income Security for the United States Government Accountability Office (GAO); Dr. Harry Holzer, a Professor at Georgetown University at the Public Policy Institute; my long-time friend, David Jones, President and CEO of the Community Service Society of New York (CSS)—who, I would like to report, coordinates his statistical data from many institutions in New York; and I am working with him, with Columbia Teachers College, with New York University, and any other institutions that would want to coordinate the data that we have.

Also joining us is Dr. Ron Haskins. Dr. Haskins, is Senior Fellow, Economic Studies and Codirector of the Center on Children and Families at the Brookings Institution. Also, Dr. Jane Knitzer, Director, National Center for Children in Poverty (NCCP) in New York.

As you may know, all of you will have 5 minutes to summarize your testimony. That would give us an opportunity to ask questions that are on our minds, and all of your testimony, your written testimony, will be entered into the record without objection.

[The prepared statement of Mr. Weller follows:]

Prepared Statement of The Honorable Jerry Weller, a Representative in Congress from the State of Illinois

Today's hearing reviews a critical topic—poverty. Even as our Nation has made progress in reducing poverty through welfare reform and other pro-work policies, too many children and families live in poverty today. So it is important to consider what has worked, what has not, and what more we need to do to prevent more children from growing up in poverty.

We have seen that pro-work Republican welfare reforms reduced poverty following the 1996 welfare reform law, which encouraged more work and less welfare dependence. Through 2005, the most recent year available, the overall poverty rate fell 7 percent, child poverty fell 13 percent, and over 1.4 million children left poverty. Poverty declined sharply especially among African Americans and Hispanics, and in families headed by single mothers.

Previously, we saw how massive government spending didn't solve poverty. The U.S. spent literally $5 trillion on welfare, food, health, and housing for the poor since President Johnson declared war on poverty in the 1960s; yet progress against poverty generally stalled after 1970. A key lesson is that massive government spending alone won't eliminate poverty.

One reason why spending alone won't eliminate poverty relates to a key cause of poverty—the decline of marriage and increased number of nonmarital births. The steady decline of marriage in the past generation has greatly contributed to higher poverty, especially among children. As Robert Rector of the Heritage Foundation put it in testimony before this committee in 2005, "Nearly 80 percent of long term child poverty occurs in broken or never-married families. Each year government spends over $200 billion on means-tested aid to families with children; three quarters of this aid flows to single parent families."

A recent report by the nonpartisan Congressional Research Service ("Children in Poverty: Profile, Trends, and Issues," January 16, 2007) drives home this point in terms of the number of children raised in poverty today due to changing patterns of marriage and childbearing in the past generation: "(I)n 2005 the child poverty

rate was 17.1 percent, but had family composition in 2005 been the same as in 1960, the overall adjusted child poverty rate would have been 12.4 percent; instead of the observed 12.3 million children being counted as poor in 2005, the number of poor children estimated by this method would have been 8.9 million, or 3.4 million fewer than the number observed."

To put this into perspective, in the decade following work-based welfare reform about 1.4 million children have been removed from poverty; if we were able to restore past patterns of marriage and childbearing, the effect in terms of removing children from poverty would be roughly two and a half times as great.

I am struck by the similarities between the report released at this hearing about the costs of child poverty and another report released in 2005 about the costs for children associated with changing family structures. This report by Paul Amato of Penn State University ("The Impact of Family Formation Change on the Cognitive, Social, and Emotional Well-Being of the Next Generation," Fall 2005) compares family structure and adolescent well-being, by various measures including repeating a grade, delinquency, violence, smoking, and attempted suicide: "The results are striking. Adolescents living with single parents consistently report encountering more problems that those living with continuously married parents. Thirty percent of the former reported that they had repeated a grade, as against 19 percent of the latter. Similarly, 40 percent of children living with single parents reported having been suspended from school, compared with 21 percent of children living with continuously married parents. . . . The increase in risk associated with living without both parents ranged from about 23 percent (for being involved in a violent altercation) to 127 percent (for receiving emotional therapy)." (p. 86)

Clearly, we won't be able to solve child poverty without reversing the decline in marriage and ensuring more children live in stable, married households.

Despite these high hurdles, it is important to note that most poverty is temporary. Most of the poor are not "trapped" in poverty for long. One out of three U.S. households experienced poverty in at least one year of a recent 13-year stretch. But only one out of 20 families was poor in at least 10 years, and only one out of 60 stayed poor in all 13 years. So the "permanent" poverty rate is less than 2 percent, even though the "official" annual poverty rate is about 13 percent.

A related set of issues involves how we measure poverty, which includes several obvious flaws.

First, current methods of measuring poverty effectively ignore tens of billions of dollars in taxpayer benefits meant to reduce poverty. In effect, this makes families appear poorer than they really are, inflating the number in poverty. If such benefits and associated income available to poor households were counted as income, studies suggest the "real" poverty rate would drop to as low as 5 percent, instead of today's official poverty rate of nearly 13 percent.

A second flaw involves the use of income data, as opposed to data about how much households spend—which some argue is both more reliable and a better indicator of child wellbeing. One study (Bruce D. Meyer and James X. Sullivan, "The Well-Being of Single-Mother Families after Welfare Reform," Brookings Institution, August 2005) found that "First, consumption is probably measured with less error than income for poor families, and is more strongly associated with other measures of well-being such as health and housing conditions. Second, there is overwhelming evidence that income is underreported by these mothers and that the underreporting, especially of income from welfare and other transfer programs, has increased in recent years." The study notes that in 2004 spending by the poorest fifth of American families exceeded income by 95 percent—in effect, spending was nearly twice as much as income for this group, which included many families officially counted as poor, but whose spending patterns suggest they may not be.

We know what works and what doesn't to reduce poverty. Recent research confirms Republican policies of promoting full-time work and healthy marriage are the strongest weapons against poverty—both of which are far more effective than even doubling welfare benefits, or example. Republicans stand ready to work to strengthen the progress we have made reducing poverty through promoting work and marriage. But we will resist those who would simply spend more on welfare benefits or ease access to welfare checks without work or other measures of personal responsibility. Such misguided efforts will not only fail to reduce poverty, but they threaten to undo the progress we have made under welfare reform. Worst of all, such efforts will lead to more dependence, more poverty, and ultimately worse outcomes for children.

[The prepared statement of Mr. Porter follows:]

Prepared Statement of The Honorable Jon Porter, a Representative in Congress from the State of Nevada

Good Morning, Mr. Chairman. I am pleased that the committee is holding today's hearing on the economic and societal costs of poverty. I share your concern that poverty is a major issue of concern to the United States and the world.

As leaders we have a moral responsibility to reduce poverty. We also have a responsibility to reduce poverty responsibly. As Congress continues to address this issue that we see everyday in our districts, we need to recognize the importance of a vibrant business community and a robust educational system. If we fail to utilize these sectors of our society in providing tools to the impoverished, we have failed. We cannot treat the symptoms of poverty alone. We must treat the syndrome itself.

Again, Mr. Chairman, thank you for calling this hearing today on this most important issue. I look forward to the testimony of our witnesses and am hopeful that we can work together in addressing this important issue.

We will start with Dr. Nilsen.

STATEMENT OF SIGURD R. NILSEN, PH.D., DIRECTOR, EDUCATION, WORKFORCE, AND INCOME SECURITY, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Dr. NILSEN. Chairman Rangel, thank you, Mr. McCrery and other Members of the Committee. I am pleased to be here today to discuss a report requested by Chairman Rangel, that is being issued today from GAO, that summarizes the findings from recent economic research on the linkages between poverty and economic growth.

While the empirical research is limited, recent studies point to the negative association between poverty and economic growth consistent with the theoretical literature's conclusion that higher rates of poverty can result in lower rates of economic growth. For example, one study found that economic growth is slower in U.S. metropolitan areas characterized by higher rates of poverty when compared with metropolitan areas with lower rates of poverty. Another study using data from 21 wealthy countries found a similar negative relationship between poverty and economic growth.

In the United States, poverty can impact economic growth by affecting the accumulation of human capital. Research has shown that accumulation of human capital is one of the fundamental drivers of economic growth. Human capital consists of the skills, abilities, talents and knowledge of individuals as used in employment. Therefore, schooling at the secondary and higher levels is a key component for building an educated workforce that is better at learning, creating, and implementing new technologies.

Health is another important component of human capital, as it can enhance workers' productivity by increasing their physical capabilities, such as strength and endurance, as well as their mental capacities, such as cognitive functioning and their reasoning ability. Improved health increases workforce productivity by reducing incapacity, disability and the number of days lost to sick leave.

The accumulation of human capital can be diminished when significant portions of the population have experienced long periods of poverty or were living in poverty at a critical developmental juncture. For example, research has found that a slowdown in human capital development is most heavily concentrated among youth from impoverished backgrounds. When individuals who have expe-

rienced poverty enter the workforce, their contributions may be restricted or minimal while others may not enter the workforce in any significant way.

In addition, the economic literature suggests that poverty can affect economic growth due to its association with crime, violence and social unrest. It is suggested that when citizens engage in unproductive criminal activities, they deter others from making productive investments or their actions force others to divert resources toward defensive activities. The increased risk due to insecurity can unfavorably affect investment decisions and, hence, economic growth in areas afflicted by concentrated poverty.

In addition, people living in impoverished conditions generate costs for the Government, which spends billions of dollars on programs to assist low-income individuals and their families.

Economic research suggests that individuals living in poverty face an increased risk of adverse outcomes, such as poor health and criminal activity, both of which may lead to reduced participation in the labor market. Health outcomes are worse for individuals with low incomes than for their more affluent counterparts. Lower-income individuals experience higher rates of chronic illness, disease and disabilities and also die younger than those with higher incomes. While mechanisms by which poverty affects health are complex, research suggests that adverse health outcomes are due in part to more limited access to health care as well as more exposure to environmental hazards and engaging in risky behaviors.

For example, research has shown that increased availability of health insurance, such as Medicaid for low-income mothers, led to a decrease in infant mortality. Likewise, exposure to high levels of air pollution from living in urban areas close to industrial areas or highways can lead to acute health conditions.

In conclusion, maintaining and enhancing economic growth is a national priority that touches all aspects of Federal decision-making. Our report highlights that economists have long recognized the strong association between poverty and a range of adverse outcomes for individuals, and empirical research has also begun to help us better understand the impact of poverty on our Nation's economic growth. The interrelationships between poverty and various adverse social outcomes are complex, and our understanding of these relationships can lead to vastly different interventions to address each specific outcome. Furthermore, any such interventions could take years or even a generation to yield significant and lasting results, as the greatest impacts are likely to be seen among children.

Nevertheless, whatever the underlying causes of poverty may be, economic research suggests that improvements in the health, neighborhoods, education and skills of those living in poverty could not only have impacts far beyond individuals and families, but lead to improving the economic well-being of the Nation as a whole.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer questions.

Chairman RANGEL. Thank you so much.

[The prepared statement of Dr. Nilsen follows:]

United States Government Accountability Office

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Testimony before the Chairman, Committee on Ways and Means, House of Representatives

For Release on Delivery
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POVERTY IN AMERICA

Consequences for Individuals and the Economy

Statement of Sigurd R. Nilsen, Director
Education, Workforce, and Income Security Issues

GAO-07-343T

January 2007

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Highlights

Highlights of GAO-07-343T, a testimony before the Chairman, Committee on Ways and Means, House of Representatives

POVERTY IN AMERICA

Consequences for Individuals and the Economy

Why GAO Did This Study

In 2005, 37 million people, approximately 13 percent of the total population, lived below the poverty line, as defined by the Census Bureau. Poverty imposes costs on the nation in terms of both programmatic outlays and productivity losses that can affect the economy as a whole. To better understand the potential range of effects of poverty, GAO was asked to examine (1) what the economic research tells us about the relationship between poverty and adverse social conditions, such as poor health outcomes, crime, and labor force attachment, and (2) what links economic research has found between poverty and economic growth. To answer these questions, GAO reviewed the economic literature by academic experts, think tanks, and government agencies, and reviewed additional literature by searching various databases for peer-reviewed economic journals, specialty journals, and books. We also provided our draft report for review by experts on this topic.

www.gao.gov/cgi-bin/getrpt?GAO-07-343T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Sigurd R. Nilsen at (202) 512-7215 or at nilsens@gao.gov.

What GAO Found

Economic research suggests that individuals living in poverty face an increased risk of adverse outcomes, such as poor health and criminal activity, both of which may lead to reduced participation in the labor market. While the mechanisms by which poverty affects health are complex, some research suggests that adverse health outcomes can be due, in part, to limited access to health care as well as greater exposure to environmental hazards and engaging in risky behaviors. For example, some research has shown that increased availability of health insurance such as Medicaid for low-income mothers led to a decrease in infant mortality. Additionally, exposure to higher levels of air pollution from living in urban areas close to highways can lead to acute health conditions. Data suggest that engaging in risky behaviors, such as tobacco and alcohol use, a sedentary life-style, and a low consumption of nutritional foods, can account for some health disparities between lower and upper income groups. The economic research we reviewed also points to links between poverty and crime. For example, one study indicated that higher levels of unemployment are associated with higher levels of property crime. The relationship between poverty and adverse outcomes for individuals is complex, in part because most variables, like health status, can be both a cause and a result of poverty. These adverse outcomes affect individuals in many ways, including limiting their development of the skills, abilities, knowledge, and habits necessary to fully participate in the labor force.

Research shows that poverty can negatively affect economic growth by affecting the accumulation of human capital and rates of crime and social unrest. Economic theory has long suggested that human capital—that is, the education, work experience, training, and health of the workforce—is considered one of the fundamental drivers of economic growth. The conditions associated with poverty can work against this human capital development by limiting individuals' ability to remain healthy and develop skills, in turn decreasing the potential to contribute talents, ideas, and even labor to the economy. An educated labor force, for example, is better at learning, creating and implementing new technologies. Economic theory suggests that when poverty affects a significant portion of the population, these effects can extend to the society at large and produce slower rates of growth. Although historically research has focused mainly on the extent to which economic growth alleviates poverty, some recent empirical studies have begun to demonstrate that higher rates of poverty are associated with lower rates of growth in the economy as a whole. For example, areas with higher poverty rates experience, on average, slower per capita income growth rates than low-poverty areas.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the important topic of poverty and its effects on individuals and our economy. My testimony is drawn from our report *Poverty in America: Economic Research Shows Adverse Impacts on Health Status and Other Social Conditions as well as the Economic Growth Rate* (GAO-07-344), being released this morning. Our work looks at what the economic research tells us about the relationship between poverty and adverse social conditions, such as poor health outcomes, crime, and labor force attachment; and what links economic research has found between poverty and economic growth.

According to the Census Bureau, approximately 37 million people in the United States—nearly 13 percent of the total population—lived below the poverty line in 2005.[1] This percentage was significantly larger for particular population groups, specifically children, minorities, and those living in certain geographic areas such as inner cities. The federal government spends billions of dollars on programs to assist low-income individuals and families.[2] These programs included Medicaid, food stamps, Temporary Assistance for Needy Families (TANF), and the Earned Income Tax Credit (EITC), to name some of the largest. While some have taken issue with Census' official poverty measure and proposed alternative measures, it is generally recognized that poverty imposes costs on the nation as a whole, not merely in terms of programmatic outlays but also through lost productivity that can affect the overall economy.

In conducting our work, we reviewed the economic literature by academic experts, think tanks, and government agencies, which we collected from searches of various databases, peer-reviewed economic journals, specialty journals, and books. We also provided our draft report to four external reviewers. They are recognized experts who have conducted research and published on the topic of poverty and economic growth and whose work has recommended a variety of approaches and strategies to policymakers. We limited the scope of our work by looking at recent studies published since 1996, excluding anything older, with exceptions made for work that was considered seminal. Thus, our results are not an exhaustive or

[1]In 2005 the poverty threshold for a family of four was $19,971.

[2]Congressional Research Service, *Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2002-FY2004* (Washington, D.C.: Mar. 27, 2006).

historical treatment of the topic. Our review was primarily driven by the economic literature focused on the United States either exclusively or including other developed nations; studies from other disciplines were excluded unless they were captured in either the economic study under review or its bibliography. When we refer to poverty in the report, we are using an absolute measure, not a relative one. This means that, for the most part, the studies we reviewed typically used the official poverty line published by the Census Bureau as its benchmark. A few of the studies we reviewed used relative measures such as the poorest 10 percent of the population.

Our work was conducted between October 2006 and January 2007 according to generally accepted government auditing standards. Because we did not evaluate the policies, operations, or programs of any federal agency to develop the information presented in this report, and because we are not making any recommendations, we did not seek agency comments. However, we met with agency officials from the Departments of Commerce, Health and Human Services, Justice, and Labor to obtain information on research they or others had conducted related to our work objectives.

Summary

Economic research shows that poverty is associated with a number of adverse outcomes for individuals, such as poor health, crime, and reduced labor market participation, and has a negative impact on the economic growth rate. Some research suggests that adverse health outcomes are due, in part, to limited access to health care as well as exposure to environmental hazards and engaging in risky behaviors. The economic research we reviewed also suggests that poverty is associated with higher levels of certain types of crime. The relationship between poverty and adverse outcomes for individuals is complex, in part because most variables, like health status, can be both a cause and a result of poverty. Regardless of whether poverty is a cause or an effect, however, the conditions associated with poverty can work against the development of human capital—that is the ability of individuals to remain healthy and develop the skills, abilities, knowledge, and habits necessary to fully participate in the labor force. Human capital development is considered one of the fundamental drivers of economic growth. An educated labor force, for example, is better at learning, creating, and implementing new technologies. Economic theory suggests that when poverty affects a significant portion of the population, these effects can extend to the society at large and produce slower rates of growth. Though limited,

empirical research has demonstrated that higher rates of poverty are associated with lower rates of growth in the economy as a whole.

Background

Economic growth is one of the indicators by which the well-being of the nation is typically measured, although recent discussions have focused on a broader set of indicators, such as poverty. Poverty in the United States is officially measured by the Census Bureau, which calculates the number of persons or households living below an established level of income deemed minimally adequate to support them. The federal government has a long-standing history of assisting individuals and families living in poverty by providing services and income transfers through numerous and various types of programs.

Measuring the Nation's Well Being: Economic Growth and Other Indicators

Economic growth is typically defined as the increase in the value of goods and services produced by an economy; traditionally this growth has been measured by the percentage rate of increase in a country's gross domestic product, or GDP. The growth in GDP is a key measure by which policy-makers estimate how well the economy is doing. However, it provides little information about how well individuals and households are faring.

Recently there has been a substantial amount of activity in the United States and elsewhere to develop a comprehensive set of key indicators for communities, states, and the nation that go beyond traditional economic measures. Many believe that such a system would better inform individuals, groups, and institutions on the nation as a whole. Poverty is one of these key indicators. Poverty, both narrowly and more broadly defined, is a characteristic of society that is frequently monitored and defined and measured in a number of ways.[3]

[3]GAO, *Informing Our Nation: Improving How to Understand and Assess the USA's Position and Progress*, GAO-05-1 (Washington, D.C., November 2004).

How Is Poverty Defined in the United States?

The Census Bureau is responsible for establishing a poverty threshold amount each year; persons or families having income below this amount are, for statistical purposes, considered to be living in poverty.[4] The threshold reflects estimates of the amount of money individuals and families of various sizes need to purchase goods and services deemed minimally adequate based on 1960s living standards, and is adjusted each year using the consumer price index. The poverty rate is the percentage of individuals in total or as part of various subgroups in the United States who are living on income below the threshold amounts.

Over the years, experts have debated whether or not the way in which the poverty threshold is calculated should be changed. Currently the calculation only accounts for pretax income and does not include noncash benefits and tax transfers, which, especially in recent years, have comprised larger portions of the assistance package to those who are low-income.[5] For example, food stamps and the Earned Income Tax Credit could provide a combined amount of assistance worth an estimated $5,000 for working adults with children who earn approximately $12,000 a year.[6] If noncash benefits were included in a calculation of the poverty threshold, the number and percentage of individuals at or below the poverty line could change. In 1995, a National Academy of Sciences (NAS) panel recommended that changes be made to the threshold to count noncash benefits, tax credits, and taxes; deduct certain expenses from income such as child care and transportation; and adjust income levels according to an area's cost of living.[7] In response, the Census Bureau published an experimental poverty measure in 1999 using the NAS recommendations in addition to its traditional measure but, to date, Census has not changed the official measure.[8]

[4]The U.S. Department of Health and Human Services (HHS) establishes poverty guidelines that are similar to the poverty thresholds but are used by HHS and other agencies for administering programs, such as determining program eligibility.

[5]Congressional Research Service, *Poverty in the United States: 2005* (Washington, D.C.: Aug. 31, 2006).

[6]Danzinger, Sheldon, "Fighting Poverty Revisited: *What Did Researchers Know 40 Years Ago? What Do We know Today?*" Dec. 4, 2006.

[7]For a summary of the NAS panel recommendations see Congressional Research Service Report 95-539, *Redefining Poverty in the United States: National Academy of Science Panel Recommendations*, by Thomas R. Gabe (archived) (Washington, D.C.: 1995).

[8]U.S. Census Bureau, *Poverty among Working Families: Findings from Experimental Poverty Measures* (Washington, D.C.: Sept. 2000).

U.S. Poverty Rates

In 2005, close to 13 percent of the total U.S. population—about 37 million people—were counted as living below the poverty line, a number that essentially remained unchanged from 2004. Poverty rates differ, however, by age, gender, race, and ethnicity and other factors. For example,

- Children: In 2005, 12.3 million children, or 17.1 percent of children under the age of 18, were counted as living in poverty. Children of color were at least three times more likely to be in poverty than those who were white: 34.2 percent of children who were African- American and 27.7 percent of children who were Hispanic lived below the poverty line compared to 9.5 percent of children who were white.[9] African-American children represented 15.2 percent and Hispanic children represented 19.9 percent of all children under the age of 18 in 2005.
- Racial and ethnic minorities: African-Americans and Hispanics have significantly higher rates of poverty than whites. In 2005, 24.9 percent of African-Americans and 22 percent of Hispanics lived in poverty compared to 8.3 percent for whites. African-Americans made up 12.5 percent of the total population while Hispanics accounted for 14.7 percent.
- Elderly: The elderly have lower rates of poverty than other groups. For example, 10.1 percent of adults aged 65 or older lived in poverty. The elderly represented 12.1 percent of the total U.S. population in 2005.

Poverty rates also differ depending on geographical location and for urban and nonurban areas. Poverty rates for urban areas were double those in suburbs, 17 percent compared to 9.3 percent. Poverty rates in the South were the highest at 14 percent; the West had a rate of 12.6 percent, followed by the Midwest with 11.4 percent and the Northeast at 11.3 percent.[10]

[9]Beginning in March 2003, the Census Bureau allowed survey respondents to identify themselves as belonging to one or more racial groups. In prior years, respondents could select only one racial category. Consequently, poverty statistics for different racial groups for 2002 and after are not directly comparable to earlier years' data. The term "blacks and white" refers to persons who identified with only one single racial group. The term "Hispanic" refers to individuals' ethnic, as opposed to racial, identification. Hispanics may be of any race.

[10]Congressional Research Service, *Poverty in the United States: 2005* (Washington, D.C.: Aug. 31, 2006).

The Role of the Federal Government

The U.S. government has a long history of efforts to improve the conditions of those living with severely limited resources and income. Presidents, Congress, and other policymakers have actively sought to help citizens who were poor, beginning as early as the 1850s through the more recent efforts established through welfare reform initiatives enacted in 1996.

Over the years, the policy approaches used to help low-income individuals and families have varied. For example, in the1960s federal programs focused on increasing the education and training of those living in poverty. In the 1970s, policy reflected a more income-oriented approach with the introduction of several comprehensive federal assistance plans. More recently, welfare reform efforts have emphasized the role of individual responsibility and behaviors in areas such as family formation and work to assist people in becoming self-sufficient. Although alleviating poverty and the conditions associated with it has long been a federal priority, approaches to developing effective interventions have sometimes been controversial, as evidenced by the diversity of federal programs in existence and the ways in which they have evolved over time.

Currently, the federal government, often in partnership with the states, has created an array of programs to assist low-income individuals and families. According to a recent study by the Congressional Research Service (CRS), the federal government spent over $400 billion on 84 programs in 2004 that provided cash and noncash benefits to individuals and families with limited income. These programs cover a broad array of services: Examples include income supports or transfers such as the Earned Income Tax Credit and TANF; work supports such as subsidized child care and job training; health supports and insurance through programs like the State Children's Health Insurance Program (SCHIP) and Medicaid; and other social services such as food, housing, and utility assistance. Table 1 provides a list of examples of selected programs.

Table 1: Selected Examples of Federal Cash and Noncash Assistance to Low-Income Families and Individuals, Fiscal Year 2004

Purpose	Program	Federal cash outlay	Program description
Cash aid	Temporary Assistance for Needy Families (TANF)	$10.4 billion[a]	Permits a state to give ongoing basic cash aid to families that include a minors or a pregnant woman. Work and other requirements must be met.
	Earned Income Tax Credit (EITC)	$37.9 billion[b]	Provides a refundable credit to workers with and without children.
Food and nutrition	Food Stamp Program	$27.2 billion[c]	Provides certain allotments to individuals for purchasing of food items, based upon the individual's level of eligibility/need.
	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	$4.5 million	Provides benefits for low-income mothers, infants, and children considered to be at "nutritional risk."
Medical	Medicaid	$176 billion	Provides payments to health care providers in full or via co-pay for eligible low-income families and individuals and for long-term care to eligible individuals who are aged or disabled.
	State Children's Health Insurance Program (SCHIP)	$4.6 billion[d]	Provides federal matching funds for states and territories to provide health insurance to targeted low-income children.
Educational	Federal Pell Grant Program	$12 billion	Provides assistance to undergraduate students who meet a certain needs test and are enrolled in an eligible institution of postsecondary education.
	Head Start	$6.8 billion[e]	Provides comprehensive services to targeted low-income children. Services include educational, medical, dental, nutritional, and social services.
Housing	Section 8 Low-Income Housing Assistance	$22.4 billion	Provides rental assistance through vouchers or rental subsidies to eligible low-income families or single persons.
Services	Child Care and Development Block Grant (CCDBG)	$6.9 billion	Provides funding to low-income parents for child care.
	Social Services Block Grant (SSBG) (Title XX)	$1.7 billion	Provides funding to assist states in providing social services to eligible low-income individuals or families.
Jobs	Job Corps	$1.5 billion	Provides no-cost training and education to low-income individuals ages 16-24 while providing a monthly allowance payment.
Energy	Low-Income Home Energy Assistance Program (LIHEAP)	$1.9 billion	Provides assistance to low-income home owners and renters to help meet energy needs such as heating and cooling.

Source: For a full list of federal programs, see Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2002-FY2004; Washington D.C. 2006.

[a]Federal outlay figures in table 1 are from fiscal year 2004, as reflected in the CRS report from which they are taken, sourced above. Some exceptions apply and are noted. The TANF figure, $10.4 billion, is the estimated total of federal and state expenditures combined for only TANF cash aid in fiscal year 2004. This figure does not include other combined federal and state funding for the following: TANF child care, estimated at $2.5 billion in fiscal year 2004; TANF work programs and activities, estimated at $2.2 billion in fiscal year 2004; and TANF services estimated at $6.3 billion in fiscal year 2004.

[b]EITC federal outlay total of $37.9 billion is for fiscal year 2003 as reported in GAO, Means Tested Programs: Information on Program Access Can Be an Important Management Tool, GAO-05-221 (Washington, D.C. March 2005).

[c]For more on the Food Stamp Program, see GAO-05-839R, (Washington, D.C.: June 30, 2005).

[d]For more on SCHIP federal outlay figure of $4.6 billion, see GAO-05-839R.

[e]Head Start federal outlay total of $6.8 billion is for fiscal year 2005.

Economic Research Links Poverty with Adverse Outcomes for Individuals Such as Poor Health and Crime

Economic research suggests that individuals living in poverty face an increased risk for adverse outcomes, such as poor health, criminal activity, and low participation in the workforce. The adverse outcomes that are associated with poverty tend to limit the development of skills and abilities individuals need to contribute productively to the economy through work, and this in turn, results in low incomes. The relationship between poverty and outcomes for individuals is complex, in part because most variables, like health status, can be both a cause and a result of poverty. The direction of the causality can have important policy implications. To the extent that poor health causes poverty, and not the other way around, then alleviating poverty may not improve health.

Individuals Living in Poverty Experience Higher Rates of Adverse Health Outcomes, in Part because of Limited Access to Health Care, Environmental Hazards, and Risky Behaviors

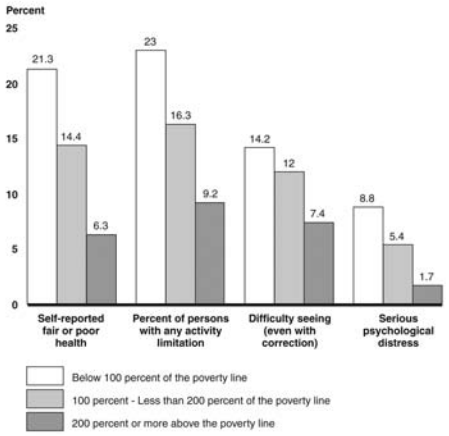
Health outcomes are worse for individuals with low incomes than for their more affluent counterparts. Lower-income individuals experience higher rates of chronic illness, disease, and disabilities, and also die younger than those who have higher incomes.[11] As reported by the National Center on Health Statistics, individuals living in poverty are more likely than their affluent counterparts to experience fair or poor health, or suffer from conditions that limit their everyday activities (fig.1). They also report higher rates of chronic conditions such as hypertension, high blood pressure, and elevated serum cholesterol, which can be predictors of more acute conditions in the future. Life expectancies for individuals in poor families as compared to nonpoor families also differ significantly. One study showed that individuals with low incomes had life expectancies 25 percent lower than those with higher incomes.[12] Other research

[11]Centers for Disease Control and Prevention, *Health, United States, 2006; 1998* (Hyattsville, Maryland).

[12]Deaton, Angus, "Policy Implications of The Gradient of Health and Wealth," *Health Affairs*, Vol. 21., No.2, March 2002.

suggests that an individual's household wealth predicts the amount of functionality of that individual in retirement.[13]

Figure 1: Selected Health Indicators by Poverty Status

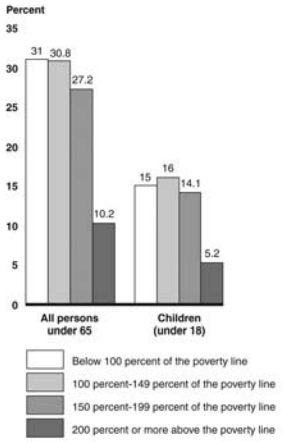


Source: National Center for Health Statistics, *Health, United States, 2006 with Chartbook on Trends in the Health of Americans* (Hyattsville, Maryland: 2006).

Research suggests that part of the reason that those in poverty have poor health outcomes is that they have less access to health insurance and thus less access to health care, particularly preventive care, than others who are nonpoor. Very low-income individuals were three times as likely not to have health insurance than those with higher incomes, which may lead to reduced access to and utilization of health care (fig. 2).

[13]Smith, James, and Raynard Kington, "Demographic and Economic Correlates of Health in Old Age." *Demography*, Vol. 34, No. 1, 1997.

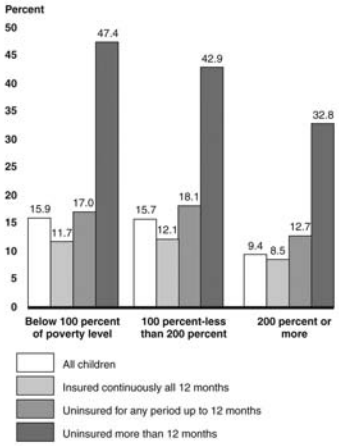
Figure 2: Percentage of Population with No Health Insurance (Private or Medicaid) by Poverty Status



Source: National Center for Health Statistics, *Health, United States, 2006 with Chartbook on Trends in the Health of Americans* (Hyattsville, Maryland: 2006).

Data show that those who are poor with no health insurance access the health system less often than those who are either insured or wealthier when measured by one indicator of health care access: visits to the doctor. For example, data from the National Center on Health Statistics show that children in families with income below the poverty line who were continuously without any type of health insurance were three to four times more likely to have not visited a doctor in the last 12 months than children in similar economic circumstances who were insured (fig. 3). Research also suggests that a link between income and health exists independent of health insurance coverage. Figure 3 also shows that while children who are uninsured but in wealthier families visit the doctor fewer times than those who are insured, they still go more often than children who are uninsured but living in poverty.

Figure 3: No Visits to Any Health Provider in the Past 12 Months (Children under 18 Years of Age) by Level of Insurance



Source: National Center for Health Statistics, *Health, United States, 2006 with Chartbook on Trends in the Health of Americans* (Hyattsville, Maryland: 2006).

Some research examining government health insurance suggests that increased health insurance availability improves health outcomes. Economists have studied the expansion of Medicaid, which provides health insurance to those with low income. They found that Medicaid's expansion of coverage, which occurred between 1979 and 1992, increased the availability of insurance and improved children's health outcomes. For example, one study found that a 30 percentage point increase in eligibility for mothers aged 15-44 translated into a decrease in infant mortality of 8.5 percent.[14] Another study looked at the impact of health insurance coverage

[14]Currie, Janet, and Jonathan Gruber, "Saving Babies: The Efficacy and Cost of Recent Changes in the Medicaid Eligibility of Pregnant Women," *The Journal of Political Economy*, Vol. 104, No. 6, December 1996.

through Medicare and its effects on the health of the elderly and also found a statistically significant though modest impact.[15] There is some evidence that variations in health insurance coverage do not explain all the differences in health outcomes. A study done in Canada found improvements in children's health with increases in income, even though Canada offers universal health insurance coverage for hospital services, indicating that health insurance is only part of the story.[16]

Although there is a connection among poverty, having health insurance, and health outcomes, having health insurance is often associated with other attributes of an individual, thus making it difficult to isolate the direct effect of health insurance alone. Most individuals in the United States are either self-insured or insured through their employer. If those who are uninsured have lower levels of education, as do individuals with low income, differences in health between the insured and uninsured might be due to level or quality of education, and not necessarily insurance.[17]

Another reason that individuals living in poverty may have more negative health outcomes is because they are more likely to live and work in areas that expose them to environmental hazards such as pollution or substandard housing. Some researchers have found that because poorer neighborhoods may be located closer to industrial areas or highways than more affluent neighborhoods, there tend to be higher levels of pollution in

[15]Card, David, et. al., "The Impact of Nearly Universal Insurance Coverage on Health Care Utilization and Health: Evidence from Medicare" National Bureau of Economic Research, Working Paper 10365. NBER, March 2004.

[16]Currie, Janet, and Mark Stabile, "Socioeconomic Status and Child Health: Why Is the Relationship Stronger for Older Children." *American Economic Review*, Vol. 93, No. 5, December 2003.

[17]Additionally, differences in individual health outcomes can sometimes be explained by other factors that may be associated with poverty, but are difficult to detect, such as risk aversion.

lower-income neighborhoods.[18] The Institute of Medicine concluded that minority and low-income communities had disproportionately higher exposure to environmental hazards than the general population, and because of their impoverished conditions were less able to effectively change these conditions.[19]

The link between poverty and health outcomes may also be explained by lifestyle issues associated with poverty. Sedentary life-style: the use of alcohol and drugs; as well as lower consumption of fiber, fresh fruits, and vegetables are some of the behaviors that have been associated with lower socioeconomic status.[20] Cigarette smoking is also more common among adults who live below the poverty line than among those above it, about 30 percent compared to 21 percent.[21] Similarly, problems with being overweight and obese are common among those with low family incomes, although most prevalent in women: Women with incomes below 130 percent of the poverty line were 50 percent more likely to be obese than those with incomes above this amount.[22] Figure 4 shows that people living

[18]While much of the specific biological mechanism by which air pollution might affect health is still unknown, some recent research by economists has noted a link between pollution and health, especially for infants. Currie and Neidell (2005) find that the decrease in the level of carbon monoxide in California in the 1990s had a significant effect on reducing infant mortality. See Currie, Janet, and Matthew Neidell, "Air Pollution and Infant Health: What Can We Learn From California's Recent Experience?" *Quarterly Journal of Economics*, 120 (3), 2005. Similarly, Chay and Greenstone (2003) find that the reduction in total suspended particulates due to the 1970 Clean Air Act had a significant impact on infant mortality. See Chay, Kenneth, and Michael Greenstone, "Air Quality, Infant Mortality, and the Clean Air Act of 1970." National Bureau of Economic Research, Working Paper No. 10053. NBER, 2003.

[19]Institute of Medicine, Committee on Environmental Justice, "Toward Environmental Justice: Research, Education, and Health Policy Needs", (Washington, D.C.: 1999), p.6.

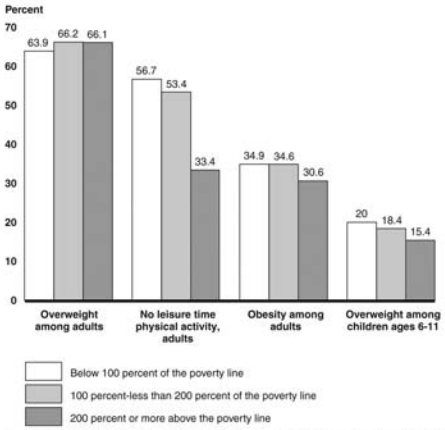
[20]Adler, Nancy E., and Katherine Newman, "Socioeconomic Disparities in Health: Pathways and Policies." *Health Affairs*, Vol. 21 No. 2, 2002. See also Deaton, Angus. "Policy Implications of the Gradient of Health and Wealth." *Health Affairs*, Vol. 21, No.2: 2002.

[21]Centers for Disease Control and Prevention, *Tobacco Use among Adults–United States, 2005. Morbidity and Mortality Weekly Report* , 2006; 55(42): 1145-1148. Some research suggests that part of the reason why smoking rates are higher may be peer effects, especially among youth smokers. See DeCicca, Phillip, Donald Kenkel, and Alan Mathios, "Racial Difference in the Determinants of Smoking Onset." *Journal of Risk and Uncertainty*. Boston: 2000. Vol. 21, Iss. 2/3; p311. Other studies have shown that educational attainment can affect smoking use as well. See DeCicca, Philip, Donald Kenkel, and Alan Mathios,"Putting Out the Fires: Will Higher Taxes Reduce the Onset of Youth Smoking?" *Journal of Political Economy*. Chicago 2002.Vol.110, Iss.1; p. 144.

[22]U.S. Public Health Service, *Surgeon General's Call To Action to Prevent and Decrease Overweight and Obesity 2001*, Washington, DC, pp. 13-14.

in poverty are less likely to engage in regular, leisure-time physical activity than others and are somewhat more likely to be obese, and children in poverty are somewhat more likely to be overweight than children living above the poverty line. In addition, there is also evidence to suggest a link among poverty, stress, and adverse health outcomes, such as compromised immune systems.[23]

Figure 4: Percentage of Population Who Have a Sedentary Lifestyle, Are Overweight, or Are Obese, by Poverty Status



Source: National Center for Health Statistics, *Health, United States, 2006 with Chartbook on Trends in the Health of Americans* (Hyattsville, Maryland: 2006).

[23]While access to care, behavior, and environmental factors are some of the most commonly offered reasons for the relationship between poverty and health, recent literature has suggested other alternative theories, of which there is less of a research tradition. These include the effect of short exposures to health shocks as a result of poverty, such as poor nutrition or increased adrenalin due to higher levels of stress, and psycho-social stress that leads to problems with the immune system. See Smith, James P., "Healthy Bodies and Thick Wallets: The Dual Relation between Health and Economic Status." *The Journal of Economic Perspectives*, Vol. 13, No. 2, 1999.

While evidence shows how poverty could result in poor health, the opposite could also be true. For example, a health condition could result, over time, in restricting an individual's employment, resulting in lower income. Additionally, the relationship between poverty and health outcomes could also vary by demographic group. [24] Failing health, for example, can be more directly associated with household income for middle-aged and older individuals than with children, since adults are typically the ones who work.

Economic Research Shows an Association between Poverty and Crime

Just as research has established a link between poverty and adverse health outcomes, evidence suggests a link between poverty and crime. Economic theory predicts that low wages or unemployment makes crime more attractive, even with the risks of arrest and incarceration, because of lower returns to an individual through legal activities.[25] While more mixed, empirical research provides support for this. For example, one study shows that higher levels of unemployment are associated with higher levels of property crime, but is less conclusive in predicting violent crime.[26] Another study has shown that both wages and unemployment affect crime, but that wages play a larger role.[27]

Research has found that peer influence and neighborhood effects may also lead to increased criminal behavior by residents. Having many peers that engage in negative behavior may reduce social stigma surrounding that behavior.[28] In addition, increased crime in an area may decrease the

[24]It is not clear whether these adverse outcomes occur with greater frequency among all individuals living in households below the poverty line or only among those experiencing extreme poverty; those who experience poverty during critical development stages, such as infancy or early childhood; or those who experience long bouts of poverty.

[25]Criminal behavior has been measured by reports to the police in an area, self-reported crime by individuals in surveys or arrests, as well as other measures. See also Freeman, Richard, "Why Do So Many Young American Men Commit Crimes and What Might We Do About It?" *Journal of Economic Perspectives*, Vol. 10, No. 1: Winter 2006.

[26]Raphael, Steven, and Rudolf Winter-Ebner, "Identifying the Effect of Unemployment on Crime." *Journal of Law and Economics*, Vol. XLIV. 2001.

[27]Gould, Eric D., Bruce A. Weinberg, and David B. Mustard, "Crime Rates and Local Labor Market Opportunities in the United States: 1979-1997. *Review of Economics and Statistics*, 84 (1): 2002.

[28]Katz, Lawrence F., Jeffrey R. Kling, and Jeffrey B. Liebman, "Moving to Opportunity in Boston: Early Results of a Randomized Mobility Experiment." *Quarterly Journal of Economics*, May 2001.

chances that any particular criminal activity will result in an arrest. Other research suggests that the neighborhood itself, independent of the characteristics of the individuals who live in it, affects criminal behavior. [29] One study found that arrest rates were lower among young people from low-income families who were given a voucher to live in a low-poverty neighborhood, as opposed to their peers who stayed in high-poverty neighborhoods. The most notable decrease was in arrests for violent crimes; the results for property crimes, however, were mixed, with arrest rates increasing for males and decreasing for females.[30]

Adverse Outcomes, Such as Poor Health and Low Educational Attainment, Lead to Reduced Participation in the Labor Market

Regardless of whether poverty is a cause or an effect, the conditions associated with poverty limit the ability of low-income individuals to develop the skills, abilities, knowledge, and habits necessary to fully participate in the labor force, in turn leading to lower incomes. According to 2000 Census data, people aged 20-64 with income above the poverty line in 1999 were almost twice as likely to be employed as compared to those with incomes below it.[31] Some of the reasons for these outcomes include educational attainment and health status.

[29]However, a challenge that researchers face is that, almost by definition, many individuals share the same characteristics in a neighborhood. Therefore, it is difficult to determine whether it is the characteristic of the individual or the neighborhood that is the source of the behavior.

[30]Http://www.huduser.org/publications/fairhsg/MTODemData.html and http://www.hud.gov/prodesc/mto.cfm . Some economists have used data from the Moving-to-Opportunity experiment as a way to attribute causality. Moving-to-Opportunity is a research demonstration in which a number of families, chosen randomly, within five public housing authorities were given housing vouchers to be used in low-poverty neighborhoods. Another group of families acted as the control, and were not given the vouchers. Using these data, some economists have compared the outcomes for children whose families received the vouchers and those that did not. To some extent, the results have confirmed that neighborhood, independent of individual characteristics, affects criminal behavior, but the results have also been mixed. Using data from the randomized housing experiment, Ludwig, Duncan, and Hirschfeld (2001) found that the housing vouchers reduced violent arrests by teens, but may have increased the number of property arrests. Kling, Ludwig, and Katz (2005) also used the Moving-to-Opportunity data, but looked for differential effects by gender. The authors found that for females, there were large reductions in the amount of arrests for both property and violent crime, when compared to those for the control group. For males, there were reductions in violent arrests, but proportionally smaller than the drops for females. In addition, there were significant increases in the rate of property arrests.

[31]U.S. Census Bureau, *Employment Status: 2000, Census 2000 Brief* (Washington, D.C., August 2003), p.4

Poverty is associated with lower educational quality and attainment, both of which can affect labor market outcomes. Research has consistently demonstrated that the quality and level of education attained by lower-income children is substantially below those for children from middle- or upper-income families. Moreover, high school dropout rates in 2004 were four times higher for students from low-income families than those in high-income families.[32] Those with less than a high school degree have unemployment rates almost three times greater than those with a college degree, 7.6 percent compared to 2.6 percent in 2005. And the percentage of low-income students who attend college immediately after high school is significantly lower than for their wealthier counterparts: 49 percent compared to 78 percent.[33]

A significant body of economic research directly links adverse health outcomes, which are also associated with low incomes, with the quality and quantity of labor that the individual is able to offer to the workforce. Many studies that have examined the relationship among individual adult health and wages, labor force participation, and job choice have documented positive empirical relationships among health and wages, earnings, and hours of work.[34] Although there is no consensus about the exact magnitude of the effects, the empirical literature suggests that poor health reduces the capacity to work and has substantive effects on wages, labor force participation, and job choice, meaning that poor health is associated with low income.

[32]National Center for Education Statistics, U.S. Department of Education, *Dropout Rates in the United States: 2004*, (Washington, D.C. November 2006), p. 4.

[33]Choy, Susan, "College Access and Affordability," Education Statistics Quarterly, Vol. 1, Issue 2, Topic: Postsecondary Education.

[34]Several methodological challenges exist in this literature: For example, many of these findings could reflect the effect of income on health rather than vice versa. In addition, results are highly sensitive to the measures of health that are used, with self-reported health status subject to several forms of bias, some of which could overstate the relationship between income and health, and others of which could understate the relationship. For example, individuals who have reduced their hours of work or left the labor force may be more likely to report poor health, in order to justify their reduced labor supply or because government programs provide incentives to report disability; this would lead to an upward bias in the estimated relationship between income and health. On the other hand, it is possible that higher-income individuals, who on average have greater health care utilization, may be more likely to be diagnosed with certain conditions simply because of their greater access to health care. This would lead to a downward bias in the estimated relationship between income and health.

Research also demonstrates that poor childhood health has substantial effects on children's future outcomes as adults. Some research, for example, shows that low birth weight is correlated with a low health status later in life. Research also suggests that poor childhood health is associated with reduced educational attainment and reduced cognitive development. Reduced educational attainment may in turn have a causal effect not only on future wages as discussed above but also on adult health if the more educated are better able to process health information or make more informed choices about their health care or if education makes people more "future oriented" by helping them think about the consequences of their choices. In addition, some research shows that poor childhood health is predictive of poor adult health and poor adult economic status in middle age, even after controlling for educational attainment.

Economic Research Suggests a Negative Association between Poverty and Economic Growth

The economic literature suggests that poverty not only affects individuals but can also create larger challenges for economic growth. Traditionally, research has focused on the importance of economic growth for generating rising living standards and alleviating poverty, but more recently it has examined the reverse, the impact of poverty on economic growth. In the United States, poverty can impact economic growth by affecting the accumulation of human capital and rates of crime and social unrest. While the empirical research is limited, it points to the negative association between poverty and economic growth consistent with the theoretical literature's conclusion that higher rates of poverty can result in lower rates of growth.

Research has shown that accumulation of human capital is one of the fundamental drivers of economic growth.[35] Human capital consists of the

[35]Economic models that consider human capital to be a fundamental driver of economic growth are commonly referred to as endogenous growth models, although the more traditional neoclassical model has also been augmented to include the role of human capital. Endogenous growth theory posits technological growth as occurring through dynamics inside the model. Although there are several competing models, crucial importance in each is given to the production of new technologies and human capital. While the major point these models emphasize is that human capital is the driving force behind growth, the actual modeling of the relationship is still a controversial issue in the economic literature. Some growth models assert that the driving force behind economic growth is the rate of accumulation of human capital, in which the rate of economic growth is proportional to the rate of accumulation of human capital. Another approach considers that high levels of human capital, as embodied in the level of the educational attainment of the workforce, increases the capacity of individuals to innovate (discover new technology) or to adopt new technology.

skills, abilities, talents, and knowledge of individuals as used in employment. The accumulation of human capital is generally held to be a function of the education level, work experience, training, and healthiness of the workforce.[36] Therefore, schooling at the secondary and higher levels is a key component for building an educated labor force that is better at learning, creating, and implementing new technologies. Health is also an important component of human capital, as it can enhance workers' productivity by increasing their physical capacities, such as strength and endurance, as well as mental capacities, such as cognitive functioning and reasoning ability. Improved health increases workforce productivity by reducing incapacity, disability, and the number of days lost to sick leave, and increasing the opportunities to accumulate work experience. Further, good health helps improve education by increasing levels of schooling and scholastic performance.

The accumulation of human capital can be diminished when significant portions of the population have experienced long periods of poverty, or were living in poverty at a critical developmental juncture. For example, recent research has found that the distinct slowdown in some measures of human capital development is most heavily concentrated among youth from impoverished backgrounds. When individuals who have experienced poverty enter the workforce, their contributions may be restricted or minimal, while others may not enter the workforce in a significant way. Not only is the productive capability of some citizens lost, but their purchasing power and savings, which could be channeled into productive investments, is forgone as well.

In addition to the effects of poverty on human capital, some economic literature suggests that poverty can affect economic growth to the extent that it is associated with crime, violence, and social unrest. According to some theories, when citizens engage in unproductive criminal activities they deter others from making productive investments or their actions force others to divert resources toward defensive activities and expenditures. The increased risk due to insecurity can unfavorably affect

[36]In general, economists regard expenditures on education, training, medical care, and so on as investments in human capital. Collectively, theoretical growth models suggest economic growth results from improvements in human capital as embodied in the skills and experience of the labor force; from expansion of physical capital in the form of plant and equipment; and from progress in science, engineering, and management that generates technological advance. While many variables have been empirically tested, only a few have been accepted as being statistically significant in explaining growth. The role of human capital is now almost universally regarded as being indispensable in this respect.

investment decisions—and hence economic growth—in areas afflicted by concentrated poverty. Although such theories link poverty to human capital deficiencies and criminal activity, the magnitude of their impact on economic growth for an economy such as the United States is unclear at this time.[37] In addition, people living in impoverished conditions generate budgetary costs for the federal government, which spends billions of dollars on programs to assist low-income individuals and families. Alleviating these conditions would allow the federal government to redirect these resources toward other purposes.

While economic theory provides a guide to understanding how poverty might compromise economic growth, empirical researchers have not as extensively studied poverty as a determinant of growth in the United States. Empirical evidence on the United States and other rich nations is quite limited, but some recent studies support a negative association between poverty and economic growth. For example, some research finds that economic growth is slower in U.S. metropolitan areas characterized by higher rates of poverty than those with lower rates of poverty.[38] Another study, using data from 21 wealthy countries, has found a similar negative relationship between poverty and economic growth.[39]

Concluding Observations

Maintaining and enhancing economic growth is a national priority that touches on all aspects of federal decision making. As the nation moves forward in thinking about how to address the major challenges it will face

[37]Human capital deficits experienced by some impoverished individuals cannot always be attributed to experience of poverty. In some cases, low education attainment and poor health, although associated with poverty, may actually be caused by some other factor that is also responsible for poverty. In this case, poverty would be a symptom rather than a cause (i.e., poor health, poor choices, or addiction may erode human capital potential and cause poverty). Similarly, most poor people do not commit crimes, and those that do may be motivated by forces unrelated to their incomes.

[38]The relationship is not always statistically significant in all regions. Statistical insignificance in some cases might be more attributable to data issues such as sample size or multicollinearity rather than an indication of nonrelationship between poverty and income growth in various regions. See S. Dev Bhatta, "Are Inequality and Poverty Harmful for Economic Growth," *Journal of Urban Affairs*, 22 (3-4): 2001. This study provides, arguably, a better comparison group than cross-country studies, since metropolitan statistical areas in the United States are at relatively similar stages of development.

[39]Voitchovsky, S., "Does the Profile of Income Inequality Matter for Economic Growth? Distinguishing between the Effects of Inequality in Different Parts of the Income Distribution." *Journal of Economic Growth*, Vol.10.: 2005.

in the twenty-first century, the impact of specific policies on economic growth will factor into decisions on topics as far ranging as taxes, support for scientific and technical innovation, retirement and disability, health care, education and employment. To the extent that empirical research can shed light on the factors that affect economic growth, this information can guide policymakers in allocating resources, setting priorities, and planning strategically for our nation's future.

Economists have long recognized the strong association between poverty and a range of adverse outcomes for individuals, and empirical research, while limited, has also begun to help us better understand the impact of poverty on a nation's economic growth. The interrelationships between poverty and various adverse social outcomes are complex, and our understanding of these relationships can lead to vastly different conclusions regarding appropriate interventions to address each specific outcome. Furthermore, any such interventions could take years, or even a generation, to yield significant and lasting results, as the greatest impacts are likely to be seen among children. Nevertheless, whatever the underlying causes of poverty may be, economic research suggests that improvements in the health, neighborhoods, education, and skills of those living in poverty could have impacts far beyond individuals and families, potentially improving the economic well-being of the nation as a whole.

This concludes my statement, Mr. Chairman. I would be happy to respond to any questions that you or other members of the committee may have.

Contact and Acknowledgments

GAO Contact

Sigurd R. Nilsen, (202) 512-7215 or nilsens@gao.gov

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Chairman RANGEL. Dr. Holzer.

STATEMENT OF HARRY J. HOLZER, PH.D., PROFESSOR AT GEORGETOWN UNIVERSITY AND VISITING FELLOW AT THE URBAN INSTITUTE, GEORGETOWN UNIVERSITY PUBLIC POLICY INSTITUTE

Dr. HOLZER. Mr. Chairman, thank you very much for inviting me today to speak to the economic costs of poverty to the United States. I would like to share with all of you some recent findings

from a paper that I coauthored with several colleagues for the Task Force on Poverty of the Center for American Progress; and this paper attempts to estimate the economic costs of child poverty to the United States Essentially, we try to put dollar figures on all of the costs that Dr. Nilsen just emphasized.

Like Dr. Nilsen, we focus on several mechanisms by which poverty reduces economic success in the United States. When children grow up in poverty, they are more likely as adults to have low employment and earnings, reflecting their lower skill levels and their lower productivity in the workforce. They are more likely to engage in crime; they are more likely to have poor health later in life. Their reduced productivity generates a direct loss of goods and services to the U.S. economy.

The crime that they engage in imposes monetary and other personal costs on their victims, as well as costs to the taxpayers for administering an enormous criminal justice system. Their poor health generates illness and early mortality that requires large health care expenditures, impedes productivity and ultimately reduces the quality and quantity of life for poor people.

Now, in each of these three areas—productivity, crime and health—we reviewed a range of rigorous research studies that estimate an average statistical relationship between growing up in poverty and each of those outcomes—earnings, crime and health. We had to make a number of critical assumptions that folks might quibble with, but wherever possible, we tried to make conservative assumptions in order to generate lower bound estimates for this total cost.

Our results suggest that the costs to the United States associated with childhood poverty total about $500 billion per year, or the equivalent of nearly 4 percent of Gross Domestic Product (GDP). More specifically, we estimate the childhood poverty each year reduces productivity and economic output by about 1.3 percent of GDP, poverty raises the costs of crime each year also by about 1.3 percent of GDP, and poverty raises health expenditures and it reduces the value of health by about the equivalent of 1.2 percent of GDP.

If anything, these estimates almost certainly understate the true costs of childhood poverty to the U.S. economy. For one thing, we omit the costs associated with poor adults who did not grow up poor as children. There was no way to incorporate those estimates. Our estimates ignore all of the other costs that poverty might impose on the Nation besides those associated with those specific three factors—low productivity, crime and health. There are other costs, such as environmental costs and such as the suffering of the poor themselves, that we didn't incorporate into our estimates.

What does all of this imply for public policy? Well, the high cost of childhood poverty to the United States suggests that investing significant resources in poverty reduction might be more cost effective over time than we previously thought.

Of course, determining the cost effectiveness of each policy requires careful evaluation research in a whole variety of areas. However, a range of policies, including high-quality pre-kindergarten programs, various school reform efforts, higher access to higher education for the poor, expansions of the Earned Income Tax Credit

(EITC) and other supports for the working poor, job training for poor adults, higher minimum wages, more collective bargaining, special efforts for disadvantaged youth, marriage promotion and faith-based initiatives all might potentially be involved in this effort. Given the strong evidence that already exists on some of these factors, like high-quality pre-K programs and on the EITC, some investments through these mechanisms seem particularly warranted.

At a minimum, the costs of poverty imply that we should work hard to identify cost-effective strategies of poverty remediation, and we should not hesitate to invest some significant resources when these strategies are identified. Some have already been identified. In the meantime, we should also experiment with and evaluate a wide range of other promising efforts.

Thank you.

[The prepared statement of Dr. Holzer follows:]

Prepared Statement of Harry J. Holzer, Ph.D., Professor at Georgetown University and Visiting Fellow at the Urban Institute, Georgetown University Public Policy Institute

Mr. Chairman,

Thank you for inviting me to speak today on the economic costs of poverty to the United States.

I'd like to share with all of you some recent findings of a paper I coauthored with several colleagues for the Task Force on Poverty of the Center for American Progress.[1] The paper attempts to estimate the economic costs of child poverty in the U.S.

Most arguments for reducing poverty in the U.S., especially among children, rest on a *moral* case for doing so—one that emphasizes the unfairness of child poverty, and how it runs counter to our national creed of equal opportunity for all.

But there is also an *economic* case for reducing child poverty. When children grow up in poverty, they are more likely as adults to have low earnings, which in turn reflect low productivity in the workforce. They are also more likely to engage in crime and to have poor health later in life. Their reduced productive activity generates a direct loss of goods and services to the U.S. economy. Any crime in which they engage imposes large monetary and other personal costs on their victims, as well as the costs to the taxpayer of administering our huge criminal justice system. And their poor health generates illness and early mortality that requires large health care expenditures, impedes productivity and ultimately reduces their quality and quantity of life.

In each case, we reviewed a range of rigorous research studies that estimate the average statistical relationships between growing up in poverty, on the one hand; and one's earnings, propensity to commit crime and quality of health later in life, on the other. We also reviewed estimates of the costs that crime and poor health per person impose on the economy. Then we aggregated all of these average costs per poor child across the total number of children growing up in poverty in the U.S. to estimate the aggregate costs of child poverty to the U.S. economy. We had to make a number of critical assumptions about how to define and measure poverty, what level of income to use as a non-poverty benchmark, and which effects are really caused by growing up in poverty and not simply correlated with it.[2] Wherever possible, we made conservative assumptions, in order to generate lower-bound estimates.

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[1] See Harry J. Holzer (Georgetown University and the Urban Institute), Diane Whitmore Schanzenbach (University of Chicago), Greg J. Duncan (Northwestern University), and Jens Ludwig (Georgetown University and the National Bureau of Economic Research. "The Economic Costs of Poverty in the United States: Subsequent Effects of Children Growing Up Poor." Center for American Progress, January 2007.

[2] We define the effects of poverty to be all those associated with growing up in poor environments, including the effects of being raised by parents with low incomes, attending poor schools and living in poor neighborhoods. We also use families with incomes at twice the official poverty line as the benchmark with which to compare those living in poverty.

Our results suggest that *the costs to the U.S. associated with childhood poverty total about $500B per year, or the equivalent of nearly 4 percent of GDP.* More specifically, we estimate that childhood poverty each year:

- Reduces productivity and economic output by about 1.3% of GDP;
- Raises the costs of crime by 1.3% of GDP; and
- Raises health expenditures and reduces the value of health by 1.2% of GDP.

If anything, these estimates almost certainly understate the true costs of poverty to the U.S. economy. For one thing, they omit the costs associated with poor adults who did not grow up poor as children. They ignore all other costs that poverty might impose on the Nation besides those associated with low productivity, crime and health—such as environmental costs, and much of the suffering of the poor themselves.[3]

What does all of this imply for public policy? The high cost of childhood poverty to the U.S. suggests that investing significant resources in poverty reduction might be more cost-effective over time than we previously thought. Of course, determining the effectiveness of various policies requires careful evaluation research in a variety of areas. But a range of policies—such as universal pre-kindergarten (or pre-K) programs, various school reform efforts, expansions of the Earned Income Tax Credit (EITC) and other income supports for the working poor, job training for poor adults, higher minimum wages and more collective bargaining, low-income neighborhood revitalization and housing mobility, marriage promotion, and faith-based initiatives—might all be potentially involved in this effort. Given the strong evidence that already exists on some of these efforts (like high-quality pre-K and the EITC), some investments through these mechanisms seem particularly warranted.

At a minimum, the costs of poverty imply that we should work hard to identify cost-effective strategies of poverty remediation, and we should not hesitate to invest significant resources when these strategies are identified. In the meantime, we should also experiment with and evaluate a wide range of promising efforts.

Chairman RANGEL. Thank you so much.

Now we hear from David Jones, President and CEO of the CSS of New York.

Thank you for being with us.

STATEMENT OF DAVID R. JONES, PRESIDENT AND CHIEF EXECUTIVE OFFICER, COMMUNITY SERVICE SOCIETY OF NEW YORK

Dr. JONES. Thank you, Mr. Chairman and Members of the Committee. I am Dave Jones, President and CEO of CSS, an independent not-for-profit organization, virtually one of the oldest in the Nation at 160 years. We have been solely committed to the issues of poverty in the city of New York during that time.

Our legacy includes the creation of the Nation's first free lunch program and organizing some of the courses that led to the creation of the Columbia School of Social Work as well, much to the advantage of tourists, the first public baths and the Hospital for Special Surgery in the city, New York. CSS has always come to the aid of people in need in the city. Thank you for allowing me to report what is going on in the city of New York from our research.

Before I start, I would like to commend Congressman Rangel for focusing on this issue. He has been a lifelong supporter of people in need in the city.

Almost 42 years ago, the 88th Congress took the extraordinary step of supporting Lyndon Johnson's antipoverty agenda. That

[3] Our estimates include the value of lost earnings to the poor themselves, but not other nonpecuniary costs associated with poverty, except for estimates of the value of morbidity and early mortality to the poor.

council report, the Council of Economic Advisers, in 1965 said they thought they had the means to break poverty for good, to end it for the next generation of Americans. I appear before you today to report that at least from New York City's vantage, it is not happening, that we have to reinvigorate our efforts if we are going to break a cycle that seems, if anything, more entrenched than it was before.

My focus today, obviously, is on New York. It has 8 million people. It has unique challenges, but some of the research, I think, is illustrative of other areas of the Nation.

CSS research has revealed that 170,000 young people, ages 16 to 24, are out of school and out of work; they are disconnected. This is a population that rivals many cities in America. The majority of these youth are black and Latino with this predicament most pronounced in the Latino community.

In a related study, we examined New York City joblessness. That study revealed that nearly 40 percent of black men, 16 to 24, in New York City are completely severed from the workforce and labor market. As Members of the Committee recognize, this is not unemployment; this is actual job holding in this category of individual.

Our findings go on. In our latest yearly assessment of poverty in New York City, we have identified single mothers falling behind yet again in terms of being a growing segment of families in poverty despite a major economic recovery in the city of New York.

Following that, the latest CSS survey of low-income New Yorkers, the largest such survey in America, finds that while nearly 60 percent of low-income people are working, they are reporting significant problems, from losing their apartments to forgoing health care to having food crises.

That survey led us to collaborate with a local union, Local 32BJ of the Service Employees International Union, to look at security guards in New York. Of 63,000 security guards, virtually none of them get a wage of more than $10 an hour, we couldn't find one that had health insurance, and most of them report having problems staying in an apartment in any one year.

I think rather than wringing our hands about it, our city has done something about it. Under Congressman Rangel's prodding, the mayor created a construction opportunities group, which started reserving some of the jobs for young men and women in the categories we are talking about. The City Council in the city of New York has put $20 million to try to do workforce development activity, and the mayor has put together a panel, on which I am honored to serve, which has put forward $150 million to deal with the problems of chronic poverty in the city of New York.

This can't be done by a city or locality alone. It is going to take very aggressive activity by the Congress, and I think we have to start crafting interventions that can have some immediate impact. Some of them involved doing some rigorous skill-based work of developing further kinds of job corps settings and a renewed commitment to career and vocational education.

We have to do interventions that will bring young people who were totally out of the economy into it, and we have to do even more. This particular Committee has to look at the EITC and con-

sider whether we may draw more young people into that purview by expanding the low-income tax credit to include childless adults between 18 and 24.

Again, I think the description of that panel nearly 40 years ago was right. I think we can do it, but it is going to take an extraordinary focus to get it done, and I think it has enormous consequences of what kind of Nation we are putting together.

Thank you.

[The prepared statement of Dr. Jones follows:]

Prepared Statement of David R. Jones, President and Chief Executive Officer, Community Service Society of New York, New York, New York

Good morning, Chairman Rangel and members of the Committee. I am president and CEO of the Community Service Society of New York or CSS, an independent, not-for-profit organization. Throughout our more than 160-year history, we have been committed to improving the life chances of New Yorkers living in poverty.

Our legacy of achievement includes such innovations as setting up the prototype for the free school-lunch program; starting the first shelter for homeless men; organizing the Society for the Ruptured and Crippled, now New York City's Hospital for Special Surgery; and organizing courses in social work that evolved into the Columbia University School of Social Work.

Thank you for inviting me to share with you my thoughts on poverty in our Nation, in particular what we have witnessed in New York City.

Let me begin by commending you, Congressman Rangel, for your exemplary service to our Nation, the passion you bring to this institution, and your lifelong commitment to those in need. We stand ready to assist you and this committee in any way we can to strengthen our national resolve to address poverty.

Forty-two years ago the 88th Congress took the monumental step of supporting President Lyndon Johnson's anti-poverty agenda. It was a hopeful time, as is evident in the 1965 annual report of the Council of Economic Advisers that stated: We have the means to break the bonds that tie today's children to the poverty of their parents. With proper measures, we could eliminate poverty in the next generation.

I appear before you today to suggest while some progress has been made, we must return to the task at hand and reinvigorate our efforts on behalf of the poor. My focus today is on the dimensions of poverty in New York City, what we are facing on the ground. And, while the magnitude of the challenge we face is unique due to the sheer size of our city, I know that similar conditions exist in urban communities across the country.

In 2005, CSS issued a report that revealed 16 percent of young people in our city, ages 16 to 24 years old, are neither enrolled in school nor employed.[1] These nearly 170,000 young people—a number that rivals the total population of Providence, Rhode Island—are what researchers have deemed "disconnected," separated from any opportunities that could lead to a life of self-sufficiency and achievement.

The report found that the city's Black and Latino youth—particularly young men—are twice as likely as Whites and Asians to be out of school and out of work. This predicament is most pronounced in the Latino community, where four in ten young men are disconnected.

Low-income young men of color are being left out of the city's growing prosperity. And therein lies the problem: Growing the economy is not enough to correct this situation. The presence of so many disconnected young people of color not only endangers families and communities. It also jeopardizes the city's economic growth.

We need a comprehensive policy to address the needs of disconnected youth. It must reflect the realities of today's economy, penetrate populations of young people who are outside of mainstream institutions, and provide targeted investments with measurable outcomes. Ultimately, the goal must be to create a well-defined path to economic security for these young people.

And we need a second chance policy specifically to reach out to young men and women who have dropped out. For those with deep educational deficits, this will not be a cheap, quick fix. Short-term, superficial training programs don't make up for 12 years of inadequate education. It will require a more focused approach, with a series of steps from rigorous skill development in a Job Corps type setting, a re-

[1] See *Out of School, Out of Work ... Out of Luck? New York City's Disconnected Youth at http://www.cssny.org/pubs/research/poverty.html.*

newed emphasis on vocational and technical education, to transitional jobs in public service or emerging sectors of the economy.

Our attention must also focus on individuals who can find no place in our labor market. CSS released a report in 2004 that revealed the magnitude of Black male joblessness in New York City that reverberated through the media and city government.[2] The report found that nearly half of all Black men were jobless in 2003.

And as the members of this committee know, joblessness is not the same as unemployment. Our jobless figures account for all Black men of working age, including those who have dropped out of the job market, a growing group that the government's unemployment statistics ignores.

Since that initial finding, the situation has improved somewhat. Our latest figures show nearly 40 percent of the city's Black men are jobless, a number that is still unacceptable.[3] That's about 250,000 people, more people than in many of the cities and small towns or counties represented by members of this committee. Clearly, in addition to engaging Black men in the labor market, we must also re-commit to non-discriminatory practices and government oversight and enforcement mechanisms.

This isolation from opportunity is not limited to Black men. Our most recent annual examination of poverty in New York City revealed that single mothers heading households comprise a larger share of families in poverty.[4] It is another example of why there is not an easy fix or a one-size-fits-all solution that can be applied across the spectrum of crises we are encountering.

CSS is also confronting the problems of the working poor. Working poor ought to be an oxymoron, but in fact it is an ever-expanding group of Americans.

We conduct an annual survey of New York City's low-income residents, aptly named "The Unheard Third" since one-third of the city's residents live in or near poverty. As far as we know, this is the only regular survey of low-income opinion and attitudes in the Nation.[5] It gives us vital information for our work since we get direct feedback from our primary constituency.

Our latest survey found that nearly 60 percent of low-income New Yorkers were working, nearly half working full time. A report CSS produced and commissioned by the Service Employees International Union, Local 32BJ, on New York City's private security guards, reinforced our survey data on the working poor.[6]

New York City's 63,000 private security guards provide the first line of defense for tenants and visitors in office buildings as well as retail stores, schools, and religious institutions. Almost 95 percent are non-union. Over eight in ten are male and mostly men of color. The median hourly wage for guards in the New York City area is only 55 percent of the median for all workers in the New York metropolitan area. Most labor without a single day of paid sick leave and few receive health benefits on the job. The result is a workforce with low morale and high turnover.

What we have learned from the aforementioned example is that unions continue to play an important role in securing livable wages and benefits and raising workplace standards to the benefit of workers and employers. The absence of unions leaves hard-working men and women with little protection from the often-arbitrary actions of employers and the unpredictable nature of market forces.

We also need to reward legitimate, steady work. The Earned Income Tax Credit has been one of our most successful policies in making work pay and especially in drawing more low-income parents into the labor force and enabling them to rise out of poverty. But the EITC leaves out exactly the group with the highest rates of joblessness. The Earned Income Tax Credit should be extended to childless adults ages 18 to 24, comparable to that available to parents of two children.

To their credit, our city's elected leadership has reacted responsibly to what CSS, and other organizations, have identified as a crisis in our city.

Mayor Bloomberg recognized the possibilities for employment in the city's burgeoning construction industry. But it was Chairman Rangel who induced the mayor to create the Commission on Construction Opportunity. And we have seen the results of the commission's work: a new High School for Construction Trades, Engineering, and Architecture that opened last fall; and 40 percent of construction industry apprenticeships earmarked for formerly excluded groups and individuals—an unprecedented agreement with the city's trade unions.

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[2] See *A Crisis of Black Male Employment: Unemployment and Joblessness in New York City, 2003* at http://www.cssny.org/pubs/research/poverty.html.

[3] See *Unemployment and Joblessness in New York City, 2005* at http://www.cssny.org/pubs/research/poverty.html.

[4] See *Poverty in New York City, 2005* at http://www.cssny.org/pubs/research/poverty.html.

[5] See http://www.cssny.org/research/unheardthird/index.html.

[6] See *Shortchanging Security: How Poor Training, Low Pay and Lack of Job Protection for Security Guards Undermine Public Safety in New York City* at http://www.cssny.org/pubs/research/poverty.html.

The New York City Council, under the leadership of former Speaker Gifford Miller and continued by Speaker Christine Quinn, has piloted the New York City Works program—a citywide effort to stem the tide of joblessness by identifying prospects for employment, providing job preparation, and connecting individuals to work. So far, nearly $20 million has been earmarked for this program.

Likewise, Mayor Bloomberg's Commission for Economic Opportunity, on which I served, is a significant milestone for our city.[7] The commission took a targeted approach, focusing on three distinct groups of the poor in New York City: working poor adults, young adults ages 16 to 24, and children age five and under. The mayor has committed $150 million to develop policies that address their immediate needs and create avenues for sustained mobility throughout the course of their lifetimes.

This is a start. With the proper political will, we can turn hope into reality. Imagine an America where poverty is not accepted as a permanent condition. I am encouraged that the 110th Congress will, without the rancor of partisan rhetoric, see fit to build upon the tremendous legacy of the men and women who served in this institution four decades ago. Our finest hour has yet to come but the clock is ticking. As was expressed in 1965: we do have the means to break the bonds that tie today's children to the poverty of their parents.

I can provide copies of our reports or survey findings to the members of the committee or the committee staff. And I'll be happy to answer questions about our experiences in New York City and the implications across urban communities throughout our Nation.

Thank you.

Chairman RANGEL. A long-time staffer and friend of this Committee and well-known author, Dr. Ron Haskins, who is now the Codirector of the Center on Children and Families with the Brookings Institution. Welcome back to your Committee.

STATEMENT OF RON HASKINS, PH.D., SENIOR FELLOW, ECONOMIC STUDIES AND CODIRECTOR, CENTER ON CHILDREN AND FAMILIES, THE BROOKING INSTITUTION

Dr. HASKINS. Thank you so much, Mr. Chairman and Ranking Member McCrery and Members of the Committee.

Before I came to Washington, I used to think the name of this Committee was the "Powerful" Committee on Ways and Means and only when I got here did I find out that "powerful" was just how you are regarded by other people. So, it is a great privilege to be here, and I greatly appreciate your invitation.

I also want to congratulate the Committee for starting with poverty. I think poverty is a very serious problem. I spend most of my life now studying poverty and inequality and social mobility, and I am extremely pleased that the Committee is going to, not just in this hearing but in subsequent hearings, perhaps develop a legislative agenda, hopefully bipartisan.

This Committee, of course, was really the source of the 1996 welfare reform bill, which has had dramatic impacts on poverty. I think you could argue that it is the most effective thing we have ever done at the Federal level, and it was, in the end, a bipartisan bill even though many of the prominent members of this Committee did not support it, it has been quite successful; and I hope that that same outcome can be achieved this time, that this Committee can work together and create an antipoverty strategy.

I would like to make three brief points about the report. First, it is a superb report—I am referring now to the Holzer report. It

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[7] See http://www.nyc.gov/html/om/pdf/ceo_report2006.pdf.

is a superb report. All of the authors are extremely prominent professionals and scholars, and I think there could be other people who can pick a nit here and there, as Harry said, but I think all experts that study this material would agree that poverty is a serious problem, that it does have long-term impacts on the economy; and if we could reduce childhood poverty, there would be positive impacts on the economy.

I doubt anybody would argue very much with $500 billion. I think it is a reasonable outcome.

I would like to point out two things that are very important. First, the $500 billion figure does not include the cost of anything that we would do to eliminate poverty. We already spend well over $600 billion on means-tested programs. So, we would have to spend more, presumably, unless we can make those programs more efficient, to actually reduce poverty. So, we should not think that we are going to suddenly realize a windfall of $500 billion if we could eliminate childhood poverty, because it is going to cost something.

Secondly, do not think that the implication of this report is that if we gave a bunch of money to people, that poverty, childhood poverty, would be reduced. The logic of the report is, not only do poor people need more money, but they have to change in every other way to make them more like nonpoor people. The parenting behaviors have to change, the neighborhoods have to change, the schools have to change; and in my estimation, this puts us right back where we started. This Committee and other Members of Congress and members of the private sector, like Mr. Jones, still have to figure out what we should do to reduce poverty.

In that regard, I think we actually have learned something. If members would like to look at Chart 3 in my testimony, I think this will give you a very good clue about what we have learned and about the strategies that we should pursue.

First, I want to call your attention—these are three bar graphs in two sets, one set for 1990 and one set for 1999. These bar graphs are—it is a broad measure of poverty, but it is one that is used by the Census Bureau, so there is no tricky stuff here.

Dr. HASKINS. Notice each—the bar graph in each set; these are moms who were never married, the most likely to be poor, the least likely to have a high school education. In 1990, their market poverty rate—think of it as life in the state of nature—was 50 percent. Half of them were poor and their children were poor.

In 1999 it was 39 percent, and that figure went down specifically because of earnings, probably a net increase of 2 million mothers in the labor force, granted, working minimum-wage jobs, but earning enough to take themselves and their children out of poverty.

Now look at what happens when you add government programs. When you add the cash programs and the cash in kind, not including the tax programs, poverty drops to 37 percent in 1990, but it still drops quite considerably in 1999. Then when you add the tax benefits, especially earned income tax benefits—and other benefits as well, but especially the EITC—it has no impact in 1990 because of the low levels of work. However, because of the high levels of work in 1999, poverty still goes down even further to 25 percent.

So, think of this: 25 percent, 37 percent, why? For three reasons:

First, we used the market. We insisted that people have market incomes. Government is not going to do anything.

Secondly, individual responsibility, in this case work. We insisted that people do the responsible thing, namely quit welfare and go to work. It is not good to be on welfare, you should work. We sent very clear signals that were originated from this Committee that people had to go to work.

Third, we supported them once they began to work with government programs, especially EITC but also child care, to some extent food stamps, which we changed very substantially in 2002.

In short, this is a deeply bipartisan approach. For Republicans, there is personal responsibility, the Republicans like to emphasize. For Democrats, there is a crucial role for Government. I would say to this Committee that whatever you do to attack poverty, that you need to focus on these three bulwarks of any antipoverty strategy, and especially on more work. I suggest some things in my testimony about how we could do that, especially marriage, and especially education and, in particular, preschool.

Thank you, Mr. Chairman.

Chairman RANGEL. Thank you. Thank you.

[The prepared statement of Dr. Haskins follows:]

Prepared Statement of Ron Haskins, Ph.D., Senior Fellow, Economic Studies and Co-Director, Center on Children and Families, The Brookings Institution

Chairman Rangel, Ranking Member McCrery, and Members of the Committee:

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

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

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

[1] Harry J. Holzer and others, "The Economic Costs of Poverty in the United States: Subsequent Effects of Children Growing Up Poor" (Washington, D.C.: Center for American Progress, January 2007).

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

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

guess how much more we would have to spend to greatly reduce the current child poverty rate.

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

Another complication arises. I think Professor Holzer and his colleagues would agree that in order to realize the gains to the economy they calculate would require changes in the behavior of both poor parents and poor children. Indeed, the underlying implication of their analysis is that the savings they estimate can only be achieved if we can figure out a way to boost poor children into an entirely different developmental trajectory than the one that currently limits their potential. We can have a big argument about whether it is possible to achieve this kind of impact on children, but virtually every student of poverty thinks that just giving money to poor parents would not be enough. Professor Susan Mayer of Northwestern University, in a remarkable study cited by Professor Holzer and his colleagues, found that influencing child outcomes requires more than just money. The title of her book, *What Money Can't Buy,* hints at her message that "once basic material needs are met, factors other than income become increasingly important."[4]

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

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

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

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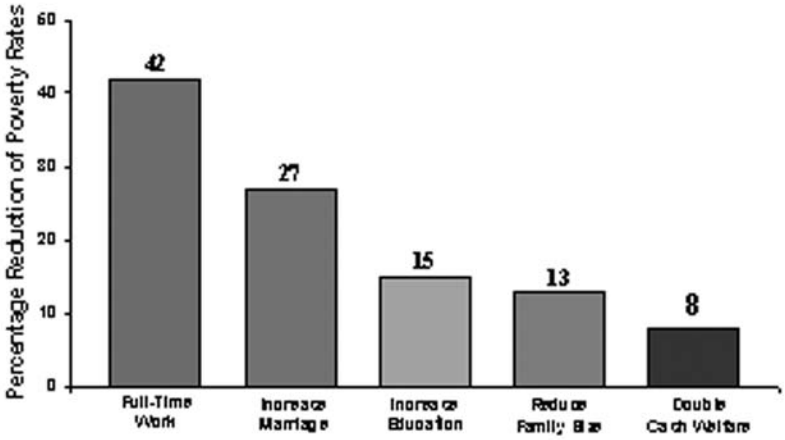
[4] Susan E. Mayer, *What Money Can't Buy* (Cambridge: Harvard, 1997), p. 148.

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

Figure 1
Effectiveness of Five Factors in Reducing Poverty Rates



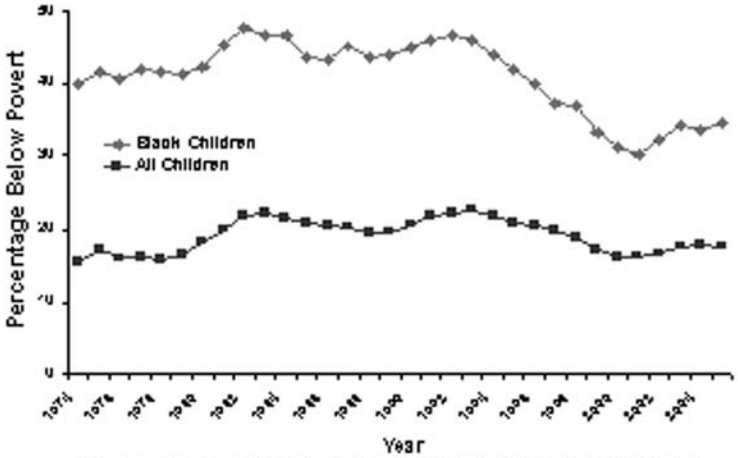
Based on Thomas and Sawhill, 2002; and Haskins and Sawhill, 2003.

Rather than chase a goal that is far out of our reach to eliminate child poverty, a more modest but potentially more effective set of strategies lies close at hand. Figure 1 portrays the results of an analysis performed by Isabel Sawhill, my colleague at Brookings. Based on Census Bureau data for 2002, the analysis systematically varies factors correlated with poverty and then, based on the magnitude of each factor's correlation with poverty and on data from a random sample of Americans, estimates how changing that factor would change the poverty rate.[6] The figure shows the impact on poverty of assuming everyone works full time, of increasing the frequency of marriage to match the rate that prevailed in 1970, of assuming everyone completed high school, of reducing family size so that no family had more than two children, and of doubling cash welfare. As you can see by the height of the bar graphs, the most effective way to reduce poverty would be to increase work levels; the second most effective way would be to increase marriage rates. Increasing education, reducing family size, and doubling cash welfare are much less effective in reducing poverty.

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

Figure 2

Poverty Rates for All Children and Black Children, 1974-2005



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

This analysis, like the study being released today by the Committee, is based on statistical manipulations of data and not what actually happens when something in the environment (such as work or marriage rates) changes. But, thanks in large part to this Committee, the Nation has conducted a huge experiment that shows what happens to poverty rates when more people work. In the welfare reform legislation of 1996, welfare rules were dramatically changed so that mothers on welfare had to look for work or have their cash benefit reduced or even terminated. In addition, mothers were confronted with a 5-year time limit. In part because of these new rules, the mid- and late-1990s saw the largest increase ever in work by females heading families. As many as two million poor mothers left or avoided welfare and found jobs. Figure 2 shows what happened to child poverty during the period of increased employment by single mothers. Child poverty declined for seven consecutive years beginning in 1993, falling by nearly 29 percent over the period. Black child poverty fell even more, by about 32 percent, reaching its lowest level ever. Even after some mothers lost their jobs during and following the recession of 2001 and child poverty increased, it peaked in 2004 (it declined again in 2005) at a rate that was more than 20 percent below its mid-1990s peak.[7]

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

Another decision that people make that greatly increases their odds of living in poverty is the decision to have a baby outside marriage. Children in female-headed families are four or five times more likely to be poor as children living with their married parents.[8] The Brookings analysis referred to above shows that if we had the marriage rate we had in 1970, we could reduce poverty by well over 25 percent. The analysis does not assume any higher levels of employment or any government spending above the level that actually occurred in 2002. The analysis proceeded by randomly matching single men and single women with the characteristics (including

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

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

employment and income) they actually had in 2002. The matches, based on age, education, and race, proceeded until enough virtual marriages had been created to equal the 1970 marriage rate. Clearly, the decision to marry by millions of young adults could have a major impact on poverty rates. As it is now, the decision not to marry and to have babies outside wedlock contributes greatly to the high level of poverty in America, especially the poverty level among children.

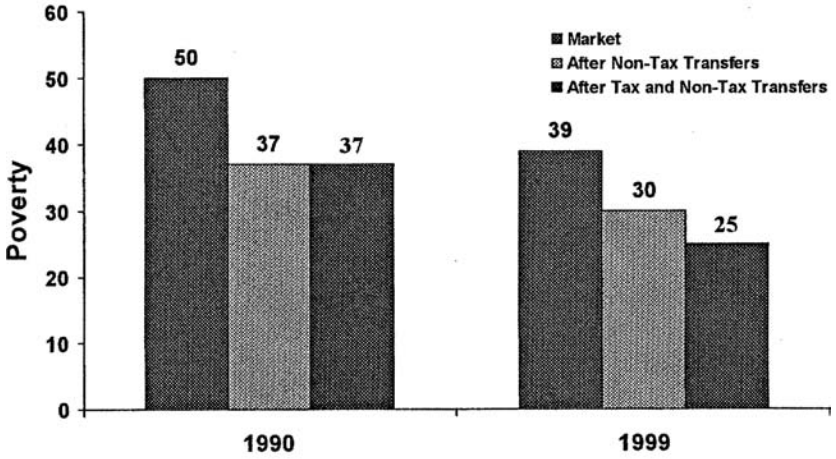
Dropping out of high school is yet another individual decision that has a major impact on poverty. As Figure 1 shows, we could reduce poverty by about 15 percent if everyone would simply finish high school. Of course, if more youth went on after high school and achieved 2-year or 4-year degrees, the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

So far, I have emphasized work, marriage, and education because not only are these effective levers to manipulate to fight poverty, but they are all primarily under the control of individuals. The major lesson from welfare reform is that increased personal responsibility is vital to reducing poverty. No matter what we do as a nation to fight poverty, increased levels of responsible decision-making by individuals should be at the heart of our strategy. If we can increase the number of parents who decide to work, if we can encourage young people to marry before having children, and if we can help young people complete high school or even achieve additional years of schooling beyond high school, we will greatly reduce poverty and realize the economic gains predicted by the Holzer report.

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

[9] Haskins, *Work over Welfare,* p. 126.

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



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

Figure 3, based on data taken from the Ways and Means *Green Book,* shows how successful the policy shift to mandatory work combined with federal work supports has been.[10] The figure compares progress against poverty among children living with their unwed mothers in 1990 (the first set of graphs) and in 1999 (the second set of graphs). The first bar shows that before any government transfer programs, the poverty rate based just on market income was 50 percent in 1990 but only 39 percent in 1999. The 1999 market poverty rate was more than 20 percent lower than the comparable rate in 1990 because so many more unwed mothers were working in 1999. The second bar shows what happens when non-tax transfers from cash welfare, food stamps, and housing are added to family income. These programs took a big bite out of poverty in 1990, causing it to fall from 50 percent to 37 percent. But the same programs also had a major impact on poverty in 1999, despite its lower initial level, causing it to fall from 39 percent to 30 percent. When tax benefits, notably the EITC, are added to income, there is virtually no impact on poverty in 1990. But in 1999, the EITC and other tax benefits brought poverty down by another 5 percentage points or 15 percent. As can be seen by comparing the last bar in each set, the combined effect of government programs in 1990 was to bring poverty down by about 25 percent, from 50 percent to 37 percent. But the impact of government programs in 1999 was even greater, reducing poverty by over 35 percent—despite the fact that increased incomes from work by mothers had caused the market poverty rate to be 20 percent lower. It would be difficult to imagine a clearer demonstration that the new federal strategy of requiring personal effort and then rewarding it with work-contingent benefits is functioning just the way this Committee and Congress hoped it would.

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

[10] Committee on Ways and Means, *2004 Green Book* (Washington, D.C.: U.S. Government Printing Office, 2004), table H–21.

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

- Raising work levels is a proven strategy for reducing poverty. Yet the only federal program that has strong work requirements is Temporary Assistance for Needy Families. The Federal government should work with states and local housing authorities to increase the incentives for work in both the food stamp and housing programs.
- Simulations like the Sawhill analysis cited above show that increasing marriage rates could have a major impact on poverty. However, there is only modest evidence that programs such as marriage education will increase marriage rates or strengthen families. Fortunately, the Bush administration has funded a series of scientific studies, now being conducted by highly qualified research companies, to examine a range of marriage programs working both with young unmarried parents and with young married parents. In addition, the Administration has recently funded over 120 marriage programs around the Nation. The Ways and Means Committee should follow the progress of these research and demonstration programs and from time-to-time conduct hearings to examine the findings. If the programs are effective in building strong families and boosting children's development, they should be expanded.
- A large number of poor and low-income men, especially minority men, continue to have serious problems in the labor market and to exhibit low rates of marriage, high rates of impregnating their unmarried partners, low rates of paying child support, and high rates of crime and imprisonment. The primary government program for these young men is child support enforcement, which uses all available means—including incarceration—to force them to pay child support. A reasonable approach to helping these young men would be to use both prison release programs and interventions implemented through the Child Support Enforcement program to provide incentives for work. In addition, Congress should provide funds for a few states to experiment with large-scale demonstrations of the effects of providing these young males with a large income supplement comparable to the EITC;
- The intervention program that has the best evidence of having long-term impacts on children's development is high-quality preschool.[12] Evidence from model programs shows that preschool can reduce placements in special education and retentions in grade, boost school graduation rates, reduce delinquency and crime, reduce teen pregnancy, and increase college attendance, among other effects. But there is little or no evidence that large-scale programs like Head Start can produce these long-term effects. More than forty states now spend their own money on preschool programs, indicating a high level of state commitment to preschool. Congress should offer additional funding to a few states that agree to coordinate all their child care and preschool funding, to focus on boosting school readiness, to cover all poor 4-year-olds (or both 3- and 4-year-olds), to use highly qualified teachers, and to submit their programs to third-party evaluations. Although model programs show what can be accomplished, we do not yet have the knowledge to implement effective large-scale programs.

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

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[11] Ron Haskins and Isabel Sawhill, "What a Winning Presidential Candidate Should Do About Poverty and Inequality" (Washington, D.C.: Brookings, forthcoming).

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

Chairman RANGEL. Now we will hear from Dr. Jane Knitzer, Director of the NCCP, from New York.

Thank you for being with us.

STATEMENT OF JANE KNITZER, PH.D., DIRECTOR, NATIONAL CENTER FOR CHILDREN IN POVERTY

Dr. KNITZER. Thank you, Mr. Chairman and Members of the Committee. My name is Jane Knitzer; I direct the NCCP at Columbia University, located in Congressman Rangel's district, and I personally am a constituent.

I am going to highlight seven take-home messages from demographic analyses, neuroscience and economic research that have profound implications for shaping policies to promote future productivity.

One, we are talking about a large part of the future workforce, 39 percent of America's children, 28 million children, live in low-income families.

Two, most low-income children already have parents who work, 55 percent of them full-time, full-year, but they do not earn enough money to support a family. It takes twice the poverty level, even minimally.

Three, the younger the child, the greater the risk of poverty. Forty-three percent of children under 6 live in low-income families compared to 35 percent of adolescents. We know from research that experiencing poverty in early childhood is the most harmful to children.

Four, economic hardship has been repeatedly linked to adverse health education and other outcomes, even in children, the kind that you just heard described in adults. By age 4—and it starts really early. By age 4, poor children are 18 months behind developmentally and by age 10, they have not caught up. These children have more mental health problems, they are more likely to drop out of school and become part of the disengaged youth.

Five, money matters for children's outcomes. Increased income has been linked with better school readiness and achievement and with reduced behavior problems, some of it, in our welfare research findings. Families with more money can invest in more resources to promote cognitive development, and they are less stressed and depressed, which impacts how children develop socially and emotionally which, in turn, relates to how well they become workers.

Six, the earliest relationships matter more than we ever understood. Neuroscientists are teaching us that the earliest relationships, starting in infancy, shape the hardwiring of the brain, which in turn shapes later learning, the ability to manage emotions and even the immune system.

A study called Adverse Childhood Experiences has linked problems in childhood with increased cardiovascular problems, hypertension, diabetes, et cetera, done by the Kaiser Foundation.

Seven, according to economists as well as brain science, investing in high-quality early childhood experience has long-term, major economic payoff, and I think everybody has mentioned that. So, I won't go into that. My testimony gives examples and the Committee on Economic Development has been doing a great deal of analysis of this.

So, the take-home messages that are critical, for future productivity, we need to make work pay for families now, not just for adults; but adults are parents, and what happens now is that as families earn more and lose the work support benefits, they fall back into poverty.

We have developed a tool, the Family Resource Simulator, at NCCP that tracks this in 12 States across the country. As they earn more, do the American thing, work harder, they lose benefits. Some earn twice as much and they end up with very little disposable income. This does not set a good model for their children.

Two, make sure that all low-income young children enter school with the skills they need to learn whatever setting they are in, and regardless of the work status of their parents. Right now, 17 percent of children are actually in State-funded preschool programs. The vast majority of children are in child care settings, but child care is largely seen as a work support for parents, not essentially a productivity support for the next generation. We must invest in quality child care that includes the same access to high quality early learning experiences.

Three, we need to invest in infants and toddlers and their families, particularly those where the relationships are at risk. We must expand programs like Early Head Start. We are now serving 62,000 children in the United States of America in Early Head Start, even in the face of the brain science.

Finally, for the highest-risk children, particularly those in poverty and extreme poverty, we need to consistently make both parenting supports and work supports a focus. Right now, we focus on work and not the parenting supports that these higher-risk families need. We often talk about children and adults separately. We need to focus policies on families, particularly for the highest risk.

I thank you very much, and I would be happy to respond to any questions.

Chairman RANGEL. Thank you.

[The prepared statement of Dr. Knitzer follows:]

Prepared Statement of Jane Knitzer, Ph.D., Director, National Center for Children in Poverty, New York, New York

Thank you, Mr. Chairman and members of the committee for this invitation to testify today. I am the Director of the National Center for Children in Poverty (NCCP). NCCP is a public interest organization at Columbia University's Mailman School of Public Health, with offices in Congressman Rangel's Congressional District. NCCP's mission is to promote the health, economic security, and well-being of America's most vulnerable children and families. NCCP uses research to identify problems and find solutions at the state and national levels.

My remarks today focus on what we need to do for the next generation *now* to ensure the future productivity of our economy. To set the stage, I will provide some key facts about child poverty, highlight why child poverty matters for the future of the economy, and share lessons from research about new strategic ways to address child poverty and to ensure a productive future workforce. I will conclude with some broad recommendations based on NCCP's research on how best to improve family economic security and increase the odds that poor and low-income children will become productive earners.

Child Poverty in America, 2007

Child poverty is widespread. Overall, 39 percent of America's children—more than 28 million children—live in low-income families, that is with income below twice the poverty level. This puts them at risk of not making it in the global economy, not having the educational skills they need, not being healthy both mentally and physically, and not being effective parents when they become adults.

Nationally, 18 percent, or nearly 13 million children are poor by official standards. Half of these children are in families with incomes at or under $10,000.

Another 21 percent of children live in families with incomes between 100 and 200 percent of poverty. Although not poor by official standards, these families face material hardships and disadvantages that are similar to those who are officially poor. Missed rent payments, utility shut offs, inadequate access to health care, and unstable child care arrangements are common. These families are but one or two crises away from official poverty (National Center for Children in Poverty, 2006).

Most low income children have parents who work. As the recent GAO report finds, the majority of the parents of these children work—55 percent of children in low-income families have a parent who works full-time, 52 weeks a year. The problem is they do not earn enough money to support a family, even when they work more. They are held back by low-wage jobs that provide few benefits and few prospects for advancement, even when they have a high school degree or even some college. Three quarters of low-income children have parents with at least a high school diploma, but this no longer guarantees economic success (National Center for Children in Poverty, 2006).

Research shows that it takes an income of about twice the poverty level to provide even basic necessities for a family, $40,000 for a family of four, not the official $20,000, and, depending upon the local cost of living, it can take even more. *It takes a full-time job at more than $19 an hour to produce an annual income of $40,000, or two full-time jobs at nearly $10 an hour* (Cauthen, 2006).

Not having enough money reduces the odds that children will have access to the kinds of resources and experiences that are essential for children to thrive and to grow into productive adults. Too often they lack access to the things that higher-income parents routinely provide for their children—high quality health care, stimulating early learning programs, good schools, money for college as well as books and other enriching activities. Instead, low-income parents struggle with more basic choices: When the money runs out, is it heat or the medical bills? Is it good child care or unstable arrangements that cost less? Is it keeping young children indoors and out of unsafe parks, risking obesity?

The younger the child, the greater the risk of poverty. 20 percent of children under age 6—1 in 5—live in poor families; 16 percent of children age 6 or older live in poor families. In half the states, more than 20 percent of children under age 6 are growing up in poverty, whereas only 13 states have a child poverty rate for children up to age 18 that is as high. The pattern is the same for low-income children: 42 percent of children under age 6 live in low-income families, whereas 33 percent of adolescents live in such families. Research tells us that experiencing poverty in early childhood, along with persistent poverty, is the most harmful to children.

States' poverty and low-income rates vary considerably. There is considerable state variation in the rate of children in low-income families. In the states represented on this committee for example, the percentage of low-income children varies from 24 percent to 44 percent of all children in the state. This suggests the possibility of a combined state and federal policy agenda providing incentives to states to implement poverty reduction strategies.

Why Child Poverty Matters for Future Productivity

Economic hardship has been linked to a myriad of adverse educational, health and other outcomes for children that limit future productivity. Low-income children face elevated health, educational, environmental and family risks that jeopardize their successful transition to adulthood, with African American, Latino and American Indian children facing compounded risks (Shonkoff, 2000). For example:

Health

Good health is the foundation for healthy development. Low-income children are more likely to be in fair or poor health (Centers for Disease Control analysis of 2001 National Health Interview Survey—NHIS) and to lack access to quality health care. Low-income children are not as likely as their well-off peers to receive preventive health care and their parents are less likely to receive guidance about child development. Three percent of low-income families report receiving advice and education from their physician compared to more than half for more affluent families (Young, 1996). Even with Medicaid and the State Children's Health Insurance Program (SCHIP), 11 percent of poor children lack access to health insurance, and for the first time in more than a decade, the number of uninsured children is increasing (See: *www.statehealthfacts.org*).

Education

Researchers repeatedly document that there is a direct linear relationship, in the aggregate, between family income and children's achievement. Higher family income leads to higher academic achievement (Gershoff, 2003; Lee & Burkham, 2002).

Less well known is that the achievement gap is real and significant from children's earliest years. Both math and reading scores are negatively related to poverty at kindergarten entry and for the most part, poor children either do not catch up or the gap worsens. A review of national data sets on preschool and child care shows that at age 4 years, poor children are 18 months below the developmental norm for their age group. By age 10, that gap is still present. Of particular concern is that there is a dramatic difference in early language by income. By the time children from middle-class families are in the third grade, they know about 12,000 words. Children in low-income families with undereducated parents have vocabularies of 4,000 words (Klein & Knitzer, 2007).

Mental Health

Healthy social and emotional development is a core ingredient of successful adulthood. But low-income children are disproportionately exposed to circumstances that pose risks to such development.

Low-income children, especially young children, are more likely to be exposed to parental depression and other parental adversities including substance abuse and domestic violence. These risk factors have been linked with an array of short and long term consequences for children, including depression, acting out behavior, and significant school problems.

For older children, the toll poverty takes is reflected in higher rates of diagnosable disorders, along with learning problems (Knitzer & Cooper, 2006) that frequently translate into school drop out and sometimes child welfare and juvenile justice involvement. Two-thirds of youth with mental health problems drop out of high school (Wagner, 2005).

What Research Says Can Help

It is widely accepted that high quality education is a major pathway out of poverty. But research also points to two other critical ingredients that promote future productivity.

Adequate Family Income

Too often, discussions about children and poverty focus *only* on the risks associated with poverty—low educational achievement, social and behavioral problems, and poor health—and then the policy solutions follow suit. While it is critically important to address these problems, it is equally important for children's growth and development to address poverty itself. In short, money matters.

More than a decade of research shows that increasing the incomes of low-income families—without any other changes—can positively affect child development, especially for younger children (Cauthen, 2002). Experimental studies of welfare programs offer some of the strongest evidence to date about the importance of income. For example, welfare programs that increase family income through employment and earnings supplements have consistently shown improvements in school achievement among elementary school-age children; other studies have also shown links between increased income and improved school readiness in young children (Dearing, McCartney, & Taylor, 2001).

In contrast, welfare programs that increase levels of employment *without increasing income* have shown few consistent effects on children. Moreover, findings from welfare-to-work experiments show that when programs *reduce income,* children are sometimes adversely affected (Cauthen, 2002). Other studies have shown links between increased income and reductions in acting out disorders in low-income children and youth (Costello, Compton, Keeler, & Angold, 2003). And it's not just the amount of income that matters but also its predictability and stability over time; research has shown that unstable financial situations can have serious consequences for children as well (Cauthen 2002; also Wagmiller, Lennon, Kuang, & Aber, 2006).

Research suggests that income, controlling for other factors, affects children primarily through two mechanisms. The financial investments that parents are able to make in their children—both to meet basic needs as well as to invest in materials, activities, and services that are developmentally enriching—are critical for child development. The inability to make such investments helps to explain why poverty negatively affects children's cognitive development. Likewise research shows that low levels of family income negatively affect children's social and emotional de-

velopment by increasing levels of parental stress and depression and by affecting parenting behavior.

Healthy Relationships in the Early Years

Developmental research has for two decades pointed consistently to the importance of parents and to other "protective" relationships (Luthar, 2003) for all children of all ages. It also teaches us that the more risk factors, whether demographic (single parent family, low maternal education) or environmental (parental substance abuse, community violence), absent effective interventions, the more likely children are to experience poor long-term negative outcomes.

Recent neuroscience research has dramatically deepened these understandings and focused attention on what happens in the earliest years. There are three core take home messages that have especially profound implications for how we design programs and use public dollars to improve school outcomes and future productivity of children and youth. All findings point in the same direction—a strengthened focus on young children.[1]

The earliest experiences shape the hard wiring of the brain. Early experiences and relationships interact with genetics to shape the "architecture" of the brain. How the early brain develops impacts later learning, the ability to mange emotions and even the immune system. Depending upon the early experiences, that architecture is either sturdy or fragile. When it is sturdy, children are more likely to grow up and be productive, when it is not, they risk problems not just as children, but also into adulthood.

The active ingredient in early brain development is relationships. When relationships with primary caregivers (including families, but also child care providers, home-visitors and teachers) are appropriately nurturing, stimulating and stable, young children thrive. When they are not, young children show signs of early learning, language and social and emotional challenges. At the extremes are the infants, toddlers and young children who experience "toxic stress," that is, exposure to persistently harmful environments, inconsistent caregiving, abuse and abandonment. Research documents how these experiences frequently leave life long scars (Luthar, 2003).

Once brain circuits are built, it becomes harder to change them. That is why adults who learn a language as adults even if fluent continue to have an accent. It is harder to change a four year old than a baby, and harder to change an adolescent than a four year old. It is also much more costly. Children who do not develop the skills to succeed in the early grades, particularly the social and emotional skills, are more likely to end up as problem learners and later dropouts (Raver & Knitzer, 2002). Estimates are that between one-quarter and one-third of children are at risk of early school failure. The potential health costs of poor early experiences are also high. Children who experience high levels of stress, as adults, turn out to be at much greater risk for cardiovascular diseases, diabetes, hypertension and substance abuse (Fellighetti, Anda, & Nordenberg, 1998).

What Economists Say About the Return on Investments in the Earliest Years

Economic analyses of three high-quality intensive early childhood demonstration programs that have followed children as they became adults reinforce the rationale for increased, *strategic* early childhood investments.[2] While the program specifics differed, each of the programs: began early in children's lives; had clearly focused goals that emphasized the whole child; maintained sustained contact with the children—often including through their transition to elementary school; had teachers who were well educated, trained, and compensated; had small class sizes and high teacher-child ratios; and, involved and supported parents intensively (Galinsky, 2006).

By early adulthood, participants generally had: higher IQ's and mathematical ability; higher academic achievement; reduced need for special education, lower grade retention rates, fewer school drop outs. At age 21, those in one preschool program studied were more than four times more likely than non-participants to be enrolled in a 4-year college degree program; were less likely to be unemployed and

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[1] For further information, see the National Scientific Council for the Developing Child Web site: *www.developingchild.net.*

[2] Longitudinal studies of three model projects serving low-income children and families—the High/Scope Perry Preschool Project, the Abecedarian Project, and the Chicago Child-Parent Centers—have followed participants into adulthood, comparing their adult earning and other outcomes with those of randomly chosen or comparable non-participants (Reynolds, 2002; Schweinhart, 2004; and Ramey, 2000).

more likely to have higher earnings; had lower juvenile and adult crime rates; were less likely to depend on public assistance, and less likely to be a teenage parent.

Economists are examining the implications of these findings to address the problem of lower skills and motivation among disadvantaged children, their diminished productivity as adults, as well as their costs to society. One study estimates that by age 21, participants in its preschool program earned an average of $20,517 more than non-participants, and that the public saved a net of $19,097 on grade retention, special education, child welfare, juvenile and adult justice expenditures (Reynolds et al., 2004).

Other analyses found that disadvantaged children from ages 8–13 with low levels of parental investments (time, activities, and family resources) without preschool had a 29 percent chance of graduating from high school. With preschool, the chance of high school graduation rose to 53 percent (Heckman & Masterov, 2004).

The implication is clear. If we address poverty in the earliest years—when it is in fact most widespread in this country—and apply the lessons from this research on investments in the early years, we stand the greatest chance of changing in a positive way what happens to a child in a poor or low-income family and subsequently, that child as an adult.

The Policy Implications

I would like to conclude with some broad recommendations that our research at the National Center for Children in Poverty indicates must shape the future policy dialogue about how to improve outcomes for the close to 40 percent of children who live in low-income families.

Ensure that families have enough resources to raise their children in ways that will promote future productivity. For the next generation to thrive, we need to make sure that parents have enough money to raise their children, whether it be through income, refundable tax credits, benefits, or some combination of all the above, as well as opportunities for increased education.

We need to make work pay for children and families now in order to promote future productivity. This is a different rationale than is usually offered for investments in the current workforce. But given that research findings show the positive impact of increased family income *on children,* it is an important one. Many low-income families qualify for "work support" benefits (e.g., earned income tax credits, Medicaid, child care assistance) that can help make up the difference between low earnings and a basic family budget. But these benefits are means-tested, so as earnings increase—particularly as they rise above the official poverty level—families begin to lose eligibility even though they are not yet economically self-sufficient. The result is that working and earning more may not leave a family better off. In the worst case, higher earnings can actually lead to a family doing worse financially. A tool developed by the National Center for Children in Poverty, the Family Resources Simulator (www.nccp.org/modeler/modeler.cgi), provides concrete examples of this phenomenon.

With the help of work support benefits, a single-mother of two in Chicago can cover the cost of basic necessities for her family by working full-time earning about $15,000 a year. But as she earns more, the family loses its food stamps and child care subsidy, benefits less from the Earned Income Tax Credit, begins to incur premiums for public health coverage. The result? The family is no better off financially at $36,000 in earnings than it was at $18,000 (Cauthen, 2006). So what message does this send to children? They see their parents working hard and not getting ahead. This should not be the American way.

Ensure that every low-income child has access to quality early education and care and for poor or otherwise at risk children access to comprehensive programs like Early Head Start from birth *through age 3.*

We need to make sure that all low-income children enter school with the skills that they need to learn, whatever setting they are in and regardless of the work status of their parents. The states are moving to increase funding for pre-k, but the reality is that overall, low-income young children still have significantly less access to any formal early childhood program than their more affluent peers (a pattern that has not really changed over the years) and only 17 percent of 4-year-olds have access to state-funded pre-k. In fact, most children are in some kind of child care setting, but child care is seen as a work support, not a next generation productivity support. Thus, although over 30 states include child care as part of their delivery of pre-k services, when parent's employment status changes, children lose eligibility, and lose the relationships that they have come to count on. Only 20 states certify eligibility for child care for one year. Yet we know that continuity of relationships reinforces positive brain circuitry.

We need to invest in a new set of intentional, integrated policies to promote healthy brain development in children from birth to three that are designed with brain science in mind, starting with an expansion of Early Head Start. We lose too much time if we what until four. It is shocking, when juxtaposed against brain science that we have a national Early Head Start program that is serving only 62,000 children, even though we have research that shows that for most of the children enrolled, Early Head Start improved parenting practices and behavioral and cognitive outcomes. We also know that when children in Early Head Start continue with high quality child development and early learning programs, they maintain their gains and the achievement gap is reduced. Yet as 3-years-olds, half of the Early Head Start sample were not in programs that supported the gains of the first two years. This is not smart investing, given what we know from brain science.

For the highest-risk children, particularly those in poverty and extreme poverty, we need to consistently make both parenting and work a focus of our policies, right now, rather than just work or just children. For example, there has been important attention in workforce and TANF policies to "barriers to employment"—low education, poor work histories, substance abuse and domestic violence, and, in reality, if not in law, mental health issues. *These "barriers to employment" are also "barriers to effective child development" and hence to future productivity of the children.* The children in these families are at special risk; they are the most likely not to have health care, to have developmental delays that are not identified, and not to be enrolled in formal early childhood programs. But TANF does not require attention to the children in the families as part of a family plan.

Similarly, as part of a broad poverty reduction strategy, we need to make it possible for states to use current entitlement dollars in ways that actively promote healthy development. Right now, states have to engage in fiscal contortions to pay for what science says is needed. For example, maternal depression, which cuts across class and race, is an anchor risk factor, negatively impacting behavior, cognitive functioning and language development. Studies show that rates of depression in low-income mothers are very high—in the 40 percent across multiple studies.

However, parents of poor children can only access treatment if they are Medicaid-eligible. The average eligibility rate for working parents is 65 percent, for non-working parents, 42 percent. State eligibility rates for non-working parents (those who are most likely to have unaddressed health and mental health problems) vary. In five states the eligibility rate is under 20 percent of the Federal poverty level (FPL); in 26 states it is between 20 and 50 percent of the FPL, in 9 states it is between 50 and 100 percent of the FPL, and in the remaining 9 states, it is between 101 percent and 200 percent of the FPL. (Forthcoming NCCP report).

The policy challenge is large. It is to reassess our work support policies through a lens that integrates a stronger focus on children, and to strengthen our child focused policies to have a stronger focus on families. Before we lacked the science and the economic analysis to justify attention to children before they become costly problems to society. But now, we have data that says we can reduce the societal costs of child poverty across generations if we are smarter about making different kinds of up front investments in our public policies.

I very much appreciate this opportunity to testify before you and NCCP would be happy to work with the Committee staff to provide any additional information that might be useful.

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Chairman RANGEL. Let me thank the panel. None of you have any differences about the negative impact that poverty has on our society. I hope that you would help us by reaching out to your colleagues suggest to us what kind of programs you think should be given priority.

When we created the Empowerment Zones, as some of you know, we asked the communities to get together with local and State governments and the private sector to come up with a plan; and at this point, those discussions should include social agencies when they ask what they would do in their community to deal with this problem? What impact they think this would have in their community?

It is unfortunate that poor people don't carry the type of stigma of emergency and national security and those things as others do. Hurricane Katrina is a classic example of this. We are now dealing with this from an economic viewpoint, a national security viewpoint. Certainly, we are concerned that poverty and its continuation could have a negative impact on the strong economic growth we will need if we are going to try ever to get our great Nation out of debt.

Mr. Jones, we hear a lot about the great economic recovery we are going through now, and that one would believe that unemployment is down to 4.5. Your report indicates it is over 40 percent. Could you share with us the reason why we have this disparity in the reports?

Dr. JONES. Well, I don't think this is new news, certainly to the people on this panel, that basically unemployment looks at people who are actively seeking work. What we have in New York and I think we have in other urban areas is a number of different cohorts of people who are not in the workforce for a variety of reasons.

We are just finishing another examination of—actually, a qualitative examination of why people are out of work, and we are starting to get a very wide range of reports back.

One of them that was a shock is, there are a lot of people who are out of work, particularly the African-American men, who are reporting health-related problems. They are guys my age who basically start to have—who did heavy labor and have never been out of work, basically they never had a lot of skills and suddenly they run into a problem of having a bad back. So, you have this whole cohort of particularly African-Americans with limited skills, men who can't participate in the workforce because they don't have skills to do anything but heavy labor and no employer in New York can bear the health care costs of taking an employee who has those. That is one.

The other is we have an enormous problem of dropouts in the city of New York. About—more than 50 percent of young people never graduated, less than 10 percent of African and Latino males ever get a Regents degree, which is sort of the lowest level you need to really go on, and many of them just can't compete in the low-wage workforce. They are trying, which is interesting—we hear again and again, these people—these young people are not trying to sit around; they just can't find a door open.

Another cohort has to be admitted, which is the problem of—under the Rockefeller drug laws in New York, a lot of young people made mistakes early on, and in New York particularly for black and Latino young men, once that happens, you are basically never going to work again.

I was somewhat hopeful that if we took work as the solution for welfare reform, we would certainly want to beat up our former prisoners, but that doesn't seem to be the way it is going; and they are not working, they are becoming a real drain and damage to the communities they are in. Those are just some of the things.

This is a complex issue, but that 40 percent is reality. The 4.5 percent is basically people actively trying to get work and doing it the right way, but we have a real problem in New York, and we think it is a real urban problem at the very least.

Chairman RANGEL. I am working with the Conference of Mayors, and they will be compiling the cost to the cities for that 40 or 50 percent that we are talking about.

Dr. Haskins, what number did you use in terms of the moneys that we are now expending for the poor, that you said has to be considered when we talk about reducing poverty? What was that number?

Dr. HASKINS. According to the CRS, State and Federal dollars on programs that are means tested, it is over $600 billion. It was $583 billion in 2004.

Chairman RANGEL. Now, it is my understanding that that reflects the inflated medical costs, at least half of it does.

Dr. HASKINS. I don't think it is quite half, but it is substantial, and that is the biggest increase.

Chairman RANGEL. Okay. I would like——

Dr. HASKINS. There are many other areas as well.

Chairman RANGEL. You have spent your life in this thing, and after marriage and health care, you must have some ideas on what it takes to stop poverty at some stage. Maybe it is before the kid gets to kindergarten; maybe it is at that stage that something is done.

You are right, it is complex, and it takes into consideration a lot of other issues besides throwing money at the problem. We need you at the table, as well as economists, to find out what return we are going to get on our investment, because quite frankly, if we can just give money to the poor to keep them from having crime and going to the hospital and imposing a large cost on the economy, that is the way to handle it.

If, however, our job is to make certain that we are saving some money and get productive people into the labor force as we move into a global market, then we have to look at the problem in terms of what this Committee would want to do. We must determine what can we do to work together to resolve this problem and make certain that we never run away from the individual responsibility, or the community's responsibility, to say one size doesn't fit all, and to not expect the Federal Government alone to bring a solution to the problem, but instead to be a part of that solution.

So, I wish all of you in some way would share with us what you would do, because someone had suggested earlier asking the mayors if they assumed this was their responsibility. Mayor Bloomberg is going out of his way to see what role can the private sector play with these kids that obviously are not going to succeed in the public school system as we know it. These institutions are not job preparation facilities. They prepare students to get into universities, and if they don't make it, there is no door left to the kids in the street as it relates to getting back on board into the education system or labor force.

In other words, unlike me as a high school dropout, I had a second chance through the GI Bill (P.L. 346, Chapter 268). There are no second chances out there for these kids, and it would seem to me that if we can find some way where they don't need a second chance and get it done the first time—it may be, in my opinion, that the private sector that knows how to go into developing countries and doesn't ask for degrees and General Equivalency Diplo-

mas, but just is able to know what they need in order to be successful; that as the mayor got together with the developers in the city of New York and the unions, it turns out that with the baby boomers retiring and with the Irish and Italians who have had locks on the jobs, their kids going to school, it turns out there is a labor shortage in the construction trades. So, it came at the right time.

I would like to believe that the Verizons and the cable companies have ways to develop high wage producing occupations if we can initially help these kids get into these jobs.

So, I want to thank all of you and hope that you do send some papers in to me. Don't be surprised if in a more informal setting we ask you to come to develop something, always remembering that the major problem that we are going to face in this Congress is, we have to be fiscally responsible, and at the same time make certain that we stop things from hemorrhaging so that it causes more damage in the future than if we did make the investments now.

You have been a terrific panel. I would like to yield to Mr. Stark—I am sorry, Mr. McCrery.

Mr. MCCRERY. Thank you, Mr. Chairman.

Dr. Haskins, let's explore for just a minute this question of current Federal and State programs designed to assist poor families and poor individuals. You use the figure of $600 billion a year right now that State and Federal Governments are spending on income-related programs. Mr. Stark pointed out that over half of that is medical care, and that is correct, a little over half of that figure is medical care, whether it is Medicare, Medicaid or charity hospitals or whatever it might be.

Then the second-highest category is cash which—there are a number of ways that we give cash to low-income people, whether it is the earned income credit or direct cash payments under Social Security Insurance or other programs, or welfare; and then the next highest is food and then housing.

Well, I think we have just ticked off the main elements of being poor. How do you define being poor? Well, if you don't have a roof over your head, if you don't have housing, if you don't have food on your table, if you don't have access to health care, you are poor. So, the money that Mr. Stark talked about is important. That is an important expenditure for the poor, just as is housing, just as is food and, yes, cash. The total of all that is about $600 billion this year that the Federal and State governments are spending, no small sum. I think most people in this country would be surprised to learn that we are spending that much on income-related programs.

Now let's talk about some of the things that you mentioned as being most important, Dr. Haskins, in reducing poverty. Could you review the progress that has been made in reducing poverty since the 1996 Welfare Reform Act?

Dr. HASKINS. Yes. I think the key to understanding it is that most of the progress was made among female-headed families, which is where the probability of being poor is four or five times as high as in a married-couple family. So, if the Nation is going to

make progress against poverty, that is a very good place to focus and that is what we did.

The Census Bureau data shows absolutely clearly that these mothers, and I say maybe an increase of 2 million left welfare and got jobs, mostly in the low-wage economy; their average was about $7.50 or $8 an hour. If you look at the Census Bureau data, you can see every year between 1993 and 2000 their earned income from welfare, defined as housing, food stamps and cash, decline, and every year their earnings and EITC increased; and if you put them together, they were better off by about 25 percent. As a result of that, of course, the kids, fewer of the kids were poor. Their mothers worked and took their kids out of poverty.

So, child poverty had a sustained 7-year decline, again based primarily on earnings, not on government benefits, and in fact, the biggest benefit, EITC, doesn't even enter into these calculations because of our rules, the way we compute poverty. Child poverty declined, poverty in female-headed families reached by far its lowest level ever, and black child poverty reach its lowest level ever. Even after 4 consecutive years of increase from 2000 to 2004, because of the recession, child poverty is still 25 percent below where it was in 1993 when the decline started.

Mr. MCCRERY. Are there still many families on welfare in this country where one or both parents don't work?

Dr. HASKINS. Yes. Mostly it is one parent. The States reported to Department of Health and Human Services (HHS)—the States kind of dispute this data, but they reported that about 60 percent of the families who were still getting cash welfare, keeping in mind that that is down by over 60 percent, but of the ones still remaining, about 60 percent, according to the States, did nothing.

This is completely against the spirit and the letter of the bill that we passed in 1996. The deal was, half of them are always going to be engaged in work or work preparation, and the States didn't do it. That is why I think that this Committee and the Congress responded, and HHS wrote a tough regulation that is now causing all kinds of difficulty out there.

Mr. MCCRERY. So, how did Congress respond to that? How did Congress respond to that declining number of welfare recipients put in the workforce?

Dr. HASKINS. Congress asked HHS to define the categories, who worked, that were laid out but not defined in the 1996 law and then to have regulations about how we would actually count those various activities—I believe there were 12 of them—and that the States would have to report better data. In other words, they are tightening it up to make sure that the States are actually doing what they promised to do in 1996.

Of course, there was a big complaint, especially over the data reporting requirements; and that is all a big issue right now. I think it would be great for this Committee to have hearings and look into this in some detail.

Mr. MCCRERY. Then, Dr. Haskins, we passed the Deficit Reduction Act (P.L. 109–171) which put new work requirements for the States for their welfare loads; isn't that correct?

Dr. HASKINS. Well, that is what I was referring to. Actually, what the act did was tell HHS to define work, because a lot of stuff

was being counted as work that wasn't work, and then to get better data to make sure the States were actually doing it.

That was the general strategy of the reconciliation bill.

Mr. MCCRERY. Thank you.

Chairman RANGEL. Thank you.

Mr. Stark.

Mr. STARK. Thank you, Mr. Chairman. I heard testimony from Dr. Haskins this morning about increasing the marriage rates to the level of 1970, yet in 1970, the poverty rate was 15 percent, and 6 years earlier immediately before President Johnson's Great Society, the poverty rate was 22 percent with a marriage rate that is higher than today.

In the 1990s, the poverty rate decreased and the marriage rate did as well. So, it is hard for me to believe that the marriage rate alone would have any impact on poverty. It seems to me marriage promotion is simply something that works in theory, such as when academics randomly match single men and women in virtual marriages, sort of like playing grand theft auto on the Brookings' computers. I think it is interesting but it is right up there with abstinence training and a bunch of these wacky issues that don't mean much in the modern environment.

I would like to ask Dr. Knitzer if she could expand in her testimony on the importance of early childhood education, on children's health care and the problems created by the Temporary Assistance for Needy Families program (TANF), when people actually may increase their income some and then lose vital assistance, which makes them actually more poor than when they started. I think that is something that bears pointing out to the Committee.

Dr. KNITZER. I think that it is really important to think about two different types of challenges that we face through the children's lens. One is, there are a lot of families who just need either higher wages or benefits that don't disappear as they start to earn more money and need stable income. We also know that instability of income, volatile incomes, is not particularly good for outcomes for children.

On the income side, there was a very interesting experiment, by chance, on a reservation in North Carolina. They had been tracking the mental health of children there, and that is when the casinos came in, and many of the families had an increase in money because of that, and the mental health issues and the school performance of the children improved. That was just a natural experiment; that was because of increased money.

So, we have to really pay attention to what money can do.

The second, I think, really powerful set of learnings—and this is about the earliest relationships; and, for example, in those 60 percent of TANF families who aren't working, we have to take a look at those women. Many of those women have been traumatized. They experienced major depression, substance abuse, domestic violence. Unless we help them deal with those things both as adults and as parents, they are not going to be on a successful pathway to work; and I think that we know that both the health of the adults and the children in poverty is significantly worse.

The other thing that is striking, when you compare the health access of poor children to more affluent children, is that they don't

have as good preventive care and their parents don't get as much developmental guidance.

So, we also know that it takes not just early education but health, social emotional competence, all domains of development, physical skills, to produce a healthy child. The early learning, there have been remarkable strides in starting at 4, but as I said, for the poorest families, 4 is too late.

We have to focus on the relationships.

Mr. STARK. Thank you very much.

Thank you, Mr. Chairman.

Chairman RANGEL. I have talked with the ranking Member, and we recognize those that are on the lower tier are not getting a chance to question. So, I want you to know, in the future, we will try to work out something where we can start off with the lower tier and try to compensate for that.

Meanwhile, because of the difference in the number of people that are here, I will be calling on two of the majority to one in the minority to try to work that out. Mr. Herger?

Mr. HERGER. Thank you, Mr. Chairman.

Dr. Haskins, we had some comments that came up that perhaps marriage doesn't matter, and I would like to refer to a study from CRS which reported on its Children in Poverty: Profile, Trends, and Issues, January 16, 2007, that says, quote, "In 2005, the child poverty rate was 17.1 percent, but had family composition in 2005 been the same as in 1960, the overall adjusted child poverty rate would have been 12.4."

So, instead of 17.1, it would have been 12.4. Instead of the observed 12.3 million children being counted as poor in 2005, the number of poor children estimated by this method would have been 8.9 million, or 3.4 million fewer than the number observed on page 19.

Also, there is a Heritage study that indicates that nearly 80 percent of long-term child poverty occurs in broken or never-married families, and that each year the Government, as you have mentioned, spends several billions of dollars on means-tested aid to families with children which—three-fourths of this aid flows to single parents and families.

Dr. Haskins, has there been a trend towards more child-bearing outside of marriage? Has this changed in recent years? Doesn't the significant impact of marriage and child-bearing decisions on poverty suggest that there is a large behavior component to poverty in the United States?

Dr. HASKINS. Yes. We have about one out of four American children at any given moment living in a single-parent family. Their poverty rates are four to five times as high as kids in married-couple families, and if it is a non—if it is a single-parent family created by a nonmarital birth, the probability of poverty is even higher.

Since we passed the legislation in 1996, although the rate of increase in nonmarital births has leveled off, if you look at the graph, it clearly levels off, but it is still increasing. So, it is increasing at a much lower rate. I would call that progress; you have to slow it down before you can turn it around, and this plays a huge role in poverty, yes.

I would like to say your question bears a relationship with Mr. Stark's question. I would like to first say that marriage is not a wacky idea, as most members of this Committee, I think, would recognize from their own personal lives, but secondly this analysis that we did at the Brookings Institution is exactly like the analysis you cited from the Congressional Research Service (CRS). By the way, our estimate was that marriage rates from 1980, if they prevailed today, or actually 2002, would reduce poverty 27 percent—their estimate was 28 percent.

Dr. HASKINS. There are a number of other academic studies by scholars all over the country, certainly not conservative scholars, who come up roughly the same as us. There is no doubt that if we did nothing else except increase marriage rates, poverty would drop, and it would drop substantially. There is no doubt.

Mr. HERGER. Well, would you conclude from that that we should, as a Congress, be—at least be taking, attempting to do what we can to increase this, increase marriage? What steps have been taken in recent years, starting with the 1996 welfare reform law, to strengthen families and promote more marriages?

Dr. HASKINS. There were several provisions—I count about 10 or 11—that were directed especially at nonmarital births, such as causing young ladies who have babies outside marriage to live at home and to go to school. Otherwise, they would not qualify for welfare benefits.

There was a huge debate about other provisions like the family cap and not giving cash to moms under 18 that was eventually removed on the Senate floor. There were a number of other provisions in the bill as well.

Marriage was one of the goals, and the States were free to spend on marriage. Frankly, there was nothing mandatory in the bill to increase marriage rates per se.

Some States have undertaken activities. I would say we have two or three or four times the number of activities going on at the State level, often involving churches and private organizations, nonprofit organizations, that attempt to either strengthen existing marriages or promote marriage upon young couples who have babies but are not married.

So, there is a lot more going on. They have not been well evaluated. We don't know if they are successful, but there certainly is a lot more going on now than there was in the past.

I mentioned several things in my testimony that I think we should do. The Congress has done things such as reduce the marriage penalty, and I think we could do more things like that. I think the most important thing is that the Administration has paid for large-scale demonstrations to find out if you can promote marriage and if that impacts on children's development, very much in accord with the report. It would be very consistent with the thrust of this report.

So, there is a lot going on, and we should do more.

Mr. HERGER. Thank you, Dr. Haskins.

Chairman RANGEL. Thank you.

Mr. Levin.

Mr. LEVIN. Listening to this, I often wonder what we are arguing about. Truly. I don't think anybody questions the impact of

marriage rates on poverty. The question is, is Congress or any other Government agency in a position to impact the marriage dynamic within our society? Mr. Haskins, you yourself say in your testimony that there is only modest evidence that the programs have any impact. At the same time, we have testimony here—I just read one piece of it—only 62,000 children are in national Early Head Start programs.

So, we have some fairly strong evidence that doing things like that will have some impact; and, somehow, we get polarized and you all on the Republican side start talking about marriage programs. Well, we are not——

Mr. MCCRERY. Will the gentleman yield?

Mr. LEVIN. Sure.

Mr. MCCRERY. It wasn't we who brought up terms like radical—Mr. Stark is the one who—whacky, ideas like that, Mr. Levin. It wasn't us.

Mr. LEVIN. He wasn't talking about——

Mr. MCCRERY. He wasn't talking about marriage and impact on poverty? I believe he was.

Mr. LEVIN. He was talking about programs of the Federal Government that attempt to impact on the rate of marriage. I heard—look, we have talked about this. We are good friends. I heard your opening remarks with the emphasis in those opening remarks, and I don't understand why we fall into this kind of polarization. I don't understand it.

Dr. Haskins, you and I have talked about this, and we talked about welfare reform. Look, we have a shortage of data as to what has happened to people who have left welfare, who have gone to work and how many of them remain in poverty. We don't really know this.

We know that a substantial number of them are working in minimum wage and, therefore, are likely to be still in poverty, which doesn't mean that it isn't wise for them to move from welfare to work.

Then we get into arguments as to whether we should raise the minimum wage so that people who have moved from welfare to work, by working, work their way out of poverty; and we get into arguments about whether we should provide them training so they can move up the economic ladder.

So, we can just fall into this pit of polarized talk, if you want, but we are not challenging the economic benefits in terms of the poverty rate for those who are married and those who are not.

So, let me just ask the panel, do you want to comment on this discussion? Anybody want to say a word? Dr. Holzer and then Dr. Nilsen? Briefly, because there is just a minute left.

Dr. HOLZER. I think the issue of wage levels is very important and has not been mentioned in this panel before you raised it. The average wages of less-skilled workers in our economy for the last 30 years, adjusting for inflation, have been declining for men with a high school diploma. They have been declining even more for men without a high school diploma. So, lots of people grew up—lots of children grow up in families with one or two parents with even a full-time worker and they are still in poverty because the wages their parents earn are not sufficient to get them out of poverty.

Even marriage—we focus on marriage, and those of us who agree that marriage certainly matters for the poverty rate—I don't understand. It is very hard to raise marriage rates dramatically without improving the marriageability of a lot of these young people, especially the young men. Their attractiveness as marriage partners is going to be very low if their earnings are going to be very low.

In fact, a lot of these young people, especially the ones that David Jones described, very early in life they looked down the road and they see a lack of opportunity for earning of higher wage; and their incentives to take school seriously and to take the labor market seriously and stay out of trouble, those incentives diminish.

As we talk about all these issues, as we talk about marriage and schooling, I think it is very important to keep in mind what is going to improve the ability of these young people to earn higher wages, to see those higher wage opportunities. How can we link not only skill-building opportunities but link those skills to jobs that actually exist in the labor market that pay above poverty level wages and maybe how can we even improve the number of jobs in different sectors of the economy that give young people this opportunity.

Mr. LEVIN. Thank you.

Dr. KNITZER. To shift the frame for a minute, we know that it takes twice the poverty level for a family to provide basic necessities to their child so they can thrive. So, if we want to shift and say what does it take for the next generation to thrive, that is what we should be aiming.

If you are talking about a family with two parents, it takes $19 an hour if one parent is working and two parents at $10 an hour to get to that $40,000 level. So, we have to really be quite concrete about with we are talking about.

That is two comments on the economic side.

The other thing I want to say——

Chairman RANGEL. The gentleman's time has expired, and we have so many people who have to be heard. Thank you so much.

Dr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

The great hope and promise of the United States is certainly the American dream; and everybody in this room, practically speaking, has been a beneficiary of it. We know that millions of people haven't.

I commend the Chairman for bringing this issue up right after the State of the Union message. It is an issue that we will deal with in the Income Security and Family Support Subcommittee and hope that, with the Chairman's support, we can go some distance with it, because it is an issue that faces this country.

I have been talking with Mr. Weller about trying to find the common good, because poverty isn't Democrat or Republican. It is people. Whether you are talking about food or clothing or shelter or sense of personal security, that is not a political party issue.

We basically need to begin to deal with this. There are really three fundamental questions we have to ask.

One is, does work provide the opportunity and mobility that we expect? Dr. Haskins talks about we got everybody off welfare and now they are working. Well, are they getting out of poverty?

The second one is, do we have adequate access to job training to succeed in this globalized economy?

Finally, can we provide an adequate lifeline to people when they fall out of the workforce in order to bring them back in?

Now I would like to start with the issue that we just heard about. We know real wages have declined, despite the economic expansion. The President's talk last night—witnesses said here today the first time in the history that poverty grew for four straight years during an economic recovery.

Now the first slide shows that these are the people—these are the children in families where somebody is working, and they are still in poverty. That largest section up there, if you look at it, that section right there, is the section of people whose parents—one-third of the parents are working full time. The kids are in poverty. The other third up there is people whose parents are working part-time, and then you have the third who are the slackers. They are not doing anything. They are just sitting around, can't get into the workforce.

So, that is where these poverty—these kids that are living in poverty are from.

The second thing is that we know that education has a tremendous impact on personal income. Forty-seven percent of the kids living in poverty have a parent that didn't finish high school. There is a direct correlation between levels of education and how you do, and we know that that also has to do with kids' health care. If the parents have education, they also know more about health care and take care of their kids so they go to school healthy and well-fed and so forth.

The third slide we have measures ourselves against the rest of the world. Now this is the slide that shows you how much we spend on programs for poverty, and you will see the United States is right down here. We spend practically nothing. Only Mexico spends less per capita on the poverty section of our society. It again directly correlates the lowest rates of poverty are in the countries that spend the most money—Sweden, Norway, Netherlands—and then you get to the United States way out here with Mexico.

My question is to—Dr. Haskins said we don't need more money, so there is no sense in asking him, but if we could end the Iraq war 1 month early and had $8 billion, where would the members here put it? What would be your priority for spending $8 billion in the present circumstance? You could start, Dr. Holzer, Mr. Jones, and Ms. Knitzer and then go back to——

Dr. HOLZER. One comment on the spending, I think you are right, that I think the right way to think about how much we spend——

Chairman RANGEL. Let me say, we won't have time for a lot of comments, because the gentleman has 26 seconds left, but we are going to yield to your expertise but please take into consideration the time restrictions we have. Thank you.

Dr. HOLZER. I will say simply then, directly in response to your question, I would spend a good chunk of that money on education, not just pre-K but K through 12, high-quality career and technical education, apprenticeship programs linking young people to good

jobs, as well as things like expansion of the EITC to folks that have low earnings capacity.

Dr. JONES. I clearly join Dr. Holzer, but I would also talk about the disconnected youth. I think this is a national problem. If you are talking about marriage problems and why young men aren't marriageable, if they are not working, not in school, we have to find intense programs to start to move them into some kind of work readiness and income production.

Mr. MCDERMOTT. Dr. Knitzer? Dr. Haskins doesn't want to spend money.

Dr. KNITZER. I would focus part of it on Early Head Start and part of it on health, in addition to what we just said, but Early Head Start because it helps parents and children build new kinds of relationships, including dads, that leads to other good things, including marriage.

Mr. NILSEN. I just want to say, I agree with the comments here, dividing the money up between those which will have more immediate impacts like skilled training and those investments that will have a longer term payoff like investing in the health care of children.

Mr. MCDERMOTT. Thank you.

Chairman RANGEL. Mr. Haskins.

Dr. HASKINS. I would spend several billion of it doing large-scale experiments that would provide an EITC-like wage mechanism that would apply especially to men so you wouldn't have to have a dependent child. I think you boost the men's reward for work, and it would have exactly the same effect that it had for women.

Mr. CAMP. Thank you, Mr. Chairman. Thank you for having this hearing.

I would note that the last slide that my colleague showed was really the spending of the percent of GDP, and the United States has a very large GDP, so the percentage of spending is actually quite large in terms of poverty.

My question is really based on trying to get the accurate information; and the question I have is, Dr. Haskins, what kind of income and benefits get counted or get excluded in determining official poverty rates?

Dr. HASKINS. Primarily two categories, anything that is in kind, such as housing and food stamps, that is 60 or so billion, and anything through the Tax Code. So, that includes EITC and the child tax credit. So, it is well over $100 billion.

Mr. CAMP. So, these items are not counted as benefits to individuals when calculating poverty rates, even though they are taxpayer-provided benefits?

Dr. HASKINS. Correct.

I would point out to you, Mr. Camp, that the Census Bureau was well aware of this and they developed several alternative definitions of poverty which are really spectacular. If you look at those definitions, you will see that the actual poverty rate is often 10 percentage points—not percent—percentage points lower, which is about 50 percent if you include all these other benefits.

Mr. CAMP. So, the, quote, unquote, official poverty rate is at what level?

Dr. HASKINS. Right now, the overall rate is something like 13 percent or 17 point something.

Mr. CAMP. You are saying that the U.S. Census Bureau's research says that if taxpayer-funded benefits were counted in determining the poverty rate, what level would it be at?

Dr. HASKINS. Not just for children, but the overall poverty rate would be about 50 percent lower. For children, it would be not quite that much.

Mr. CAMP. So, it would be significantly lower than the statistics we are given in this Committee?

Dr. HASKINS. Right, the official poverty rate. Correct.

Mr. CAMP. Well, then if Congress followed through on Dr. Holzer's recommendation, I would agree it is a very worthy study to increase EITC. That would have no effect on the poverty rate, since it is not counted anyway.

Dr. HASKINS. Which is precisely why the Census Bureau does these alternative measures although I do think it would have some effect. You know why? The same reason I think we ought to have an EITC for males, is their work ethic would increase and their earnings would count. So, there would be some effect but much less than you would have if you counted the whole thing.

Mr. CAMP. Well, I appreciated your testimony and the figure you had about showing the comparison between poverty rates and actually the government policy we have—we had and the fact that requiring work and having work-related or work-contingent benefits has actually dramatically reduced the poverty rates between '90 and '99. I think that was a very helpful approach.

So, Dr. Knitzer, I realize you said money matters, and it sounds as though money does matter, but the way the money is spent matters more, and that when there are work-related benefits and a work requirement, do you agree with the data that shows that poverty rates declined between '90 and '99, children particularly?

Dr. KNITZER. What I meant was that having resources matters for child development outcomes. Having families having resources matters. There are clearly problems with poverty measures. They undercount benefits. They undercount taxes. There are lots of problems with that, and we are all aware of that. That is why we talk about twice the poverty level, because that is what research shows is necessary for a child to thrive.

Mr. CAMP. Thank you.

Dr. Haskins, it seems as if we are trying to make important policy in this area that we would need the most accurate information before us. Why do we have one arm of the Government, the Census Bureau, saying we need to include these benefits yet the, quote, official rate does not? Is there any explanation for that?

Dr. HASKINS. I think I can give you a political answer. There are billions of dollars of government benefits that are dependent on the official poverty rate. If we change the official poverty rate, it would have disproportionate impacts on less politically powerful States.

Everybody on this Committee is well aware of what happens when Congress gets into a formula fight about how the money is going to be distributed. I really think that is the primary reason.

Mr. CAMP. Thank you.

Thank you very much, Mr. Chairman.

Chairman RANGEL. When was the last we updated the definition of poverty as you and Mr. Camp described it?

Dr. HASKINS. I must have missed your first word. There is a question there?

Chairman RANGEL. Yes. When? When was the last time the definition of poverty was updated as you and Mr. Camp discussed it?

Dr. HASKINS. I would not use the word "updated." The Census Bureau has something like 12 or 13 years ago heard all these criticisms. In fact, the National Academy wrote a 500-page book about all the problems and recommendations about poverty. What they did——

Chairman RANGEL. Let me frame the question this way: The definition that you gave of what poverty is today, when was that created? When was that defined as poverty?

The reason I ask the question is because it was created sometime in the '90s and I assume—'60s, rather—that there has been a lot of changes since then. If that is so, we hope you will help us in trying to get a definition that would be more appropriate as we deal with the lives and the communities and the economy of our great Nation.

Dr. HASKINS. The official poverty rate was developed, I believe, 1965. Since then, the Census Bureau, because of all these problems, has developed the alternative measures. Primarily, I believe they started that in the '80s, and some of their data series go back to the '80s. So, you can see the poverty rate by a lot of different definitions.

Chairman RANGEL. Yes, but you professionals should not accept that, and the Congress should not have you dealing with different definitions. We all are trying to find out the best data we have available, and we are going to help you to get it.

Dr. HASKINS. Mr. Rangel, I would agree to join you to change the definition of poverty, but, honestly, I don't think it will pass the Congress, because it will have a huge impact on how money is distributed among the States.

Chairman RANGEL. Well, then if we can't do it, then we can't use poverty as a definition, now can we? We are not talking the same language. Everyone will use the figures most favorable to whatever their point is.

Dr. HASKINS. People always cherry-pick their data. That is nothing new.

Chairman RANGEL. All right. We will try to get away from it.

Mr. CAMP. Mr. Chairman, I have the Census Report 2004 that calculates poverty in different ways. It might be helpful. I would like to have unanimous consent to place that in the record.

Chairman RANGEL. Without objection.

Mr. CAMP. Thank you.

[The information follows:]

The Effects of Government Taxes and Transfers on Income and Poverty: 2004

Income Surveys Branch, 301-763-3243
Poverty and Health Statistics Branch, 301-763-3213
Housing and Household Economic Statistics Division, U.S. Census Bureau

February 14, 2006

I. Introduction

In August 2005, the Census Bureau released its annual report on income, poverty, and health insurance coverage in the United States. The income and poverty figures in that report were based on money income alone and did not include the effect of important public programs such as the Earned Income Tax Credit and noncash assistance such as food stamps and public or subsidized housing programs. As in previous years, the Census Bureau is now releasing a study that includes the effect of these and other government programs on economic summary measures, such as median household income, the Gini Index of income inequality, and the percentage of people below the poverty level. This release includes fewer alternative income definitions than previous reports to provide a more focused assessment of the effect of government programs (cash and noncash transfers and taxes, including the effect of the Earned Income Tax Credit) on income and poverty summary measures. Unlike previous reports, the poverty estimates shown here use a single set of thresholds that differ from the official poverty thresholds, see Section V for details. The resulting alternatives illustrate how poverty estimates are affected when various types of noncash benefits are treated as income and when taxes are taken into account, while holding constant the measure of need (the thresholds).

The rest of this release is divided into five sections. Section II describes the four income definitions used in the report. Section III reviews the impact of taxes and transfers on household income measures (median income and income inequality) using these four definitions of income. Section IV discusses the effect of government programs on the percentage of people below the poverty thresholds by using the alternative definitions of income. Section V provides additional details and background on the concepts used for this release. Finally, Section VI includes references for more technical details.

II. Income Definitions

Money Income: This includes all money income received by individuals who are 15 years or older. It consists of income before deductions for taxes and other expenses and does not include lump-sum payments or capital gains. It also does not include the value of noncash benefits such as food stamps. This income concept is the basis for the official U.S. poverty measure.

Market Income: Includes money income except government cash transfers; includes imputed realized capital gains and losses; includes imputed rate of return on home equity; and subtracts

imputed work expenses.[1] Market income can serve as a starting point for examining the effect of government activity on income and poverty estimates. For example, comparing market income with post-social insurance income reveals the impact of non-means tested transfers like Social Security on median household income, income inequality measures, and the percentage of people below their poverty thresholds.

Post-Social Insurance Income: Includes money income except government means-tested cash transfers; includes imputed realized capital gains and losses; includes imputed rate of return on home equity; and subtracts imputed work expenses. A comparison of post-social insurance income to disposable income shows the net impact of means-tested government transfers (both cash and noncash) and taxes.

Disposable Income: Includes money income; includes the value of noncash transfers (food stamps, public or subsidized housing, and free or reduced-price school lunches); includes imputed realized capital gains and losses; includes imputed rate of return on home equity; and subtracts imputed work expenses, federal payroll taxes, federal and state income taxes, and property taxes on owner-occupied homes.[2] A side-by-side comparison of market income and disposable income the net impact of government transfers and taxes on income and poverty estimates.

III. Income

Table 1 shows the effects of government taxes and transfers on income measures using the traditional money income concept and three alternative definitions: market income, post-social insurance income, and disposable income.

In 2004, median household money income was $44,389 for the United States. Market income represents resources available to people and families based on market activities and does not include income from government sources. Income under this definition can serve as a reference point for evaluating the effects of those government sources. U.S. median household income was $41,648 under the market income definition, or 6.2 percent lower than median household money income.

Post-social insurance income is defined as market income with non-means-tested cash transfers, such as Social Security, added back. Including those transfers increased median household income by 10.4 percent to $45,968.

Disposable income represents the net income households have available to meet living expenses. It includes all resources based on market activities, the value of government transfers and deducts taxes. The result of these additions and subtractions lowered median household income 13.5 percent to $39,754 or 10.4 percent below the money income concept.

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[1] For more information on methods for imputing certain elements, see the following: for capital gains and losses, see Cleveland 2005, for return on home equity, see U.S. Census Bureau 1993, and for work expenses, see Short 2001.
[2] For more information on methods for imputing taxes, see Cleveland 2005 and O'Hara 2004.

The money income definition and two of the alternative definitions showed no change in overall real median household income between 2003 and 2004. However, market income declined by 0.8 percent. Table 1 shows year-to-year changes for each income definition for selected demographic groups.

In three regions real median household income showed the same year-to-year changes for all definitions. The Midwest declined, while the Northeast and South did not change. In contrast the West showed a decline in post-social insurance income, but no change in the other definitions.

By type of household, real median income between 2003 and 2004 showed no change for family households across all four definitions. Median income for nonfamily households showed declines under post-social insurance income and disposable income.

By work experience of the householder, all four definitions showed a decline in real median household income between 2003 and 2004 for households in which householders worked. In comparison, households in which the householder did not work showed no change in any definitions.

Table 2 shows measures of income inequality—the shares of aggregate household income by income quintile and Gini Index—for each income definition. As with money income, there was no change in the Gini Index between 2003 and 2004 for two of the three alternative income definitions. The Gini Index declined between 2003 and 2004 for disposable income accompanied by an increase in share of aggregate income in the lowest quintile. Even though the Gini Index showed no change between 2003 and 2004 for the other income definitions, there were some shifts in shares of income by quintile--money income showed a decline in shares in the second quintile, market income showed declines in shares in the third and forth quintile, and post-social insurance showed declines in shares for the second and fourth quintile, with an increase the highest quintile.

When looking at how government programs redistribute income, the distribution of income under the market definition is more unequal than money income alone. The Gini Index for market income is 10.2 percent higher than for money income. This fact is further reinforced by the shares of aggregate income increasing in the two top quintiles and declining in the bottom three. Moving to the post-social insurance definition and the disposable income definition results in a more equal income distribution. The Gini Index declines 9.5 percent between market income and post-social insurance income and declines another 10.9 percent going from post-social insurance to a disposable income concept. Again, the quintile measures support this trend with a decline in shares of aggregate income for the highest quintile and increases in shares for the lower four quintiles.[3]

[3] Moving from market income to post-social insurance income showed a decrease in the share of aggregate income in the fourth quintile.

IV. Poverty

Official poverty rates for 2004 were released in August 2005. In order to assess the impact of government taxes and transfers on poverty estimates, this data release uses revised income definitions. In addition, the thresholds used to determine whether a person or family is in poverty are not the official thresholds, but thresholds based on a three-parameter equivalence scale described in section V.

Table 3 shows the effects of government taxes and transfers on estimates of poverty by using four definitions of resources: money income, market income, post-social insurance income, and disposable income. All four measures use the same poverty thresholds. See Section II for the income definitions.

In 2004, using the money income definition and the three-parameter thresholds resulted in a poverty estimate of 12.6 percent for the United States. The income definition used in this measure was identical to that used in the official poverty measure (which was 12.7 percent in 2004). Thus, using the three-parameter equivalence scale lowered the estimate of the poverty rate by 0.1 percentage points overall.

Market income represents resources available to people and families based on market activities, including realized capital gains or losses resulting from investments. Because market income does not include income from government sources nor does it deduct taxes, poverty rates under this measure can serve as a reference point for evaluating the effects of those government policies. The estimate of the overall poverty rate was 19.4 percent under this definition in 2004.

Post-social insurance income is defined as market income with non-means-tested cash transfers, such as Social Security, added back in. The definition is referred to as "social insurance" because the programs included here were designed to target everyone, not only people with low income. Adding those transfers back in reduced the poverty estimate to 12.9 percent.

Disposable income, in this data release, is a representation of the net income people have available for living expenses. Like market income, disposable income includes all resources based on market activities, but also includes the value of government transfers. Disposable income excludes taxes since they are mandated by law and the money used to pay those taxes is not available for other purposes. The net effect of these additions and subtractions is a poverty rate of 10.4 percent—which is lower than the poverty rates estimated using the other income definitions.

By comparing poverty rate estimates across definitions, a pattern emerges. The estimated percentage of people below the poverty thresholds is higher when using market income than when using money income. That higher percentage reflects the impact of taking away government transfers and some work-related expenses. Since the market income definition includes returns on home equity and net capital gains (and the money income measure does not), the higher poverty estimate for market income indicates that those two income sources taken together are not as large as government transfers and work expenses combined. In turn, since non-means-tested transfers are added in the post-social insurance income definition, poverty

estimates under that definition are lower than when using market income. Under the disposable income definition, the value of noncash benefits and means-tested transfers are added, and taxes are subtracted, resulting in an even lower percentage than under post-social insurance income. The lower estimate under the disposable income definition results not only from the noncash benefits and government transfers, but also from the Earned Income Tax Credit, which, though classified under "taxes," does not reduce income but instead functions as a means-tested transfer for people with low income.

Child poverty estimates across income definitions illustrate the same pattern of the income components' effects. Under the money income definition, 17.4 percent of children under 18 were below the poverty line in 2004. Under the market income definition, the estimate was 20.2 percent. Adding non-means-tested cash benefits lowered the child poverty estimate to 18.1 percent. Under a disposable income concept that includes the effects of noncash benefits, cash transfers, and taxes, the child poverty estimate in 2004 was 13.1 percent.

None of the alternative income definitions exhibited a change in estimates of overall poverty between 2003 and 2004, unlike the official poverty measure, which rose from 12.5 percent in 2003 to 12.7 percent in 2004.

For many demographic and geographic groups, all four alternative definitions told the same story (see Table 3). All four definitions identified no change in poverty rates between 2003 and 2004 for people in families, Blacks, children under 18 years, 55-to-59-year-olds, the foreign-born, people living in the South and the West, people who did not work at least one week, married-couple families, and female-householder families. All four definitions measured poverty rate increases between 2003 and 2004 for non-Hispanic Whites, 18-to-24-year-olds, 45-to-54-year-olds, and people living in the Midwest. All four definitions found lower poverty rates for Asian families in 2004 than in 2003.

For some demographic and geographic groups, year-to-year changes were not uniformly identified by all four definitions. For instance, the percentage below poverty for unrelated individuals (people living alone or with non-relatives only) increased between 2003 and 2004 under the disposable income measure but not any of the others. Conversely, the percentage below poverty for Asians (measured for people as opposed to families) fell under all definitions except for disposable income.

The percentages shown in Table 4 are based on poverty thresholds adjusted with the CPI-U-RS. The CPI-U and the CPI-U-RS measure inflation differently; thus, the choice of price index affects the thresholds—the dollar values used to determine poverty status (see section V for details on poverty thresholds and on price indexes). The percentages are lower than those shown in Table 3 because the thresholds are lower. Under the money income definition, 10.6 percent of people were below the CPI-U-RS-adjusted poverty thresholds in 2004. Under the most comprehensive definition of income shown in this release (disposable income), the corresponding percentage in 2004 was 8.3 percent. Despite the lower percentages, none of the four definitions identified any change in the poverty estimate for the overall population between 2003 and 2004 for the CPI-U-RS-based estimates—a finding consistent with the CPI-U-based estimates.

V. Methodology and Alternative Income Components

Unit of Analysis: The unit of analysis for the income measures in this report is the household. The units of analysis for the poverty measures are families and people. That is, the poverty status of people is based on their family's income if they live in a family and their own individual income otherwise. For groups of two or more people living together who are related by birth, marriage, or adoption, poverty thresholds are defined for family units. For those living alone or with non-relatives, poverty thresholds are defined for individuals. Thus, two unrelated people living together are considered two separate "units" for poverty determination purposes, meaning that their combined poverty thresholds would be the same whether they lived in the same housing unit or two different ones. While it is clear that some allowance should probably be made to reflect the fact that it is less expensive for unrelated people to share living quarters, there is little research that points to exactly what type of adjustment is appropriate. But it is clear that the effect of such an adjustment is not trivial. In Weinberg 2005, there are tabulations based on a "household" definition of poverty. Under this definition, two unrelated people living together would be considered as exactly the same as a two-person family for poverty determination purposes. These tabulations showed that the effect of moving to a household-based poverty definition would have reduced the overall poverty rate by approximately 1.5 percentage points in 2002.

Work-Related Expenses: Previous Census Bureau alternative poverty reports that included the effect of work-related expenses on income have included both the effect of child care expenses and "other" (non-child care) work-related expenses (see Short 2001 and Dalaker 2005). This report only includes the effect of non-child care work expenses. The reason for this change is that the Census Bureau is considering making changes to its child care expenses imputation procedures and is deferring their inclusion until either the current method can be validated or an improved method can be found.

Government Cash Transfers: Government transfers include payments from the following sources: 1) Unemployment Compensation, 2) State Workers' Compensation, 3) Social Security, 4) Supplemental Security Income (SSI), 5) Public Assistance, including Temporary Assistance for Needy Families (TANF), 6) Veterans' Payments, 7) government survivor, disability, and pension payments, and 8) government educational assistance.

Government Means-Tested Cash Transfers: The means-tested portion of transfers includes payments from the following sources: 1) Public Assistance, including Temporary Assistance for Needy Families (TANF), 2) SSI, and 3) means-tested Veterans' Payments.

Government Non-Means-Tested Cash Transfers: The non-means-tested portion of transfers includes payments from the following sources: 1) Unemployment Compensation, 2) State Workers' Compensation, 3) Social Security, 4) non-means-tested Veterans' Payments, 5) government survivor, disability, and pension payments, and 6) government educational assistance.

Government Noncash Transfers (also called noncash benefits): Non-cash transfers include those government benefits that are distributed as services or vouchers, and for which the

recipient does not get cash. These include 1) food stamps, 2) housing subsidies, and 3) free or reduced-price school lunches.

Inequality Measures: Two widely used measures of income inequality are shares of aggregate income and the Gini Index. Shares of aggregate income are computed by ranking households from lowest to highest income and then dividing them into groups of equal numbers of households, typically quintiles (20-percent groups). The aggregate income of each group divided by the overall aggregate income is each group's share. In a perfectly equal society, the cumulative share of income should equal the cumulative share of households. The Gini Index summarizes the dispersion of income shares. The Gini Index ranges from 0, which indicates perfect equality, to 1, which denotes perfect inequality (all income is received by one household).

Poverty Thresholds: The poverty thresholds used in this release differ from the official poverty thresholds described in *Income, Poverty, and Health Insurance Coverage in the United States: 2004*. Official poverty thresholds are based on the work of Mollie Orshansky, and they vary by family size and number of children (and age for unrelated individuals and 2-person families). Because the official thresholds were based on food costs and spending patterns, rather than an overall assessment of how needs vary by family size, the relationship between thresholds for different families has been criticized as non-systematic and ad hoc, and has been cited as one of the weaknesses of the current official poverty definition (see Citro and Michael 1995). The thresholds used for this release start with the official 4-person, 2-child threshold and compute the thresholds for other families through the use of a more systematic three-parameter equivalence scale. The first scale parameter reflects that children, on average, consume less than adults; the second parameter reflects that as family size increases, expenses do not increase at the same rate; and the third parameter allows the first child in a single-adult family to represent a greater increase in expenses than the first child in a two-adult family. For details on the derivation of this equivalence scale, see Appendix A of Short 2001.

Consumer Price Indexes: Official poverty thresholds are updated each year based on the CPI-U (Consumer Price Index for All Urban Consumers), which is computed by the Bureau of Labor Statistics (BLS). The BLS also produces another index, the CPI-U-RS (Consumer Price Index Research Series Using Current Methods). The CPI-U-RS applies most of the methodological improvements made to the CPI-U since the beginning of this series in 1978. The poverty thresholds used in this release were adjusted using both methods. First, the 4-person, 2-child threshold (the starting point for the three-parameter equivalence scale) was updated for inflation using the CPI-U. Table 3 presents these estimates. Second, the set of thresholds used to create the data in Table 3 was adjusted using the CPI-U-RS. Table 4 displays the estimates based on the thresholds updated with the CPI-U-RS. For more information on the Census Bureau's use of the CPI-U-RS to adjust poverty thresholds, see Dalaker 2005. Household income is adjusted over time using the CPI-U-RS. For more information on the CPI-U-RS, see http://www.bls.gov/cpi/cpirsdc.htm.

Income Underreporting in the CPS: The collection vehicle for the estimates shown in this release is the Annual Social and Economic Supplement (ASEC) to the Current Population Survey. The fact that respondents don't report their incomes with perfect accuracy on the CPS

ASEC is well documented (see Roemer 2000, for example). A recent study by analysts at the Census Bureau and the Bureau of Economic Analysis (BEA) compared BEA State Personal Income (SPI) aggregates with those from the CPS for income year 2001 (Ruser, Pilot, and Nelson 2004). They found that once the necessary adjustments were made to make the two datasets conceptually the same, the CPS ASEC aggregate was about $806 billion less than the SPI aggregate—a gap of around 11 percent. About one-half of this gap is due to adjustments BEA makes to its SPI for unreported earnings (wages and salaries and self-employment income). The study also found that the gaps are not consistent by type of income. For example, the wage and salary gap was around 3 percent while the gap for transfer incomes was around 23 percent. Clearly there needs to be more research on the effect of underreporting of key income types on important summary measures such as the poverty rate and median household income. In Weinberg 2005, there were tabulations based on files created by the Urban Institute with support from the Department of Health and Human Services Office of the Assistant Secretary for Planning and Evaluation. These files include underreporting adjustment models for three transfer programs: Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), and Food Stamps. Tabulations from this file illustrate the potential importance of underreporting adjustments. They showed that the effect of using the file that incorporated imputations for unreported TANF, SSI, and Food Stamp benefits was to reduce the overall poverty rate by around 1 percentage point in 2002.

VI. References

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Table 1.
Median Income of Households by Selected Characteristics and Income Definition: 2003 and 2004

(Households as of March of the following year)

Characteristic	Number (1,000)		Money Income			Market Income		
			2003	2004		2003	2004	
	2003	2004	Median (2004 dollars)	Median	Percent change in real median income (2004 less 2003)	Median (2004 dollars)	Median	Percent change in real median income (2004 less 2003)
All households	**112,000**	**113,146**	**44,483**	**44,389**	**-0.2**	**41,983**	**41,648**	***-0.8**
Region								
Northeast	21,017	21,137	47,998	47,994	0.0	44,963	44,727	-0.5
Midwest	25,643	25,911	45,934	44,657	*-2.8	43,186	42,239	*-2.2
South	40,742	41,159	40,893	40,773	-0.3	37,767	37,813	0.1
West	24,598	24,939	48,078	47,680	-0.8	46,170	45,388	-1.7
Race and Hispanic Origin								
All races	112,000	113,146	44,483	44,389	-0.2	41,983	41,648	*-0.8
White alone or in combination	93,196	94,038	46,797	46,626	-0.4	44,127	44,012	-0.3
White alone 1/	91,962	92,702	46,857	46,697	-0.3	44,209	44,111	-0.2
White alone, not Hispanic	81,148	81,445	49,061	48,977	-0.2	46,511	46,448	-0.1
Black alone or in combination	13,969	14,127	30,487	30,268	-0.7	27,639	27,056	-2.1
Black alone 2/	13,629	13,792	30,442	30,134	-1.0	27,593	26,863	-2.6
Asian alone or in combination	4,235	4,360	56,747	57,475	1.3	54,878	56,767	3.4
Asian alone 3/	4,040	4,140	57,196	57,518	0.6	55,530	56,996	2.6
Asian, Native Hawaiian and Other Pacific Islander, alone or in combination	4,497	4,620	56,907	56,680	-0.4	54,859	55,625	1.4
Asian alone or Native Hawiian and Other Pacific Islander alone or Asian and Native Hawaiian and Other Pacific Islander 4/	4,250	4,336	57,323	57,047	-0.5	55,552	56,262	1.3
Hispanic (of any race)	11,693	12,181	33,884	34,241	1.1	32,011	31,805	-0.6
Type of Household								
Family households	76,217	77,010	55,442	55,327	-0.2	53,060	53,062	0.0
Married-couple families	57,719	58,109	64,082	63,813	-0.4	62,673	62,536	-0.2
Male householder, no wife present	4,717	4,893	43,086	44,923	*4.3	40,414	41,618	*3.0
Female householder, no husband present	13,781	14,009	30,095	29,826	-0.9	26,830	26,363	-1.7
Nonfamily households	35,783	36,136	28,433	26,176	-1.0	23,493	23,539	0.2
Male householder	16,136	16,344	32,786	31,967	*-2.5	30,484	30,068	-1.4
Living alone	12,562	12,652	28,176	27,357	*-2.9	25,829	25,118	*-2.8
Female householder	19,647	19,792	21,886	21,797	-0.4	17,975	18,208	1.3
Living alone	17,024	17,207	19,178	19,446	1.4	14,733	14,956	1.5
Age of Householder								
Under 65 years	88,951	90,012	51,520	50,923	*-1.2	50,045	49,606	*-0.9
15 to 24 years	6,610	6,686	27,780	27,586	-0.7	25,414	25,051	-1.4
25 to 34 years	19,159	19,255	45,983	45,485	-1.1	44,330	43,683	-1.5
35 to 44 years	23,222	23,226	56,523	56,785	0.5	55,988	56,157	0.3
45 to 54 years	23,137	23,370	61,861	61,111	*-1.2	61,640	60,962	-1.1
55 to 64 years	16,824	17,476	50,537	50,400	-0.3	48,497	48,682	0.4
65 years and over	23,048	23,135	24,426	24,509	0.3	13,420	13,570	1.1
65 to 74 years	11,499	11,519	30,437	30,854	1.4	19,510	20,102	3.0
75 years and over	11,550	11,616	19,993	20,467	*2.4	9,401	9,458	0.6

Table 1.
Median Income of Households by Selected Characteristics and Income Definition: 2003 and 2004--Con.

(Households as of March of the following year)

Characteristic	Post-Social Insurance Income			Disposable Income		
	2003	2004		2003	2004	
	Median (2004 dollars)	Median	Percent change in real median income (2004 less 2003)	Median (2004 dollars)	Median	Percent change in real median income (2004 less 2003)
All households	**46,196**	**45,968**	**-0.5**	**39,933**	**39,754**	**-0.4**
Region						
Northeast	49,793	49,660	-0.3	41,814	41,761	-0.1
Midwest	47,551	46,542	*-2.1	40,496	39,667	*-2.0
South	41,844	41,843	0.0	36,774	36,809	0.1
West	50,261	49,486	*-1.5	43,596	43,208	-0.9
Race and Hispanic Origin						
All races	46,196	45,968	-0.5	39,933	39,754	-0.4
White alone or in combination	48,556	48,417	-0.3	41,624	41,642	0.0
White alone 1/	48,647	48,515	-0.3	41,696	41,710	0.0
White alone, not Hispanic	50,997	50,971	-0.1	43,406	43,402	0.0
Black alone or in combination	30,385	29,951	-1.4	28,374	27,883	-1.7
Black alone 2/	30,327	29,781	-1.8	28,304	27,771	*-1.9
Asian alone or in combination	57,872	58,403	0.9	48,512	48,504	0.0
Asian alone 3/	58,437	58,569	0.2	48,946	48,692	-0.5
Asian, Native Hawaiian and Other Pacific Islander, alone or in combination	57,842	57,555	-0.5	48,436	47,879	-1.2
Asian alone or Native Hawiian and Other Pacific Islander alone or Asian and Native Hawaiian and Other Pacific Islander 4/	58,450	58,066	-0.7	48,915	48,314	-1.2
Hispanic (of any race)	33,820	33,817	0.0	31,620	31,739	0.4
Type of Household						
Family households	57,366	57,375	0.0	49,220	49,118	-0.2
Married-couple families	66,575	66,388	-0.3	55,728	55,632	-0.2
Male householder, no wife present	43,804	44,996	2.7	38,900	39,634	1.9
Female householder, no husband present	30,175	29,583	*-2.0	29,381	29,232	-0.5
Nonfamily households	28,145	27,744	*-1.4	24,290	24,011	*-1.2
Male householder	33,717	33,134	*-1.7	28,173	27,794	-1.3
Living alone	29,407	28,804	*-2.0	24,593	24,325	-1.1
Female householder	24,274	23,940	-1.4	21,561	21,218	*-1.6
Living alone	21,853	21,744	-0.5	19,689	19,478	-1.1
Age of Householder						
Under 65 years	51,928	51,549	-0.7	43,676	43,366	*-0.7
15 to 24 years	26,639	26,506	-0.5	24,024	24,314	1.2
25 to 34 years	45,351	44,531	*-1.8	38,655	38,042	*-1.6
35 to 44 years	57,052	57,277	0.4	47,684	47,779	0.2
45 to 54 years	63,482	62,712	-1.2	51,802	51,176	*-1.2
55 to 64 years	53,223	53,293	0.1	44,875	44,722	-0.3
65 years and over	28,928	29,176	0.9	27,557	27,932	1.4
65 to 74 years	35,339	35,695	1.0	33,009	33,481	1.4
75 years and over	24,157	24,329	0.7	23,037	23,405	1.6

Table 1.
Median Income of Households by Selected Characteristics and Income Definition: 2003 and 2004--Con.

(Households as of March of the following year)

Characteristic	Number (1,000)		Money Income			Market Income		
			2003	2004		2003	2004	
	2003	2004	Median (2004 dollars)	Median	Percent change in real median income (2004 less 2003)	Median (2004 dollars)	Median	Percent change in real median Income (2004 less 2003)
Size of Household								
One person	29,586	29,859	22,519	22,480	-0.2	19,082	19,412	1.7
Two people	37,366	37,247	48,186	47,031	*-2.4	44,200	43,165	*-2.3
Three people	17,968	18,347	57,223	57,876	1.1	55,213	55,728	0.9
Four people	16,085	16,506	66,104	65,869	-0.4	65,439	65,045	-0.6
Five people	7,150	7,230	61,744	62,475	1.2	60,527	61,237	1.2
Six people	2,476	2,522	59,670	57,087	*-4.3	58,612	55,379	*-5.5
Seven people or more	1,388	1,435	62,148	58,688	*-5.6	57,646	55,865	-3.1
Number of Earners								
No earners	23,932	23,891	16,082	16,151	0.4	5,721	5,649	-1.3
One earner	40,769	41,622	36,944	36,149	*-2.2	34,404	33,850	*-1.6
Two earners or more	47,299	47,633	73,417	72,590	*-1.1	72,755	72,404	-0.5
Two earners	37,917	38,120	69,158	68,892	-0.4	68,875	68,336	-0.8
Three earners	6,998	7,227	84,680	83,877	-0.9	84,433	83,742	-0.8
Four earners or more	2,384	2,287	100,000	100,000	-	100,000	100,000	-
Work Experience of Householder								
Total	112,000	113,146	44,483	44,389	-0.2	41,983	41,648	*-0.8
Worked	77,597	78,345	56,466	55,900	*-1.0	55,528	55,065	*-0.8
Worked full-time, year-round	55,952	56,497	62,487	61,601	*-1.4	62,220	61,330	*-1.4
Did not work	34,403	34,801	22,053	22,243	0.9	12,177	12,480	2.5

Table 1.
Median Income of Households by Selected Characteristics and Income Definition: 2003 and 2004--Con.

(Households as of March of the following year)

Characteristic	Post-Social Insurance Income			Disposable Income		
	2003	2004		2003	2004	
	Median (2004 dollars)	Median	Percent change in real median income (2004 less 2003)	Median (2004 dollars)	Median	Percent change in real median income (2004 less 2003)
Size of Household						
One person	24,761	24,430	*-1.3	21,638	21,289	*-1.6
Two people	50,698	49,758	*-1.9	43,384	42,534	*-2.0
Three people	58,510	59,136	1.1	49,237	49,564	0.7
Four people	67,375	66,948	-0.6	56,816	56,488	-0.6
Five people	62,634	63,056	0.7	54,974	55,370	0.7
Six people	60,509	57,417	*-5.1	55,378	53,057	*-4.2
Seven people or more	62,232	57,985	*-6.8	59,599	56,132	*-5.8
Number of Earners						
No earners	18,984	18,875	-0.6	19,064	18,896	-0.9
One earner	37,936	36,950	*-2.6	32,548	31,883	*-2.0
Two earners or more	74,564	74,210	-0.5	60,973	60,367	*-1.0
Two earners	70,540	70,283	-0.4	57,587	57,114	*-0.8
Three earners	86,613	85,689	-1.1	70,741	70,044	-1.0
Four earners or more	100,000	100,000	-	89,125	85,308	*-4.3
Work Experience of Householder						
Total	46,196	45,968	-0.5	39,933	39,754	-0.4
Worked	57,522	57,045	*-0.8	47,393	47,010	*-0.8
Worked full-time, year-round	63,485	62,597	*-1.4	51,686	50,830	*-1.7
Did not work	25,122	24,997	-0.5	24,620	24,804	0.7

A value of $100,000 indicates the median is in excess of $100,000.
*Significantly different from zero at the 90-percent confidence level.

1/ Beginning with the 2003 ASEC, respondents were allowed to choose more than one race. White Alone refers to people who reported White and did not report any other race category. The use of this single-race population does not imply that it is the preferred method of presenting or analyzing data. The Census Bureau uses a variety of approaches. Information on people who reported more than one race, such as "White and American Indian and Alaska Native" or "Asian and Black or African American," in Census 2000 is available through American FactFinder. About 2.6 percent of people reported more than one race.
2/ Black alone refers to people who reported Black and did not report any other race category.
3/ Asian alone refers to people who reported Asian and did not report any other race category.
4/ Asian and/or Native Hawaiian and Other Pacific Islander refers to people who reported either or both of these categories, but did not report any other category.

Source: U.S. Census Bureau, Current Population Survey, 2004 and 2005 Annual Social and Economic Supplements.

Table 2.
Share of Aggregate Household Income by Quintile and Gini Index: 2003 and 2004

	Money income		Market income		Post-social insurance income		Disposable income	
	2003	2004	2003	2004	2003	2004	2003	2004
Quintiles								
Lowest	3.37	3.42	1.46	1.48	3.26	3.29	4.60	4.68
Second	8.83	8.68	7.45	7.36	8.93	8.64	10.25	10.34
Third	14.72	14.83	14.47	14.10	14.76	14.54	15.84	16.08
Fourth	23.29	23.02	24.15	23.62	23.46	22.97	23.75	24.02
Highest	49.79	50.05	52.47	53.44	49.59	50.57	45.56	44.88
Gini Index	0.450	0.450	0.492	0.496	0.446	0.449	0.405	0.400

Source: U.S. Census Bureau, Current Population Survey, 2004 and 2005 Annual Social and Economic Supplements

Table 3.
People and Families With Alternative Definitions of Income Below the Three-Parameter Poverty Thresholds, by Selected Characteristics: 2003 and 2004

(Counts of people in thousands--290,605 represents 290,605,000. Poverty rates in percentages. People as of March of the following year)

Characteristic	All income levels, 2003	All income levels, 2004	Money income /1			Market income /1		
			Percent below poverty, 2003	Percent below poverty, 2004	Change, /2 2004 less 2003	Percent below poverty, 2003	Percent below poverty, 2004	Change, /2 2004 less 2003
PEOPLE								
Total	**287,699**	**290,605**	**12.5**	**12.6**	**0.2**	**19.3**	**19.4**	**0.1**
Family Status								
In families	238,903	241,153	11.1	11.2	0.2	16.6	16.8	0.1
Householder	76,232	77,019	10.5	10.5	0.1	17.4	17.4	-
Related children under 18	71,907	72,164	16.9	16.8	-	19.8	19.7	-0.1
Related children under 6	23,455	23,750	19.6	19.5	-	22.2	22.1	-0.2
In unrelated subfamilies	1,202	1,255	40.4	46.0	5.6	44.6	49.3	4.7
Reference person	509	518	39.2	46.2	7.0	43.3	49.8	6.5
Children under 18	652	675	43.3	46.8	3.5	47.6	50.1	2.5
Unrelated individual	47,594	48,196	18.9	18.8	-	31.8	31.8	-
Male	23,044	23,442	16.5	16.7	0.2	25.9	25.7	-0.2
Female	24,550	24,756	21.1	20.9	-0.2	37.4	37.7	0.3
Race/3 and Hispanic Origin								
White alone or in combination	236,452	238,453	10.6	10.8	0.3	17.3	17.6	0.3
White alone/4	231,866	233,702	10.5	10.7	0.2	17.3	17.5	0.2
White alone, not Hispanic	194,595	195,054	8.2	8.6	*0.4	15.3	15.7	*0.4
Black alone or in combination	37,503	38,016	24.4	24.6	0.2	32.0	32.1	0.1
Black alone/5	35,989	36,423	24.5	24.6	0.1	32.2	32.2	-
Asian alone or in combination	12,891	13,356	11.9	9.9	*-2.0	15.5	13.9	*-1.6
Asian alone/6	11,856	12,301	12.1	10.0	*-2.0	15.6	14.0	*-1.6
Hispanic (of any race)	40,300	41,688	22.5	21.8	*-0.7	27.6	26.9	-0.6
Related Children Under 18								
White alone or in combination	56,971	57,275	13.7	14.0	0.3	16.2	16.5	0.3
White alone/4	54,989	55,239	13.6	13.9	0.3	16.0	16.2	0.2
White alone, not Hispanic	42,547	42,382	9.2	9.7	0.5	11.3	11.8	0.5
Black alone or in combination	11,989	12,006	32.8	32.1	-0.7	37.7	37.2	-0.5
Black alone/5	11,162	11,080	33.2	32.5	-0.7	38.2	37.5	-0.7
Asian alone or in combination	3,279	3,380	12.1	9.5	*-2.6	14.5	11.9	*-2.5
Asian alone/6	2,726	2,839	12.3	9.7	*-2.6	14.4	12.0	-2.5
Hispanic (of any race)	13,519	13,936	28.5	27.5	-1.0	32.4	31.1	*-1.4
Age								
Under 18 years	72,999	73,271	17.3	17.4	-	20.3	20.2	-0.1
18 to 64 years	180,041	182,121	10.8	11.2	*0.3	14.5	14.9	0.3
18 to 24 years	27,824	27,972	16.5	18.2	*1.6	20.1	21.9	*1.8
25 to 34 years	39,201	39,307	12.8	12.4	-0.4	15.5	14.8	*-0.7
35 to 44 years	43,573	43,350	9.6	9.8	0.1	12.5	12.6	0.1
45 to 54 years	41,068	41,960	7.8	8.3	*0.5	11.1	11.7	*0.6
55 to 59 years	16,158	16,763	8.3	8.3	-	12.9	13.1	0.2
60 to 64 years	12,217	12,769	9.5	10.0	0.5	20.0	20.2	0.2
65 years and over	34,659	35,213	10.9	10.5	*-0.4	41.6	41.1	-0.4
Nativity								
Native	253,478	255,490	11.8	12.0	0.2	18.7	19.0	0.3
Foreign born	34,221	35,115	17.7	17.2	-0.5	23.2	22.5	-0.7
Naturalized citizen	13,128	13,495	10.4	10.2	-0.2	18.4	18.3	-0.1
Not a citizen	21,094	21,619	22.2	21.6	-0.6	26.2	25.2	-1.0
Region								
Northeast	53,606	53,910	11.4	11.6	0.2	18.2	18.1	-0.2
Midwest	64,655	64,743	10.7	11.5	*0.8	17.2	18.4	*1.1
South	103,347	104,878	14.2	14.1	-0.1	21.6	21.6	-
West	66,089	67,075	12.5	12.3	-0.2	18.5	18.1	-0.4

Table 3.
People and Families With Alternative Definitions of Income Below the Three-Parameter Poverty Thresholds, by Selected Characteristics: 2003 and 2004--Con.

(Counts of people in thousands--290,605 represents 290,605,000. Poverty rates in percentages. People as of March of the following year)

Characteristic	Post-social insurance income /1			Disposable income /1		
	Percent below poverty, 2003	Percent below poverty, 2004	Change, /2 2004 less 2003	Percent below poverty, 2003	Percent below poverty, 2004	Change, /2 2004 less 2003
PEOPLE						
Total	**12.8**	**12.9**	**0.2**	**10.2**	**10.4**	**0.2**
Family Status						
In families	11.5	11.6	0.1	8.8	8.9	0.1
Householder	10.7	10.8	0.1	8.4	8.5	0.1
Related children under 18	17.8	17.6	-0.2	12.7	12.6	-0.1
Related children under 6	20.7	20.6	-0.1	15.7	15.5	-0.2
In unrelated subfamilies	41.8	47.9	6.1	35.7	41.9	6.2
Reference person	40.6	48.5	7.9	35.2	42.9	7.7
Children under 18	44.6	48.5	3.9	38.1	41.6	3.5
Unrelated individual	18.5	18.7	0.2	16.9	17.4	*0.5
Male	17.3	17.2	-	16.4	16.6	0.3
Female	19.7	20.0	0.4	17.3	18.1	*0.8
Race/3 and Hispanic Origin						
White alone or in combination	10.7	11.0	*0.3	8.8	9.0	0.2
White alone/4	10.6	10.9	*0.3	8.7	8.9	0.2
White alone, not Hispanic	8.0	8.5	*0.5	6.8	7.2	*0.4
Black alone or in combination	25.6	25.6	-0.1	19.2	19.6	0.4
Black alone/5	25.7	25.5	-0.2	19.4	19.7	0.3
Asian alone or in combination	12.6	10.8	*-1.8	9.6	9.1	-0.4
Asian alone/6	12.6	10.9	*-1.7	9.7	9.3	-0.4
Hispanic (of any race)	24.0	23.0	*-1.0	18.6	17.9	*-0.6
Related Children Under 18						
White alone or in combination	14.4	14.6	0.2	10.3	10.5	0.1
White alone/4	14.3	14.4	0.2	10.2	10.3	0.1
White alone, not Hispanic	9.5	10.0	0.5	7.0	7.2	0.3
Black alone or in combination	34.8	33.7	-1.2	24.7	23.9	-0.8
Black alone/5	35.3	34.0	-1.3	25.0	24.3	-0.7
Asian alone or in combination	13.1	10.4	*-2.7	8.4	7.7	-0.8
Asian alone/6	13.1	10.7	*-2.4	8.6	8.0	-0.6
Hispanic (of any race)	30.6	29.0	*-1.7	21.2	20.6	-0.6
Age						
Under 18 years	18.3	18.1	-0.2	13.2	13.1	-0.1
18 to 64 years	11.3	11.7	*0.4	9.7	10.1	*0.4
18 to 24 years	17.9	19.4	*1.5	17.3	18.6	*1.4
25 to 34 years	13.6	13.2	-0.4	11.3	10.7	*-0.6
35 to 44 years	10.2	10.4	0.2	8.1	8.5	*0.4
45 to 54 years	8.0	8.6	*0.7	6.5	7.3	*0.8
55 to 59 years	8.1	8.4	0.2	6.8	7.1	0.3
60 to 64 years	8.6	9.4	*0.7	7.4	7.8	0.4
65 years and over	8.6	8.5	-0.1	6.8	6.8	0.1
Nativity						
Native	11.9	12.2	*0.3	9.5	9.8	*0.3
Foreign born	19.0	18.3	-0.7	15.6	15.2	-0.4
Naturalized citizen	10.9	10.7	-0.2	8.3	8.3	0.1
Not a citizen	24.0	23.1	-0.9	20.2	19.5	-0.7
Region						
Northeast	11.8	12.0	0.2	8.8	9.3	*0.6
Midwest	10.6	11.7	*1.1	8.7	9.3	*0.6
South	14.3	14.3	-	11.9	11.8	-0.1
West	13.3	12.9	-0.4	10.3	10.3	-

Table 3.
People and Families With Alternative Definitions of Income Below the Three-Parameter Poverty Thresholds, by Selected Characteristics: 2003 and 2004--Con.

(Counts of people in thousands--290,605 represents 290,605,000. Poverty rates in percentages. People as of March of the following year)

Characteristic	All income levels, 2003	All income levels, 2004	Money income /1			Market income /1		
			Percent below poverty, 2003	Percent below poverty, 2004	Change, /2 2004 less 2003	Percent below poverty, 2003	Percent below poverty, 2004	Change, /2 2004 less 2003
PEOPLE--Con.								
Work Experience								
All workers (16 years and older).....	151,553	153,024	5.8	6.0	*0.3	8.0	8.0	-
Worked full-time year-round....	100,700	102,427	2.6	2.8	*0.2	3.4	3.5	0.2
Not full-time year-round.....	50,854	50,598	12.0	12.5	0.5	17.2	17.2	-0.1
Did not work at least one week...	71,868	73,081	22.0	22.0	-0.1	41.8	42.1	0.4
FAMILIES								
Total.....	**76,232**	**77,019**	**10.5**	**10.5**	**0.1**	**17.4**	**17.4**	-
White alone or in combination....	63,459	64,128	8.6	8.8	0.2	15.6	15.7	0.1
White alone/4.....	62,620	63,227	8.5	8.7	0.2	15.6	15.6	0.1
White alone, not Hispanic.....	54,032	54,388	6.5	6.7	*0.3	13.7	13.9	0.2
Black alone or in combination....	9,131	9,113	22.9	23.4	0.6	30.7	30.6	-0.1
Black alone/5.....	8,914	8,908	23.0	23.4	0.5	30.9	30.6	-0.3
Asian alone or in combination.....	3,194	3,295	10.8	7.8	*-3.0	14.1	12.1	*-2.1
Asian alone/6.....	3,064	3,155	11.0	7.8	*-3.1	14.2	12.0	*-2.2
Hispanic (of any race).....	9,274	9,537	21.5	21.1	-0.3	27.2	26.9	-0.3
Married-couple.....	57,725	58,118	5.7	5.8	0.1	12.5	12.5	-
White alone or in combination....	50,587	50,867	5.3	5.4	0.1	12.3	12.2	-0.1
White alone/4.....	50,025	50,265	5.3	5.4	0.1	12.3	12.2	-0.1
White alone, not Hispanic.....	44,200	44,300	3.8	4.1	*0.2	11.0	11.0	-
Black alone or in combination....	4,259	4,275	8.2	9.7	*1.5	15.1	16.7	*1.6
Black alone/5.....	4,146	4,183	8.1	9.7	*1.5	15.1	16.8	*1.7
Asian alone or in combination.....	2,576	2,649	8.5	6.0	*-2.5	11.7	10.0	*-1.8
Asian alone/6.....	2,497	2,560	8.7	6.1	*-2.6	11.9	10.1	*-1.8
Hispanic (of any race).....	6,228	6,367	16.2	15.3	-0.9	21.4	20.9	-0.6
Female householder, no husband present.....	13,791	14,009	28.9	29.0	-	36.7	36.8	0.1
White alone or in combination....	9,245	9,448	25.2	25.5	0.3	32.5	33.5	0.9
White alone/4.....	9,058	9,236	24.9	25.4	0.5	32.3	33.3	1.0
White alone, not Hispanic.....	7,121	7,200	21.2	21.5	0.3	28.8	29.8	1.0
Black alone or in combination....	4,068	4,084	37.7	38.1	0.4	46.4	45.5	-0.9
Black alone/5.....	3,986	3,991	37.8	38.2	0.3	46.6	45.5	-1.2
Asian alone or in combination.....	378	385	25.3	15.0	*-10.3	29.5	22.4	*-7.2
Asian alone/6.....	348	347	25.8	14.7	*-11.1	29.6	21.2	*-8.4
Hispanic (of any race).....	2,138	2,240	38.5	39.7	1.2	45.5	46.3	0.8
Male householder, no wife present..	4,717	4,893	14.6	14.0	-0.6	21.6	20.0	*-1.6
White alone or in combination....	3,627	3,813	12.0	12.2	0.2	19.0	18.3	-0.6
White alone/4.....	3,537	3,726	12.0	12.1	0.2	18.9	18.1	-0.8
White alone, not Hispanic.....	2,710	2,888	10.3	11.0	0.7	17.7	17.4	-0.4
Black alone or in combination....	804	754	25.5	21.7	-3.7	33.6	28.2	*-5.4
Black alone/5.....	782	734	25.9	21.8	*-4.1	34.3	28.2	*-6.1
Asian alone or in combination.....	241	261	12.5	15.5	3.0	15.6	18.2	2.6
Asian alone/6.....	219	248	13.3	15.9	2.6	16.0	18.6	2.6
Hispanic (of any race).....	906	930	17.6	16.2	-1.4	23.5	21.7	-1.8

Table 3.
People and Families With Alternative Definitions of Income Below the Three-Parameter Poverty Thresholds, by Selected Characteristics: 2003 and 2004--Con.

(Counts of people in thousands--290,605 represents 290,605,000. Poverty rates in percentages. People as of March of the following year)

Characteristic	Post-social insurance income /1			Disposable income /1		
	Percent below poverty, 2003	Percent below poverty, 2004	Change, /2 2004 less 2003	Percent below poverty, 2003	Percent below poverty, 2004	Change, /2 2004 less 2003
PEOPLE--Con.						
Work Experience						
All workers (16 years and older).....	6.2	6.4	0.2	5.5	5.7	*0.2
Worked full-time year-round....	2.9	3.1	0.2	2.5	2.6	0.1
Not full-time year-round.....	12.7	13.1	0.4	11.3	11.9	*0.7
Did not work at least one week...	21.3	21.7	0.3	17.4	17.7	0.3
FAMILIES						
Total.....	**10.7**	**10.8**	**0.1**	**8.4**	**8.5**	**0.1**
White alone or in combination....	8.6	8.9	0.3	7.0	7.1	0.1
White alone/4.....	8.5	8.8	0.3	6.9	7.0	0.1
White alone, not Hispanic.....	6.3	6.7	*0.4	5.2	5.4	0.2
Black alone or in combination....	24.3	24.1	-0.2	18.1	18.7	0.6
Black alone/5.....	24.4	24.1	-0.3	18.2	18.7	0.5
Asian alone or in combination.....	10.8	8.4	*-2.4	8.3	7.1	*-1.2
Asian alone/6.....	10.8	8.4	*-2.4	8.3	7.0	*-1.3
Hispanic (of any race).....	22.9	22.2	-0.7	17.4	17.1	-0.2
Married-couple.....	5.6	5.7	-	4.6	4.7	-
White alone or in combination....	5.2	5.3	-	4.3	4.3	-
White alone/4.....	5.2	5.2	-	4.3	4.3	-
White alone, not Hispanic.....	3.6	3.8	0.2	3.2	3.3	0.1
Black alone or in combination....	8.4	9.3	0.9	6.7	7.8	*1.1
Black alone/5.....	8.3	9.3	1.0	6.7	7.8	*1.1
Asian alone or in combination.....	8.6	6.5	*-2.1	6.5	5.6	-0.9
Asian alone/6.....	8.7	6.6	*-2.2	6.6	5.6	-1.0
Hispanic (of any race).....	17.1	16.0	*-1.1	12.8	12.1	-0.7
Female householder, no husband present.....	30.3	30.5	0.2	22.7	23.3	0.6
White alone or in combination....	25.9	26.9	1.0	20.0	20.8	0.7
White alone/4.....	25.6	26.8	1.1	19.8	20.6	0.8
White alone, not Hispanic.....	21.6	22.7	1.1	16.7	17.2	0.5
Black alone or in combination....	40.4	39.8	-0.6	29.1	30.1	1.0
Black alone/5.....	40.6	39.8	-0.7	29.3	30.3	1.0
Asian alone or in combination.....	25.5	17.1	*-8.4	18.7	12.6	*-6.1
Asian alone/6.....	25.5	16.9	*-8.6	18.5	12.0	*-6.5
Hispanic (of any race).....	40.9	41.7	0.9	31.2	32.9	1.7
Male householder, no wife present..	14.9	14.6	-0.4	12.5	11.6	-0.8
White alone or in combination....	12.3	12.7	0.4	10.2	10.1	-0.1
White alone/4.....	12.2	12.5	0.3	10.1	10.0	-0.1
White alone, not Hispanic.....	9.9	11.2	1.3	8.4	9.0	0.6
Black alone or in combination....	26.7	22.9	-3.8	22.0	18.1	*-3.9
Black alone/5.....	27.2	23.0	-4.2	22.3	18.0	*-4.3
Asian alone or in combination.....	11.3	15.6	4.2	10.8	14.1	3.3
Asian alone/6.....	11.5	16.0	4.5	11.6	14.6	3.0
Hispanic (of any race).....	20.4	17.2	*-3.2	16.1	13.7	*-2.4

-Represents zero or round to zero.
*Significantly different from zero at the 90-percent confidence level.

1/ Standard errors for these estimates may be found in table RD-REV POV02. The margin of error (90-percent confidence interval) may be computed by multiplying the standard error by 1.645.
2/Details may not sum to total because of rounding.
3/ Data for American Indians and Alaska Natives, and Asian, Native Hawaiian and Other Pacific Islanders are not shown separately.
4/The 2004 and 2005 CPS asked respondents to choose one or more races. White alone refers to people who reported White and did not report any other race category. The use of this single-race population does not imply that it is the preferred method of presenting or analyzing data. The Census Bureau uses a variety of approaches. Information on people who reported more than one race, such as "White and American Indian and Alaska Native" or "Asian and Black or African American," is available from Census 2000 through American FactFinder. About 2.6 percent of people reported more than one race in Census 2000.
5/Black alone refers to people who reported Black and did not report any other race category.
6/Asian alone refers to people who reported Asian and did not report any other race category.

Source: U.S. Census Bureau, Current Population Survey, 2004 and 2005 Annual Social and Economic Supplements.

Table 4.
People and Families With Alternative Definitions of Income Below the CPI-U-RS-adjusted Three-Parameter Poverty Thresholds, by Selected Characteristics: 2003 and 2004

(Counts of people in thousands--290,605 represents 290,605,000. Poverty rates in percentages. People as of March of the following year)

Characteristic	All income levels, 2003	All income levels, 2004	Money income /1			Market income /1		
			Percent below poverty, 2003	Percent below poverty, 2004	Change, /2 2004 less 2003	Percent below poverty, 2003	Percent below poverty, 2004	Change, /2 2004 less 2003
PEOPLE								
Total	**287,699**	**290,605**	**10.4**	**10.6**	**0.2**	**17.3**	**17.6**	**0.2**
Family Status								
In families	238,903	241,153	9.2	9.4	0.1	14.7	14.9	0.2
Householder	76,232	77,019	8.7	8.8	0.1	15.5	15.6	0.1
Related children under 18	71,907	72,164	14.4	14.2	-0.1	17.6	17.4	-0.2
Related children under 6	23,455	23,750	16.9	16.6	-0.3	19.8	19.3	-0.5
In unrelated subfamilies	1,202	1,255	35.0	41.5	6.4	39.4	46.6	7.1
Reference person	509	518	34.1	41.5	7.4	37.8	46.6	8.8
Children under 18	652	675	38.0	42.5	4.5	42.8	47.5	4.7
Unrelated individual	47,594	48,198	15.9	16.1	0.2	30.0	30.1	0.1
Male	23,044	23,442	14.3	14.5	0.1	24.5	24.5	-
Female	24,550	24,756	17.4	17.6	0.2	35.3	35.5	0.2
Race/3 and Hispanic Origin								
White alone or in combination	236,452	238,453	8.7	9.0	*0.3	15.5	15.8	*0.3
White alone/4	231,866	233,702	8.6	8.9	*0.3	15.4	15.7	0.3
White alone, not Hispanic	194,595	195,054	6.7	7.1	*0.4	13.8	14.3	*0.4
Black alone or in combination	37,503	38,016	21.3	21.3	-	29.6	29.7	0.2
Black alone/5	35,989	36,423	21.4	21.4	-	29.8	29.8	0.1
Asian alone or in combination	12,891	13,356	10.3	8.6	*-1.7	13.9	12.5	*-1.4
Asian alone/6	11,856	12,301	10.4	8.7	*-1.7	14.1	12.5	*-1.6
Hispanic (of any race)	40,300	41,888	18.5	17.9	-0.6	23.8	23.4	-0.4
Related Children Under 18								
White alone or in combination	56,971	57,275	11.4	11.7	0.3	14.1	14.2	0.2
White alone/4	54,989	55,239	11.3	11.6	0.3	13.9	14.0	0.1
White alone, not Hispanic	42,547	42,382	7.7	8.1	0.5	9.8	10.2	0.4
Black alone or in combination	11,989	12,006	29.4	28.0	-1.4	35.0	34.3	-0.8
Black alone/5	11,162	11,080	29.7	28.4	-1.4	35.5	34.5	-0.9
Asian alone or in combination	3,279	3,380	10.2	7.7	*-2.5	12.5	10.2	*-2.3
Asian alone/6	2,726	2,839	10.4	7.8	*-2.5	12.9	10.1	*-2.8
Hispanic (of any race)	13,519	13,936	23.7	22.8	-0.9	28.0	26.7	*-1.4
Age								
Under 18 years	72,999	73,271	14.8	14.7	-0.1	18.0	17.9	-0.2
18 to 64 years	180,041	182,121	9.2	9.5	*0.3	12.9	13.4	*0.5
18 to 24 years	27,824	27,972	14.5	15.6	*1.2	17.5	19.4	*1.9
25 to 34 years	39,201	39,307	11.0	10.5	*-0.4	13.6	13.2	-0.4
35 to 44 years	43,573	43,350	8.0	8.2	0.2	11.1	11.2	0.1
45 to 54 years	41,068	41,960	6.4	7.0	*0.6	10.0	10.7	*0.7
55 to 59 years	16,158	16,763	6.8	7.1	0.3	11.6	12.0	0.4
60 to 64 years	12,217	12,769	8.0	8.7	*0.7	18.3	18.7	0.3
65 years and over	34,659	35,213	7.7	7.7	-	38.7	38.4	-0.2
Nativity								
Native	253,478	255,490	9.9	10.1	0.2	17.0	17.2	0.3
Foreign born	34,221	35,115	14.5	14.4	-0.1	20.0	19.8	-0.2
Naturalized citizen	13,128	13,495	8.3	8.1	-0.2	16.7	16.4	-0.3
Not a citizen	21,094	21,619	18.4	18.4	-	22.1	22.0	-0.1
Region								
Northeast	53,608	53,910	9.3	9.8	0.4	16.6	16.6	-
Midwest	64,655	64,743	9.0	9.6	*0.6	15.4	16.4	*1.0
South	103,347	104,878	11.9	11.8	-	19.4	19.6	0.1
West	66,089	67,075	10.5	10.4	-0.1	16.5	16.3	-0.2

Table 4.
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(Counts of people in thousands--290,605 represents 290,605,000. Poverty rates in percentages. People as of March of the following year)

Characteristic	Post-social insurance income /1			Disposable income /1		
	Percent below poverty, 2003	Percent below poverty, 2004	Change, /2 2004 less 2003	Percent below poverty, 2003	Percent below poverty, 2004	Change, /2 2004 less 2003
PEOPLE						
Total	**11.0**	**11.2**	**0.2**	**8.1**	**8.3**	**0.1**
Family Status						
In families	9.8	9.9	0.2	6.8	6.8	-
Householder	9.1	9.2	0.1	6.6	6.6	-
Related children under 18	15.5	15.3	-0.1	10.0	9.7	-0.4
Related children under 6	18.3	17.9	-0.4	12.8	12.4	-0.4
In unrelated subfamilies	37.7	45.1	7.4	32.2	39.1	6.9
Reference person	36.4	45.1	8.7	32.6	40.2	7.7
Children under 18	40.7	46.3	5.6	34.1	39.4	5.4
Unrelated individual	16.3	16.6	0.2	14.0	14.7	*0.7
Male	15.5	15.7	0.2	13.6	14.2	*0.6
Female	17.1	17.4	0.3	14.4	15.1	*0.8
Race/3 and Hispanic Origin						
White alone or in combination	9.0	9.4	*0.4	6.9	7.1	0.2
White alone/4	8.9	9.2	*0.3	6.8	7.0	0.2
White alone, not Hispanic	6.8	7.3	*0.5	5.5	5.7	*0.2
Black alone or in combination	23.0	22.9	-0.1	15.5	16.0	0.4
Black alone/5	23.0	22.8	-0.2	15.6	16.0	0.4
Asian alone or in combination	10.8	9.5	*-1.2	8.1	7.2	-0.8
Asian alone/6	10.9	9.6	*-1.3	8.2	7.4	-0.8
Hispanic (of any race)	20.1	19.4	*-0.7	13.8	13.3	-0.4
Related Children Under 18						
White alone or in combination	12.2	12.5	0.3	8.1	7.9	-0.2
White alone/4	12.0	12.3	0.3	8.0	7.8	-0.2
White alone, not Hispanic	8.1	8.6	0.5	5.7	5.6	-0.1
Black alone or in combination	32.0	30.5	-1.5	20.0	19.3	-0.8
Black alone/5	32.4	30.8	-1.6	20.3	19.7	-0.7
Asian alone or in combination	10.7	8.9	-1.8	6.7	5.1	*-1.6
Asian alone/6	11.0	9.2	-1.9	7.0	5.2	*-1.7
Hispanic (of any race)	25.8	24.6	*-1.2	15.7	14.9	-0.7
Age						
Under 18 years	15.9	15.9	-0.1	10.5	10.2	-0.3
18 to 64 years	9.7	10.2	*0.5	7.7	8.1	*0.4
18 to 24 years	15.5	17.0	*1.5	14.2	15.6	*1.3
25 to 34 years	11.8	11.5	-0.3	9.0	8.4	*-0.6
35 to 44 years	8.7	8.9	0.2	6.3	6.6	0.3
45 to 54 years	6.9	7.5	*0.7	5.2	5.8	*0.6
55 to 59 years	6.8	7.2	0.4	5.5	6.0	*0.5
60 to 64 years	7.2	8.2	*1.0	5.8	6.5	*0.6
65 years and over	6.8	6.5	-0.2	4.9	5.0	0.1
Nativity						
Native	10.3	10.6	*0.2	7.6	7.8	0.2
Foreign born	15.7	15.6	-	11.8	11.6	-0.2
Naturalized citizen	9.1	8.8	-0.3	6.3	6.3	-0.1
Not a citizen	19.8	19.9	0.1	15.2	14.9	-0.2
Region						
Northeast	10.1	10.6	0.5	7.0	7.7	*0.7
Midwest	9.2	9.9	*0.7	7.1	7.4	0.4
South	12.2	12.3	0.1	9.4	9.3	-0.2
West	11.5	11.2	-0.3	8.0	8.0	-

Table 4.
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(Counts of people in thousands--290,605 represents 290,605,000. Poverty rates in percentages. People as of March of the following year)

Characteristic	All income levels, 2003	All income levels, 2004	Money income /1			Market income /1		
			Percent below poverty, 2003	Percent below poverty, 2004	Change, /2 2004 less 2003	Percent below poverty, 2003	Percent below poverty, 2004	Change, /2 2004 less 2003
PEOPLE--Con.								
Work Experience								
All workers (16 years and older).....	151,553	153,024	4.6	4.8	*0.2	6.6	6.8	0.2
Worked full-time year-round....	100,700	102,427	1.9	2.1	*0.2	2.5	2.7	*0.3
Not full-time year-round.....	50,854	50,598	10.0	10.4	0.4	14.7	14.9	0.2
Did not work at least one week...	71,868	73,081	18.5	18.7	0.2	39.1	39.5	0.5
FAMILIES								
Total.....	**76,232**	**77,019**	**8.7**	**8.8**	**0.1**	**15.5**	**15.6**	**0.1**
White alone or in combination....	63,459	64,128	7.0	7.2	0.2	13.8	14.0	0.2
White alone/4.....	62,620	63,227	6.9	7.2	0.2	13.7	13.9	0.2
White alone, not Hispanic.....	54,032	54,388	5.3	5.5	*0.3	12.2	12.4	0.3
Black alone or in combination....	9,131	9,113	20.0	20.4	0.4	28.0	28.3	0.4
Black alone/5.....	8,914	8,908	20.1	20.5	0.3	28.2	28.4	0.2
Asian alone or in combination.....	3,194	3,295	9.3	6.6	*-2.7	12.8	10.7	*-2.2
Asian alone/6.....	3,064	3,155	9.4	6.6	*-2.8	13.0	10.6	*-2.4
Hispanic (of any race).....	9,274	9,537	17.5	17.4	-0.1	23.4	23.4	-
Married-couple.....	57,725	58,118	4.5	4.6	-	10.9	11.0	0.1
White alone or in combination....	50,587	50,887	4.1	4.2	0.1	10.7	10.7	-
White alone/4.....	50,025	50,265	4.1	4.2	0.1	10.7	10.7	-
White alone, not Hispanic.....	44,200	44,300	3.0	3.2	*0.2	9.7	9.9	0.1
Black alone or in combination....	4,259	4,275	6.7	7.8	*1.0	13.2	14.9	*1.7
Black alone/5.....	4,146	4,183	6.7	7.8	*1.1	13.3	15.0	*1.7
Asian alone or in combination.....	2,576	2,649	7.2	4.9	*-2.3	10.8	9.1	*-1.7
Asian alone/6.....	2,497	2,560	7.4	5.0	*-2.4	11.0	9.3	*-1.7
Hispanic (of any race).....	6,228	6,367	12.5	11.7	-0.8	17.9	17.3	-0.6
Female householder, no husband present.....	13,791	14,009	25.4	25.5	0.1	33.6	33.8	0.2
White alone or in combination....	9,245	9,448	21.9	22.3	0.4	29.5	30.5	1.1
White alone/4.....	9,058	9,236	21.6	22.2	0.6	29.3	30.4	1.1
White alone, not Hispanic.....	7,121	7,200	18.5	18.7	0.1	26.0	27.0	1.0
Black alone or in combination....	4,068	4,084	33.6	33.9	0.2	43.1	42.6	-0.5
Black alone/5.....	3,986	3,991	33.7	34.0	0.3	43.3	42.6	-0.7
Asian alone or in combination.....	378	385	22.1	13.5	*-8.6	26.4	17.6	*-8.8
Asian alone/6.....	348	347	22.4	13.2	*-9.1	26.6	15.9	*-10.7
Hispanic (of any race).....	2,138	2,240	33.4	34.9	1.5	41.6	42.7	1.2
Male householder, no wife present..	4,717	4,893	11.8	11.6	-0.2	18.6	18.2	-0.4
White alone or in combination....	3,627	3,813	9.4	9.9	0.5	16.2	16.5	0.2
White alone/4.....	3,537	3,726	9.2	9.8	0.6	16.2	16.2	0.1
White alone, not Hispanic.....	2,710	2,886	7.8	8.7	1.0	15.6	15.8	0.2
Black alone or in combination....	804	754	21.5	19.0	-2.5	29.7	27.3	-2.5
Black alone/5.....	782	734	21.9	19.0	-2.9	30.3	27.2	-3.0
Asian alone or in combination.....	241	261	11.5	14.0	2.5	13.1	16.0	2.9
Asian alone/6.....	219	248	12.5	14.3	1.8	14.1	16.3	2.2
Hispanic (of any race).....	908	930	14.6	14.2	-0.4	18.5	19.1	0.6

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Characteristic	Post-social insurance income /1			Disposable income /1		
	Percent below poverty, 2003	Percent below poverty, 2004	Change, /2 2004 less 2003	Percent below poverty, 2003	Percent below poverty, 2004	Change, /2 2004 less 2003
PEOPLE--Con.						
Work Experience						
All workers (16 years and older).....	5.0	5.3	*0.3	4.1	4.3	*0.2
Worked full-time year-round....	2.1	2.4	*0.3	1.7	1.8	0.1
Not full-time year-round.....	10.7	11.1	0.4	8.9	9.5	*0.6
Did not work at least one week...	18.8	19.1	0.3	14.3	14.6	0.3
FAMILIES						
Total.....	**9.1**	**9.2**	**0.1**	**6.6**	**6.6**	**-**
White alone or in combination....	7.2	7.5	*0.3	5.4	5.5	-
White alone/4.....	7.1	7.4	*0.3	5.4	5.4	-
White alone, not Hispanic.....	5.3	5.6	*0.4	4.2	4.3	0.1
Black alone or in combination....	21.6	21.6	-	14.4	15.1	0.8
Black alone/5.....	21.7	21.6	-0.1	14.5	15.1	0.6
Asian alone or in combination.....	9.3	7.3	*-2.0	7.1	5.4	*-1.7
Asian alone/6.....	9.3	7.2	*-2.1	7.2	5.4	*-1.8
Hispanic (of any race).....	19.0	18.6	-0.3	12.8	12.6	-0.2
Married-couple.....	4.5	4.6	0.1	3.5	3.4	-
White alone or in combination....	4.2	4.2	0.1	3.2	3.2	-
White alone/4.....	4.1	4.2	0.1	3.2	3.2	-
White alone, not Hispanic.....	2.9	3.1	*0.2	2.5	2.5	0.1
Black alone or in combination....	6.8	7.7	0.9	4.9	6.1	*1.2
Black alone/5.....	6.8	7.6	0.9	4.9	6.0	*1.1
Asian alone or in combination.....	7.4	5.7	*-1.8	5.4	4.1	*-1.3
Asian alone/6.....	7.5	5.7	*-1.8	5.5	4.2	*-1.3
Hispanic (of any race).....	13.4	12.4	*-1.0	8.7	7.8	*-0.8
Female householder, no husband present.....	27.1	27.3	0.2	18.5	18.8	0.3
White alone or in combination....	23.0	23.9	0.9	16.4	16.6	0.2
White alone/4.....	22.8	23.8	1.0	16.2	16.5	0.3
White alone, not Hispanic.....	19.1	19.9	0.8	13.9	13.7	-0.2
Black alone or in combination....	36.7	36.2	-0.5	23.4	24.7	1.3
Black alone/5.....	36.8	36.3	-0.5	23.5	24.7	1.2
Asian alone or in combination.....	21.2	13.7	*-7.5	17.2	9.9	*-7.3
Asian alone/6.....	21.3	13.3	*-8.0	17.4	9.4	*-8.1
Hispanic (of any race).....	36.7	37.9	1.2	24.8	26.5	1.6
Male householder, no wife present..	12.4	12.5	0.1	10.3	9.7	-0.6
White alone or in combination....	9.9	10.6	0.7	8.2	8.4	0.2
White alone/4.....	9.8	10.4	0.7	8.1	8.3	0.1
White alone, not Hispanic.....	8.1	9.3	1.2	6.9	7.4	0.5
Black alone or in combination....	23.3	21.1	-2.2	18.7	14.8	*-3.9
Black alone/5.....	23.7	21.2	-2.5	19.1	14.7	*-4.4
Asian alone or in combination.....	10.1	13.8	3.7	10.1	12.4	2.3
Asian alone/6.....	10.8	14.1	3.3	10.8	12.8	2.0
Hispanic (of any race).....	15.6	14.8	-0.8	12.4	11.3	-1.1

-Represents zero or round to zero.
*Significantly different from zero at the 90-percent confidence level.

1/ Standard errors for these estimates may be found in table RD-REV POV02 RS. The margin of error (90-percent confidence interval) may be computed by multiplying the standard error by 1.645.
2/Details may not sum to total because of rounding.
3/ Data for American Indians and Alaska Natives, and Asian, Native Hawaiian and Other Pacific Islanders are not shown separately.
4/The 2004 and 2005 CPS asked respondents to choose one or more races. White alone refers to people who reported White and did not report any other race category. The use of this single-race population does not imply that it is the preferred method of presenting or analyzing data. The Census Bureau uses a variety of approaches. Information on people who reported more than one race, such as "White and American Indian and Alaska Native" or "Asian and Black or African American," is available from Census 2000 through American FactFinder. About 2.6 percent of people reported more than one race in Census 2000.
5/Black alone refers to people who reported Black and did not report any other race category.
6/Asian alone refers to people who reported Asian and did not report any other race category.

Source: U.S. Census Bureau, Current Population Survey, 2004 and 2005 Annual Social and Economic Supplements.

Chairman RANGEL. Mr. Neal is not here. Mr. Lewis is here, Mr. McNulty, then Mr. Becerra.

I called his name first, Mr. Lewis, and then——

Mr. LEWIS OF GEORGIA. Thank you very much, Mr. Chairman.

Let me thank members of the panel for being here this morning.

We are about a year and a half out from Katrina. I would like to know—I don't think the President of the United States last night in the State of the Union mentioned Katrina at all. When you saw hundreds and thousands of Americans struggling to survive in New Orleans a year and a half ago, what came to your mind? Was it race or poverty? What happened in New Orleans, could it have happened in any other American city? Could it happen in New York or Boston or someplace else?

Dr. JONES. I think for us in New York there is no question. We knew that a catastrophe of this sort in New York would lead to very much the same thing. People were asking why people were carrying things on their back out of their homes. There is no—when we survey people of how much income reserves they have in their whole household, most of them report they have less than $100 in total reserve. Their furniture is it. So, I didn't see the outcome being much different for—at least as I looked through New York and some of its neighborhoods. There is no cash in these neighborhoods. There are no reserves. Any kind of disaster like that will wipe people out immediately. There is no backstop.

Mr. LEWIS OF GEORGIA. Other members of the panel?

Dr. KNITZER. Yes. I think it really focuses on the importance of the development of assets and individual development accounts and children's development accounts and building up the reserves of some of these families.

These are families, even at the low-income level, twice the poverty level, who are one or two crises away from this. When you don't have any public transportation, as New Orleans didn't and the South didn't, it is very difficult for these families to survive.

Mr. LEWIS OF GEORGIA. Other members?

Dr. HOLZER. Even before Katrina, poverty rates in New Orleans were very high, employment levels were low. A lot of the issues, a lot of the costs that we have been talking about were there. It just means that those families were so much more vulnerable when the disaster occurs.

I think it also indicates that even in many cities around the country predisaster they need to increase the employment levels; and once we include some employment and earnings and skills, presumably assets would rise and people would be less vulnerable to these potential catastrophes.

Mr. LEWIS OF GEORGIA. Other members of the panel would like to comment?

Mr. Jones, let me just ask you, does the unbelievable economic condition of many African American males in our large urban centers and maybe in rural areas prompt them not readily to get married because they cannot support a family?

Dr. JONES. Again, I am more of a practitioner than a researcher.

Mr. LEWIS OF GEORGIA. People get married, I believe, because they fall in love and they get married. I am not so sure the Government should be in the business of trying to force people to get married if you are not in love.

Dr. JONES. This is my personal sense. I am very nervous about trying to legislate morality. I have worked in the corporate sector.

I have worked for one of the largest law firms in America. I have worked in Government. I see morality being about level across groups. It is a little more difficult when you don't have any money, but for suddenly us to start imposing our value system because people are poor is a little insulting, to say the least.

If you read the history—and we do; I go back 160 years—this is very similar to the discussion of the Irish in New York and the condemnation by the Herald Tribune that they weren't quite human because they didn't seem to marry and they drank a lot. Don't do this again just because these groups happen to be on their uppers and they don't have enough reserves.

So, I am very concerned more about that 170,000, 200,000 young men and women who have no jobs, no skills and no education who are being pumped into New York and other societies and then we start wondering about a lot of single parents because there is no incentive to marry someone who is not working and not in school.

So, there—I think there is a lot of stuff here that it can't be just dictated here. I would rather focus on the things that we can work on, which is getting people skills, education and support, rather than getting into their morality.

Mr. LEWIS OF GEORGIA. Thank you.

Thank you, Mr. Chairman.

Chairman RANGEL. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman; and thank you all for your testimony.

Let me ask a quick question; and, Mr. Jones, perhaps you can answer this best.

Minimum wage, we are talking about—I am over here——

Dr. JONES. I am sorry. I am not good—my kids make fun of me because I can't track.

Mr. BECERRA. The minimum wage, $5.15 an hour today, hasn't been increased in 10 years. It is by far the lowest it has been since the 1960s. What effect would an increase to the modest amount of $7.25 an hour by 2008 or '09 have on those 37 million people who we say are living in poverty?

Dr. JONES. This is where it gets a little separate from New York. I can say what we have seen as we have moved toward minimum wage, it does have a boost, particularly on that category of workers—when we have—start looking at security guards at 63,000, you started to see inching up of their wage rate. It does have an impact.

What seems to be a very little for us can be the difference in terms of someone holding on by their fingertips to some kind of rental housing. So, I don't think it is something to be dismissed. I think a move toward minimum wage is something that we have to, at least coming from what I am trying to serve, we support.

Mr. BECERRA. I am sympathetic to what you are saying, because, coming from Los Angeles, where our minimum wage is above $7.25 an hour today, obviously, in an urban area that is as costly as New York or Los Angeles, you wouldn't be able to live on $7.25, let alone $5.15.

Let me ask another question; and perhaps, Dr. Holzer, you can answer this one.

The President has enacted several tax cut measures since 2001. My understanding is that, so far, we have seen about $2 trillion in the tax cuts that have gone out. For the 37 million people who are living in poverty that we are talking about and the 9 million or so of those 37 million being children, how much have they received in those $2 trillion in tax cuts that this Congress has enacted for President Bush?

Dr. HOLZER. I don't know the exact numbers on that. I think we do know that 40 to 50 percent of the dollars in tax cuts of the top 1 percent of the earnings distribution; there have been, also been cuts at the bottom, and there was an expansion of the child tax credit that did provide some benefits to low-income people.

Mr. BECERRA. That was actually a proposal proposed by the Congress, not so much the President.

Dr. HOLZER. Most of us thought that was a good thing.

So, there are some pieces of the tax cut I think that are more beneficial than others, but a lot of dollars have been thrown to the very top end, and I think the unanimity on this panel really that there are some investments—no one is talking about throwing cash at low-income people. We are talking about investments to improve people's skills, improve their connections to the labor market and create better incentives for work. A good chunk of that money I think could have been better spent on the kinds of initiatives that all of us here support.

Mr. BECERRA. Thirty-seven million people in poverty in America. That is 13 percent or so percent of our population. Is it fair to say that less than 13 percent of the tax cuts went to those 37 million people?

Dr. HOLZER. Yes, I believe so.

Mr. BECERRA. Let me ask this. In terms of the definition—and this I will ask Mr. Nilsen—the definition of poverty and the discussion that took place with Dr. Haskins, can you tell us what your examination of this issue leads you to conclude if we were to examine what the National Academy of Sciences said about the definition of poverty and what would happen to people in their classification as living in poverty if we changed the definition?

Mr. NILSEN. Most of the research we looked at used the current definition of poverty; and, as Mr. Haskins said, there is a lot of controversy over that definition because it was developed in 1965 and largely has just been indexed for inflation.

In the 1990s, the National Academy of Sciences issued a report, 1995, that suggested some changes to the measurement of poverty, as Mr. Haskins said, add in other benefits as income that people get, like the EITC, food stamps and other things.

The other thing their proposal did was to adjust downward for taxes like Social Security that people paid, other costs of employment, transportation, child care and other things and also index it or change it for the cost of living in various geographic areas.

Mr. BECERRA. What was the net result?

Mr. NILSEN. The net result of this was raising the proportion of the population in poverty. I have some statistics from 1998, and I think the latest Census Bureau report from 2003 shows about the same thing, poverty went up from about 12.7 percent to about 14 percent.

Mr. BECERRA. Thank you. I appreciate that.

Thank you, Mr. Chairman. I yield back.

Chairman RANGEL. Thank you.

Mr. Ramstad.

Mr. RAMSTAD. Thank you, Mr. Chairman; and thank you for holding this hearing, Mr. Chairman, on these very compelling issues.

I have always thought that one of the most noble objectives of the public sector—or the private sector, for that matter—is to reduce childhood poverty and the corresponding hunger, childhood hunger.

Before I got into public service back in the late 1970s, I co-founded a major food bank in Minnesota in the Twin Cities and have worked in the food bank network for 27 years, and nothing grabs me more than——

Chairman RANGEL. Gentlemen, the bells indicate that we have two votes, which means there will be 20 minutes. We will have 10 minutes to stay here. Could the members who haven't inquired indicate how many are willing to come back after the votes? Okay. Could I ask the witnesses after this query to stay for another 20 minutes after? I really appreciate that.

I am sorry to interrupt.

Mr. RAMSTAD. Not at all, Mr. Chairman.

Nothing bothers me more than to hear what is commonly accepted by the—I think it is the consensus of the studies that show at least 3 million children in America go to bed hungry every night. So, I appreciate the attention that is being brought to this issue, the focus that we are bringing here today, and I certainly appreciate the five experts on this panel.

I would like to direct the question to you, Dr. Holzer. In trying to find a solution, I think we have reduced childhood poverty somewhat through welfare reform, and we can debate that, but I think the indices of poverty have improved. I want to focus on a more narrow issue. In your testimony, Dr. Holzer, you mentioned that faith-based initiatives can play a key role in reducing childhood poverty in concert with other—other factors. Can you elaborate on the types of faith-based initiatives that you believe are effective, again in combination with other policies, to reduce childhood poverty?

Dr. HOLZER. Well, I would like to offer a friendly amendment to the summary of what you said. I listed faith-based initiatives as being one of many options that potentially could be useful in this area. I don't think—to my knowledge, I haven't seen rigorous evaluation evidence of faith-based programs. I think they might potentially work, certainly with certain disadvantaged populations like ex-offenders and the need to reintegrate them into society, or young people, young men at high risk of dropping out or who have already dropped out and we are trying to reintegrate them perhaps before they become incarcerated.

I believe there is much potential for faith-based programs to provide assistance there as well as many non-faith-based programs. There is a role at the table. I would like to see those roles evaluated, among many others.

Mr. RAMSTAD. I haven't studied it in a macro sense, as you experts have, but I certainly anecdotally know I can attest to what you state.

Thank you very much for your response and all of you for your testimony this morning; and, Mr. Chairman, I would like to yield to our ranking Member.

Mr. MCCRERY. Thank you.

Mr. Jones, I just want to make it clear that nobody here today has talked about the value of marriage as it relates to poverty in moral terms. I certainly don't. That is not my point at all.

I am looking at data that has been prepared by you and—not you, but Dr. Holzer and others over the years that clearly indicate an advantage to two-parent families. You go down—repeated grades, suspended from school, delinquency, violence, therapy and attempted suicide—in every instance, the rate of incidents among those from one-parent families as opposed to two-parent families is double, or 50 percent higher.

So, we are just—we would like to work with you and others who have experience in the field and try to find ways that we could maybe make it more attractive to young men—or to couples—to get married. We do that through the tax system, we do that through programs, faith-based programs and others. That is all I am asking, is work with us here.

Dr. JONES. I absolutely will, Congressman. I don't disagree that I like married couples in my communities. I just want to set the preconditions so that is possible. I don't think we have a fundamental difference.

Mr. MCCRERY. No debate. We can't force people to get married and shouldn't. If we work together maybe we can find ways to make it more attractive.

Dr. JONES. I am very willing, sir.

Chairman RANGEL. Mr. Pomeroy.

Mr. POMEROY. Thank you, Mr. Chairman, for this hearing. It has been a topic we haven't talked about, I believe, during the entire time I have been on the Committee on Ways and Means as a focused matter of the hearing. We heard a lot about, have seen a lot of fancy statistics about this economy, but I believe that poverty has not come under the focus that you brought, Mr. Chairman. I appreciate it.

My time is very short, so I just ask a single question. The President last night indicated that we couldn't address health care reform without the Tax Code. I would like to basically take up, play off of that and talk to you about poverty and the major assault this Congress needs to have against poverty. Is that through the Tax Code or is it through funding programs that provide assistance?

My sense is that—and I have supported EITC in the past, and I continue to believe strongly in it. I think it is somewhat ineffectual, not nearly as effective as direct program—as a matter of fact, we have a lot of people in the poverty ranks not filing and are not in taxable circumstances because of their low income.

So, as you talk to the Ways and Means, the tax-writing Committee, where would you counsel us in terms of an assault on poverty—the Tax Code or the appropriations process or both? If so, what aspects should we look at in this Committee?

Thank you.

Dr. HOLZER. I would differ a little bit with your presumption that the EITC hasn't been effective. Remember, the EITC is a refundable tax credit, so even with people with no Federal tax liability benefits, I think the evidence—I think all of us agree the evidence is overwhelming that it has improved work incentives and has helped direct income. So, I think the EITC, especially on this Committee, ought to be on the table and can be expanded in a number of ways.

Mr. POMEROY. I just want to clarify. I have supported the EITC, continued to. It hasn't worked as perfectly as I would have liked, the number of people who are eligible who haven't claimed credit. That is my only point of reservation with it.

Dr. HOLZER. I think the take-up rates in low-income families are relatively high right now, and a lot of mechanisms have been developed. H&R Block going into communities and making them more aware of the potential. I think the EITC can be a very potent force for improving work incentives for people outside the system right now.

Having said that, there are other programmatic efforts as well to help prepare people, pre-K programs that all of us have talked positively about, programs in the schools, et cetera, that ought to be—I don't know we think it ought to be an either/or choice. I think the EITC is a very important mechanism. There are others as well.

Chairman RANGEL. We will recess for 15 minutes.

[Recess.]

Chairman RANGEL. If the Committee will come to order, we are going to start with Mr. Blumenauer.

Unfortunately, there are going to be additional votes; and so, if Members do come back, we will be able to hear from them. We can start, and we will be here as long as we can, but the next recess would have to be an adjournment because of the voting records.

Mr. Blumenauer.

Mr. BLUMENAUER. Thank you. Thank you, Mr. Chairman; and I appreciate your focus on poverty for the Committee.

I would like to—if I could just pose two questions to the panel and seek at some point your feedback. There isn't time to hear from you all, for which I apologize, but I would like to at least put on the table two concepts.

One, there is evidence that investment in some of the programs that you all have mentioned, we can quantify returns. I have heard, for example, early childhood, that the return can be up to seven to one or more for each dollar invested. We know that there are programs dealing with children's health that are remarkably productive.

What I would hope is that you might reflect for us and provide either to the Committee, or at least me, observations you have about the capacity we have to capitalize on the savings, how we might advance-fund some of the problem, some of these issues that relate to poverty.

I have been struck that when it comes to the physical infrastructure that we are very good at capturing value. Tax increment financing has helped revitalize communities because we know that there is going to be value that is captured and we have certified,

smart people in the financial community who have enough confidence that they can identify, capture and have that increment returned.

Now part of it is how we design bond instruments. People are pretty sophisticated about that. There is a moral obligation to repay. Certificates of participation are building physical infrastructure across the country without really having general obligation bonds, for instance. I wonder if you could reflect and perhaps provide to me and the Committee areas where such early investment might have the greatest potential for long-term savings.

If you have some thoughts about mechanisms that we might employ to enforce the fiscal discipline that we have with fiscal, with—excuse me, with physical infrastructure, to do it with our human infrastructure.

If at some point you want further elaboration from me, my staff or I will be happy to follow up with you. I have had these conversations, for example, with Governor Corzine thinking that might be really great, somebody with his background, Goldman Sachs, Governor of New Jersey now facing these issues, that there might be some folks who can help us explore this.

My second question deals with the notion that the poor pay more. It is not just putting money in their hands. I was struck, Mr. Jones, with your point about the security guards, people who are gainfully employed, but they are working for $7, $8, $9 an hour. They can't afford health insurance. Yet in New York I would venture to say they are probably the only people who are paying full retail if they have got an appendectomy, that people with health insurance pay less—not just because the insurance pays it, but the rate that is charged for the operation is a fraction of what this poor person or this working poor person pays.

The reference of the EITC, I agree, terrific boon for the working poor and near poor, but we have people who have abused the poor in terms of how that is exploited, and they pay more of a percentage of their income for very simple returns than people with complex returns who are very wealthy.

I could go on. There are studies that show the poor pay more for a gallon of milk; they pay more on a capital basis for inferior housing.

I would love to have your guidance in some feedback for policy changes we could consider to deal with the phenomena that the poor and 100 million who are struggling for the middle class actually end up paying more for transportation, for housing, for health care, for mortgages, they get steered to sub-prime lending, that you might help us think about ways with no new subsidy we could help the poor and near poor squeeze more out of their investment.

Mr. Chairman, I appreciate your indulgence, but these are two areas that I would love to work on with you and the Committee that would actually help them get more without spending more tax dollars.

Chairman RANGEL. Very well-framed questions. I hope that the panel would share their responses with you, with the ranking Member and me.

We have a 15-minute vote, and so what I would like to do is to give 2 minutes to the people that have come back—Mr. Tiberi, Mr.

Davis and Mr. Weller—2 minutes apiece because we have to adjourn.

Mr. Tiberi.

Mr. TIBERI. Thank you, Mr. Chairman.

Dr. Holzer, I will be brief. How do you determine or what does it mean to grow up poor for the purposes of your report?

Dr. HOLZER. Different studies define that in different ways. What most of us did is we took a variety of studies that either looked at an individual point in time, say on crime, if you are growing up in a family below the poverty line or in the bottom 20 percent of the income distribution, what is the greater likelihood that you will engage in criminal activity? So, there are some studies that do it that way.

There are other studies, more on the earnings side, that look at, on average, the fraction of years your family spent below the poverty line in your childhood years or your average family income averaged over many years and whether that income averaged below the poverty line or not.

So, different studies do it in different ways.

Mr. TIBERI. So, if I—just a quick question. If I grew up in a household where I was eligible for the free and reduced lunch program in a public school in Columbus, Ohio, would that be defined as poor?

Dr. HOLZER. I don't know the particular details of that program.

Again, most of these studies either used the poverty line or the bottom decile or quintile of incomes distribution.

Mr. TIBERI. Anyone else?

Dr. HASKINS. Well above poverty, school lunch is well above poverty.

Chairman RANGEL. Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman.

Dr. Holzer, I direct this question to you. One of the reasons I think we tend to get bogged down in the debate we had early in the morning about the impact of culture versus the impact of policy is because we tend to presume that a large number of people who are poor in this country, that it is a fixed identifiable class of people, it is the same people over a period of time; and I wonder if that is accurate.

I am going to ask you a quick question. What percentage of people in poverty have been in that condition for more than say 18 months?

Dr. HOLZER. I don't know the answer off the top of my head. Ron might.

Dr. HASKINS. I will send you a study. There is one very good study based on, roughly speaking, about if you are in poverty at a given point about half the people are out within 18 months.

Mr. DAVIS. The relevance of that, actually, I think undercuts a lot of the points that you were making earlier, Dr. Haskins. If we have way too permeable a border between class in this country and too many people keep slipping from middle class into poverty, it strikes me we need to figure out policy that is very targeted toward closing those portals.

Second point, the data—if I am reading this correctly, 28 percent of people who have some level of postsecondary education or higher end up below the poverty line. I am sure some of those people are becoming alcoholics or developing mental illness or something such as that, but that is presumably a narrow class of people.

Do any of you want to quickly comment? What does this say about our—a very basic thing. We are getting people into college, they are dropping out of college, and this is an amazing number to me. Any of you want to comment on that?

Dr. JONES. I can only talk from the New York experience. The community college system is really showing an incredible attrition rate. People are coming in on the front end; and, interestingly enough, it is not necessarily their level of educational attainment as they come in. The economics make it impossible for them to stay in place.

That seems to be the big driver. They come in, they try to get set, and then they can't sustain it economically.

Chairman RANGEL. Mr. Weller.

Mr. WELLER. Thank you, Mr. Chairman; and I commend you for conducting this hearing.

The question you had asked earlier on is, we are looking for ideas that work. I would note that welfare reform, which was a product of this Committee, a bipartisan effort passed by a Republican Congress, signed into law by a Democrat President, was a bipartisan product. Dr. Haskins, of course, played a big role in that. Today, 1.4 million fewer children are living in poverty because of welfare reform. So, clearly, the initiatives in that were successful; and I hope we can build on that.

Earlier, we had a discussion regarding marriage, two-parent households and the difference that makes. There is an interesting statistic here today about 36.2 percent of all households in America are headed by a female-headed household, single parent, but they represent 61 percent of all the families living in poverty today.

There was a discussion earlier where one of the panelists made the comment that if we encourage marriage as part of our policy, we are somehow imposing our moral values on others. I, for one, believe it is a good idea to encourage the father of a child to take responsibility, because personal responsibility is a good thing if we are going to rebuild families and rebuild communities and bring children out of poverty.

Dr. Haskins, what are—the States are innovative laboratories. What are some of the ideas out there that appear to be working, whether in the District of Columbia or elsewhere in the States, where there are initiatives which are actually encouraging the father to take responsibility and to provide a two-parent household, whether they are living together in holy matrimony or just living together so Mom and Dad are in the same home providing a loving home for that child and helping to lift them out of poverty? What is working out there?

Dr. HASKINS. Five seconds. Two things that are interesting—there are many, many, many, but two interesting things. One is that the District of Columbia is establishing accounts that if young couples, they can save money and they get a match and if they get married and stay married for a certain period of time they get to

have the match for the money. So, it is an inducement. It doesn't force them to do anything, but it is an inducement to marry.

A second thing is that there is definitely a marriage penalty, very good research on this now from the cash programs, not the EITC but from the cash programs. So, the District was about to implement a program that Mayor Williams had worked out with Brownback in which the mother would get a year's worth of benefits if she got married.

So, let's say she is getting $3,000 in cash from TANF. If she got married normally, she would lose that money. She would get a check for $3,000.

Unfortunately, we are not going to be able to do that, because it is going to be cut in the appropriations process. That is the kind of thing that the States are looking to do.

Mr. WELLER. Thank you, Doctor.

I realize I am limited on time. Thank you, Mr. Chairman.

Chairman RANGEL. Mr. Meek.

Mr. MEEK. Thank you, Mr. Chairman.

I want to thank all of our witnesses for coming before us, and I am glad that we are talking about poverty in America.

We know that we have poverty throughout the world; and to be able to move this issue forward, in my opinion, we have a great challenge, because to do anything about poverty—we have already made the statement as a Congress in a pay-as-you-go kind of rule that we have adopted here is to live within our means; and if we are going to do something new, how are we going to pay for it? Looking at it from that light—and then we have this war that is costing quite a bit of money, that is kind of getting the benefits of poverty in rural and urban America of individuals enlisting to get—to be able to get a higher education, to be able to go into the area of providing money for their family.

I am of the belief for those States—as we passed this devolution of taxation down to the States and they are having to balance their budgets, tuition rates go up. That makes it even more difficult for those that are financially challenged in our country to be able to make ends meet.

I just want to hear from a few of you on the panel how you believe we can move towards not only discussion but action here on Capitol Hill of finding the dollars—where are we going to get it from—to be able to resolve some of the issues that we are facing?

One of you mentioned—and I am sorry, opening statements, it was like 2 hours ago—mentioned the EITC. How do we continue to add on to that and where do we get the money from? That is the question. We know we have the super-wealthy getting the big breaks right now. What amount of money can be moved from those areas to be able to help us with our poverty issues, especially in U.S. cities?

I thought that was a softball.

Dr. HASKINS. Ignoring political feasibility, there are many, many programs that have been shown by evaluations not to produce good results. I will mention one right off the bat is title 1.

Now it is under—congressional rules get in the way here, because it is not under your jurisdiction, but title 1 is billions of dol-

lars every year that—and, I don't know, hundred and maybe 200 billion dollars have been spent since it was enacted in 1965, and their evaluation after evaluation after evaluation, no effects.

Another program that enjoys very weak political support are farm subsidies. Now we spend something like $25 billion a year on farm subsidies, and as far as I can tell there are no—very few positive effects and lots of negative effects.

So, the point is, in this era of budget scarcity, we are going to have to cut programs in order to invest the money more productively; and that is what we should do.

Dr. HOLZER. I would add also two options. One is to save money on other expenditures that Ron emphasizes and there is generating more revenue, and allowing the tax breaks at the very high end of the income spectrum to expire would generate some revenue.

Dr. HASKINS. I swore on a stack of Bibles I would never say that.

Dr. HOLZER. I am sure.

Mr. MEEK. I see the red light is on. That is the quickest 5 minutes. I don't know if we are going by 5 minutes, Mr. Chairman.

Chairman RANGEL. No, 2.

Mr. MEEK. Oh, 2. I am sorry. I thought it was—okay.

Chairman RANGEL. We do that for members who had to vote.

Mr. MEEK. I thought it was because I was on the bottom row here. I am just joking.

Thank you, Mr. Chairman. I am glad that the Chairman said we are going to continue this discussion, because this is a square table kind of discussion, and we are going to have to make some decisions, and we are going to have to have some results.

So—I am sorry, Mr. Nilsen. You wanted to say something?

We have to have some results, and I am along the lines of thinking where can we get the money and make the justification to the American people and to the Congress?

You talk about the political will to be able to change some things that are not working, to be able to identify those dollars that are already in the pool. I believe it will be much more difficult to—maybe in the 109th Congress you could step out and borrow money from foreign nations to pay for programs here and even put us further into debt. Since we don't have—we don't want to do that, we have to find within what is not working and do the tweaking that we need to do that is going to make the ultimate change in rural and urban America and in suburbia.

This is where the rubber meets the road, and I am excited about being here part of this discussion. I am looking forward to not only receiving more information from you all, but future meetings maybe in a workshop setting that the Chairman has already spoken of on a bipartisan basis would be able to help us make conclusions to get ourselves out of this situation. As long as Iraq is going on, there is going to continue to be a major sucking sound, pulling the will or the means to be able to carry out a way to work towards some sort of resolution on poverty in America.

Thank you, Mr. Chairman. I yield back.

Chairman RANGEL. Mr. McCrery.

Mr. MCCRERY. No more questions. Thank you very much, panel, for coming.

Chairman RANGEL. Well, this is just the beginning. I hope that all of you will share with us—and we will contact you—anything you can think of that will show the economic impact on the economy. We have to think differently. This is not a moral or spiritual thing. It is for the national security of our great country. Since we find the economists know how to do things creatively, we are going to have to get everybody on the same page, because an emergency is an emergency and we have to deal with it.

I can't thank you enough for the expertise that you brought to this. I apologize for the votes on the House floor interfering with this hearing, and I would want the record to remain open for at least 2 working days for the other members to get their statement in the record.

Please feel free to get in touch with me and the ranking Member if you come up with anything that you think that could be helpful to us.

This meeting will stand adjourned.

[Whereupon, at 12:45 p.m., the hearing was adjourned.]

[Submissions for the Record follow:]

Statement of Child Welfare League of America

The Child Welfare League of America (CWLA), representing public and private nonprofit, child-serving member agencies across the country, is pleased to submit testimony to the Ways and Means Committee this morning. The issue of the economic and social costs of poverty to our country is one that deserves a great deal more attention than it has received in recent years. The attention of this congressional committee and the priority that Chairman Rangel has placed on this issue is greatly appreciated and is to be commended. We look forward to working with you on this and related issues in the coming months.

Parents and other caregivers require certain economic resources to provide their children with proper nutrition, adequate housing, and sufficient health care. Although economic resources provide no guarantee of a child's healthy development or well-being, poverty is correlated with a wide range of negative outcomes that begin in childhood and can forever impact a child's future.[1] Children raised in poverty are likely to experience more risks and have fewer protective factors and resources than children living above the poverty threshold.[2]

Many children raised in poverty begin their lives at a disadvantage because of inadequate prenatal care, poor maternal nutrition, or birth complications. They often also face a wide array of familial and other environmental obstacles, including low levels of parental education, increased levels of familial stress, poor social support, and limited community assistance. Compared with other children, children living in poverty are more likely to experience difficulty in school and have a higher high school drop-out rate. Poverty during early childhood may be more damaging than poverty experienced later in life because much of the foundation for learning is built in the early years. Poor children score lower on measures of vocabulary, language skills, understanding of number concepts, organization, and self-regulation. In addition, children living in poverty are more likely to become teen parents, and, as adults, earn less and be unemployed more frequently.[3]

CWLA believes that as a country we must confirm our commitment to prevent child abuse and neglect and to support children who have been abused and neglected. A fundamental building block to reaching this goal is to tackle poverty head-on.

POVERTY AS A NATIONAL ISSUE

In August 2005, for a brief moment, the Nation's attention was focused squarely on the issue of poverty in America. Everyone's eyes were glued to their television

[1] Lieberman Research Worldwide. (1999, April). *Assessing public opinion and perceptions regarding child abuse in America: Final report.* Prepared for the Child Welfare League of America, Washington, DC.

[2] Parker, S., Greer, S., & Zuckerman, B. (1988). Double jeopardy: The impact of poverty on early child development. *The Pediatric Clinics of North America, 35*(6), 1227–1240.

[3] Ibid.

screens as the levees broke in New Orleans, Louisiana, and significant tragedy unfolded. Images of individuals and families trapped by floodwaters and testimony of those mourning the loss of loved ones, homes, and personal belongings destroyed any ideas of poverty as merely an illusion. This attention was unfortunately fleeting, however, and the commitments that had been made to address the poverty issue quickly faded.

In fact, if you were living in Washington, DC, on that August 2005 day, you might have attended a forum hosted by the prestigious Brookings Institute that included a panel discussion interpreting the meaning of the new census data on poverty. As has been the case in other discussions and in other forums over the last several years, much of that discussion focused on how we measure poverty and whether or not it is as severe as some would argue. We will not continue that debate here because, in our view, poverty is severe and the United States is not doing enough to combat the issue.

CWLA sees poverty as a serious matter that impacts individuals across the country and shapes the direction we are headed as a nation. Poverty touches on our economic preparedness, the effectiveness of our schools, the health of our Nation, and—most significantly to CWLA—the welfare of our Nation's children.

In 2005, the national poverty rate stood at 13%.[4] For children under the age of 18, the poverty rate was higher at 18%, which meant that approximately 12.8 million of our Nation's children were being raised in poverty.[5] For children under the age of 5, the percentage was even higher at 21%.[6] One out of five children in the critical child developmental period of 0 through 5, then, live in poor conditions that will certainly affect their chances at future success and well-being.

POVERTY AND CHILD ABUSE

According to the CWLA Standards of Excellence for Services for Abused or Neglected Children and Their Families, neglect is defined as "Failure of parents or other caregivers, for reasons not solely due to poverty, to provide the child with needed age-appropriate care, including food, clothing, shelter, protection from harm, supervision appropriate to the child's development, hygiene, education, and medical care."

In 2004, the most recent data available, an estimated 3 million children were reported as abused or neglected and received an assessment or screening to determine whether or not there was evidence of abuse or neglect. Approximately 872,000 children were substantiated as abused or neglected.[7]

Of the 872,000 substantiated cases of abuse or neglect, 62.4% of these children experienced neglect, 17.5% were physically abused, 9.7% were sexually abused, 7% were psychologically maltreated, and 2.1% were medically neglected. Nearly three-quarters (or 72.9%) of child victims age 0 to 3 years were neglected—higher than any other age category.[8]

In 1996, the U.S. Department of Health and Human Services released the Third National Incidence Study (NIS) of Child Abuse and Neglect. The NIS is a congressionally mandated, periodic research effort to assess the incidence of child abuse and neglect in the United States. The fourth study is currently underway. The NIS gathers information from multiple sources to estimate the number of children who are abused or neglected and to provide information about the nature and severity of the maltreatment, the characteristics of the children, perpetrators, and families, and the extent of changes in the incidence or distribution of child maltreatment since the previous NIS.

In the 1996 study, a significant correlation was found between the incidence of maltreatment and family income. It found that 47% of children with demonstrable

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[4] U.S. Census Bureau, 2005 American Community Survey. (2005). *Data profiles: Selected economic characteristics.* Retrieved January 23, 2007, from http://factfinder.census.gov/servlet/ADPTable?__bm=y&-geo__id=01000US&-qr__name=ACS__2005__EST__G00__DP3&-ds__name=&-redoLog=false&-format. Washington, DC: Author.

[5] Ibid.

[6] Ibid.

[7] U.S. Department of Health and Human Services, Administration on Children, Youth, and Families. (2006). *Child maltreatment 2004 (Table 2–1).* Retrieved January 23, 2007, from www.acf.hhs.gov/programs/cb/pubs/cm04/index.htm. Washington, DC: U.S. Government Printing.

[8] U.S. Department of Health and Human Services, Administration on Children, Youth, and Families. (2006). *Child maltreatment 2004.* Retrieved January 23, 2007, from www.acf.hhs.gov/programs/cb/pubs/cm04/index.htm. Washington, DC: U.S. Government Printing.

harm from abuse or neglect and 95.9% of endangered children came from families whose income was less than $15,000 per year.[9]

Children from families with annual incomes below $15,000 as compared to children from families with annual incomes above $30,000, were over 22 times more likely to experience some form of maltreatment that fit the study's harm standard and over 25 times more likely to suffer some form of maltreatment as defined by the endangerment standard.[10]

Children from families in the lowest income bracket were 18 times more likely to be sexually abused, almost 56 times more likely to be educationally neglected, and over 22 times more likely to be seriously injured from maltreatment than children from higher income families.[11]

The stress created by living in poverty may play a distinct role in child abuse and neglect.[12] Parents who experience prolonged frustration in trying to meet their family's basic needs may be less able to cope with even normal childhood behavior problems. Those parents who lack social support in times of financial hardship may be particularly vulnerable. Parents who are experiencing problems with employment are frequently rated by child protective services staff as being at moderate to high risk of child maltreatment.[13]

POVERTY AND KINSHIP AND FOSTER CARE

These findings suggest that we could help alleviate the flow of children into other parts of the child welfare system by addressing the core issue of poverty. For those children who are in care, the challenges and the issue of poverty are no less significant. As of September 30, 2004, 509,662 children were in foster care in the United States.[14] Foster care, when it is the most appropriate service for a child, should provide a child with protection, care, and nurturance for a temporary period of time while services are provided to the child's parents in order to deal with the problems that led to placement.

When a child cannot remain in his or her own home, it is critical that the child welfare system work to provide that child with permanence. All children deserve to be a part of, or have a connection with, stability and families that are intended to be permanent. Family foster care and foster care services should emphasize safety and the well-being of children; recognize that the family is a fundamental foundation of child rearing; and acknowledge the importance of a comprehensive, child-centered, family-focused, culturally competent approach. To fulfill their vital role, then, public child welfare agencies need to ensure that children in care are protected and cared for and that they receive the services they need. The agency should also ensure that the families of the children in care receive services directed toward early reunification with their child or, as an alternative, another permanency goal.

To meet these goals, it is clear that families must have the needed support to help foster children. According to the National Survey of America's Families (NSAF), only 39% of out-of-home care provider families have incomes that place them beyond 200% of the poverty level. Among all families—in-home, foster, and kinship—those involved with the child welfare system are five times more likely to have income at only 50% of the poverty level than families in the general population.[15]

The needs of children in foster care and the support their families provide to them is only made more challenging by the fact that less than half of the children in care are eligible for federal support. A child in foster care is eligible for federal support only if that child was removed from a family that would have been eligible for the now nonexistent Aid to Families with Dependent Children (AFDC) as it existed in July 1996.

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[9] Sedlack, A. J. & Broadhurst, D. D. (1996). *Third national incidence study of child abuse and neglect: Final report.* Washington, DC: U.S. Department of Health and Human Services.

[10] Ibid.

[11] Ibid.

[12] Gil, D. G. (1970). *Violence against children.* Cambridge, MA: Harvard University Press.

[13] English, D. (1994). Risk assessment: What do we know? Findings from three research studies on children reported to child protective services. In Center for Advanced Studies in Child Welfare and the Center for Urban and Regional Affairs, *Children of the shadows—The state of children in neglecting families: Conference proceedings.* Minneapolis, MN: University of Minnesota; National Research Council. (1993). Understanding child abuse and neglect. In G. B. Melton & F. D. Barry, *Protecting children from abuse and neglect: Foundations for a new national strategy* (pp. 132–134). New York: Guilford Press.

[14] Child Welfare League of America. (2006). Special tabulation of the Adoption and Foster Care Analysis Reporting System (AFCARS). Washington, DC: Author.

[15] U.S. Department of Health and Human Services, Administration on Children, Youth, and Families. (2005). CPS sample component wave 1 data analysis report. *National survey of child and adolescent well-being.* Washington, DC: Author.

According to 2005 calculations by the Congressional Research Service (CRS), this outdated eligibility, which erodes every year, means "that in as many as 25 states, eligibility for the Title IV–E foster care program may only be established for children removed from families with incomes less than half the Federal poverty level (roughly $8,000/year for a family of three)." [16]

Another significant and growing part of the child welfare system is the use of kinship care and kinship settings. By definition, kinship care is the full-time care, nurturing, and protection of children by relatives, members of their tribes, godparents, stepparents, or any adults who have a kinship bond with a child. This definition is designed to be inclusive and respectful of cultural values and ties of affection. Beyond its formal definition, what kinship care provides is an opportunity for a child to grow to adulthood in a familial environment. For many children, it is also a lifeline to a safe and productive future. It is, therefore, the type of care that we must nurture and promote in every way possible.

Over six million children are living with a relative who serves as their caregiver, with approximately four-and-a-half million of these being grandparents. According to the last census, nearly two-and-a-half million grandparents report that they are primarily responsible for their grandchildren. The same census survey reveals that nearly 20% of these grandparents live in poverty.[17]

When Congress enacted the Adoption and Safe Families Act (ASFA) in 1997, it gave formal recognition to kinship placements as a permanency option even though that same act did not extend federal funding to these placements. The increased urgency that ASFA placed on the goal of permanency also influenced the increased use of kinship placements. These families are a vital support for millions of children and are a key to ensuring the safety and permanency, as well as the nurturing and well-being, of these children.

Although we have seen a decrease in the poverty rates amongst these families from the end of the last decade and through 2002, the percentage of children in a kinship setting living in poverty is still too high. According to an Urban Institute analysis,[18] the poverty rate for children living in public kinship care or kinship care provided through the child welfare system is 18%. That is the same as the overall child poverty rate for children under 18. For private kinship care—those kinship families not coming through the public child welfare system—the poverty rate is 31%. When compared to non-kin foster parents, kinship families are much more likely to be low income (defined as 200% of the poverty level or lower), single, and older. In all instances, poverty certainly creates additional burdens and challenges for these families who have opened their homes and are providing a vital service to these children. If we continue to adhere to the goals of the Federal Adoption and Safe Families Act and we recognize kinship placements as a permanency option as we should, we must provide accompanying federal financial support.

YOUTH AFTER FOSTER CARE

For too many older children in foster care the exit from the system will come only when they reach the age of 18. More than 22,000 young people leave foster care annually because they age out of the system.[19] Although data is sometimes sparse, we know of common challenges for these young people from several studies. In one national survey, 25% of foster youth reported having been homeless at least one night in the two-and-a-half to four years after exiting foster care.[20] In a national survey, only 54% of former foster youth had completed high school,[21] and in another study, 3 in 10 of the Nation's homeless adults reported a foster care history.[22]

FOSTER CARE AND EDUCATION

Children and youth in foster care are also challenged when it comes to education outcomes. Placement in out-of-home care may create issues around mobility and stability in a child's education arrangements. For example, a three-year study of youth

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[16] Congressional Research Service. (2005). *Child welfare financing: An issue overview, Congressional Research Service report for Congress.* Washington, DC: Stoltzfus, Emilie.

[17] S. Census Bureau. (2000). *Census 2000 summary file 1: Table P28, relationship by household type for population under 18 Years.* Available from www.factfinder.census.gov. Washington, DC: Author.

[18] Main, R., Macomber, J. E., & Geen, R. (2006). *Trends in service receipt: Children in kinship care gaining ground.* Washington, DC: Urban Institute.

[19] Child Welfare League of America. (2006). Special tabulation of the AFCARS. Washington, DC: Author.

[20] Cook, R. (1991). *A national evaluation of title IV–E foster care independent living programs for youth.* Rockville, MD: Westat Inc.

[21] Ibid.

[22] Roman, N. P. & Wolfe, N. (1995). *Web of failure: The relationship between foster care and homelessness.* Washington, DC: National Alliance to End Homelessness.

aging out of care by Chapin Hall indicated that over one-third of young adults reported five or more school changes.[23] Another study of the Chicago school system (also by Chapin Hall) indicated that over two-thirds of children and youth included in the study had switched schools shortly after their initial placement.[24] This kind of instability, along with the challenges of poverty, creates greater barriers to successful education outcomes.

A 2001 Washington state study is typical of other research in its findings, which showed that youth in foster care attending public schools scored 16 to 20 percentile points below nonfoster youth in statewide standardized tests at grades three, six, and nine.[25] Over one-third of young people in a Midwest Study had received neither a high school diploma nor a GED by age 19, compared to fewer than 10 percent of their same-age peers in a comparable national sample.[26] In addition, other studies have demonstrated that such outcomes continue to have an impact as these youth attempt to succeed at the post-secondary education level. The Northwest Alumni Study found that of the foster care alumni studied, 42.7 percent completed some education beyond high school, 20.6 percent completed any degree or certificate beyond high school, 16 percent completed a vocational degree and 1.8 percent completed a bachelor's degree. This completion rate for a bachelor's degree compares to 24 percent among the general population of the same age as those surveyed in the study.[27] CWLA believes that these results offer strong evidence that efforts to improve the education outcomes for these children and youth in foster care must be a part of our national strategy to improve education and to reduce poverty.

HEALTH STATUS OF CHILDREN AND PARENTS

Children and parents living in poverty are less likely to have access to adequate health and mental health care. The lack of comprehensive health services for both children and parents increases entry into the child welfare system and makes it more difficult for children in the system to attain long-term health, stability, and permanency.

The first three years of life are crucial to a child's brain development and early mental health status.[28] There are an astounding number of children living in poverty during this critical period. Moreover, the 2005 U.S. Census Survey reported 11.2% of children as uninsured, despite widespread eligibility for Medicaid or SCHIP.[29] Lack of health insurance or limited health insurance coverage contributes needlessly to an increasing number of children in the child welfare system with an unmet health need as well as placement of children in the child welfare system solely to obtain essential mental health services.[30] The data demonstrates a greater need for outreach to meet the needs of these children by increasing enrollment in eligible health insurance programs and ensuring comprehensive access to health and mental health resources under them. Increased access to health and mental health care improves a child's chance for permanency.[31]

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[23] Courtney, M. E., Terao, S., & Bost, N. (2004). *Midwest evaluation of the adult functioning of former foster youth: Conditions of youth preparing to leave state care.* Chicago: Chapin Hall Center for Children at the University of Chicago.

[24] Smithgall, C., Gladden, R. M., Howard, E., Goerge, R., & Courtney, M. (2004). *Educational experiences of children in out-of-home care.* Chicago: Chapin Hall Center for Children at the University of Chicago.

[25] Burley, M., & Halpern, M. (2001). *Educational attainment of foster youth: Achievement and graduation outcomes for children in state care.* Olympia, WA: Washington State Institute for Public Policy.

[26] Courtney, M.E., Dworsky, A., Ruth, G., Keller, T., Havlicek, J., & Bost, N. (2005). *Evaluation of the adult functioning of former foster youth: Outcomes at age 19.* Chicago, IL: Chapin Hall Center for Children at the University of Chicago.

[27] Pecora, P., Kessler, R., Williams, J., O'Brien, K., Downs, C., English, D., White, J., Hiripi, E., White, C.R., Wiggins, T., & Holmes, K. (2005). *Improving Family Foster Care: Findings from the Northwest Foster Care Alumni Study* Alumni Study. Seattle, WA: Casey Family Programs.

[28] National Child Welfare Resource Center for Family Centered Practice. (2003). *Family centered child welfare.* Washington, DC: Author.

[29] DeNavas-Walt, C., Proctor, B., and Hill Lee, C. (2006). Income, Poverty, and Health Insurance Coverage in the United States: 2005. *Current Population Reports* (pp. 60–231). Washington, DC: U.S. Government Printing Office.

[30] United States General Accounting Office. (2003, April). Child welfare and juvenile justice: Federal agencies could play a stronger role in helping states reduce the number of children placed solely to obtain mental health services. *Report to Congressional Requesters (14).* Washington, DC: Author.

[31] Vandivere, S., Gallagher, M., and Anderson Moore, K. (2004). Changes in children's well-being and family environments. *Snapshots of America's Families III,* No. 18. Washington, DC: Urban Institute.

Poverty also correlates with increased rates of mental illness and substance abuse among parents,[32] leaving them less ready to handle the stressors associated with raising children. The children of parents with substance abuse or mental health concerns are therefore more likely to be victims of abuse or neglect. Availability of comprehensive mental health care reduces caregiver stress and increases a child's chance for healthy development and stable placement.[33] Helping children to overcome the obstacles created by the presence of poverty in their early lives means increasing services to address the mental health and substance abuse treatment needs of these children and their parents.

CWLA POLICY RECOMMENDATIONS ON PROPOSED LEGISLATION

The booming economy in the 1990s resulted in increases in overall income levels and modest declines in poverty levels relative to economic gains. The percentage of U.S. children living in families with high incomes grew to 29.7% in 2000, while one in three children (34%) lived in families with medium incomes.[34]

The progress made at the end of the last decade, however, has either plateaued or reversed. Poverty remains prevalent and debilitating for millions of U.S. children, youth, and families. Children are almost twice as likely to live in poverty as Americans in any other age group.[35] The extent of inequality in the distribution of earned income since the 1970s has dramatically increased. While workers with higher schooling levels and more experience have enjoyed increases in their inflation-adjusted earnings, the real earnings of younger and less-educated workers have fallen sharply.[36]

Although secure parental employment may provide access to health care and reduction of some stressors, poor working parents often face multiple pressures that negatively impact their ability to adequately care for their children. When they are exhausted from low-paying jobs and enervated by the sheer demands of coping with inadequate resources, parents find it harder to be consistent in discipline, to be responsive to children's needs, and to provide a range of socially and educationally stimulating experiences.

SOLUTIONS

- Providing a broader and better financial situation for low-income families will give these families adequate resources that positively affect child development, especially for younger children. CWLA therefore supports federal strategies that seek to increase low family incomes and include income supports, such as increasing the Earned Income Tax Credit and raising the minimum wage.
- CWLA supports enhancements in programs such as the Temporary Assistance to Needy Families. This enhancement, however, must assist parents in reaching more and better paying jobs and not just focus on arbitrary work rates and punitive measures for failure to work.
- CWLA supports the enhancement of child care and preschool readiness programs, high school completion programs, and other educational supports to increase opportunities for the Nation's poorest children and youth.
- CWLA supports increased investments in prevention, intervention, and treatment services to reduce the negative impact of poverty on children and youth and on the larger culture. This includes the expansion of home visiting programs and full funding of prevention and intervention programs such as the Child Abuse Prevention Treatment Act and the Promoting Safe and Stable Families program.
- Congress needs to reauthorize and strengthen the State Children's Health Insurance Program, including the provision of funds necessary to avoid shortfalls and expand coverage to more uninsured children.
- Congress must preserve the Federal guarantee of Medicaid as an entitlement program for low-income children, youth, and families and prevent any cuts that

[32] DeBellis, M. D., Broussard, E. R., Herring, D. J., Wexler, S., Moritz, G., & Benitez, J. G. (2001). Psychiatric co-morbidity in caregivers and children involved in maltreatment: A pilot research study with policy implications. *Child Abuse & Neglect 25*(7): 923–44. Chicago: The International Society for Prevention of Child Abuse and Neglect.

[33] McCarthy, J. (2003). Creating effective systems for mental health care and services. *Best Practice Next Practice.* Washington, DC: National Child Welfare Resource Center for Family Centered Practice.

[34] Federal Interagency Forum on Child and Family Statistics. (2002). *America's children: Key national indicators of well-being, 2002.* Washington, DC: U.S. Government Printing Office.

[35] National Center for Children Living in Poverty. (2002). *Child poverty fact sheet.* New York: Columbia University.

[36] Hofferth, S. L. (1998). The American family: Changes and challenges for the 21st century. In H. M. Wallace (Ed.), *Health and welfare for families in the 21st century.* Sudbury, MA: Jones and Bartlett.

would result in reduced benefits and restricted eligibility for beneficiaries. Coverage for youth leaving foster care should be required to age 21.

- In the reauthorization of the education act, the No Child Left Behind law, Congress must include initiatives that will assure and strengthen the access of foster children to public education and eliminate current barriers to stability and a foster child's ability to continue in his or her current school setting.
- CWLA believes we cannot succeed in reducing the number of children in care without greater federal support. We must fix the financing mechanisms for children who are in the child welfare system. This means extending Title IV–E funding to kinship placements and replacing the outdated eligibility requirements for foster care and adoption assistance currently tied to the now nonexistent AFDC program as it existed in July 1996.

CONCLUSION

CWLA appreciates the opportunity to offer our testimony to the committee in regard to the issue of poverty. The fact that the Ways and Means Committee, under the leadership of Chairman Rangel, has held this hearing as one of its first hearings demonstrates a commitment to child welfare by the chairman and the committee. This gives CWLA hope that this country will once again seriously confront the challenge and the need to reduce poverty and improve the lives of children and families throughout the United States of America.

Statement of Nicholas Eberstadt, American Enterprise Institute

For well over a century, with ever-expanding scale and scope, the United States government has been generating statistics that might illuminate the plight of society's poorest and most vulnerable elements. From the beginning, the express objective of such efforts has always been to abet purposeful action to protect the weak, better the condition of the needy, and progressively enhance the general weal. First unveiled in early 1965, shortly after the launch of the Johnson administration's "War on Poverty," the poverty rate is a measure identifying households with incomes falling below an official "poverty threshold" (levels based on that household's size and composition, devised to be fixed and unchanging over time). Just months after its debut, the War on Poverty's new Office of Economic Opportunity (OEO) designated the measure as its unofficial "working definition" of poverty. By August 1969, the Bureau of the Budget had stipulated that the poverty thresholds used in calculating American poverty rates would constitute the Federal government's official statistical definition for poverty. It has remained so ever since.[1]

U.S. government antipoverty spending has come to be calibrated against, and made contingent upon, this particular measure. Everywhere in America today, eligibility for means-tested public benefits depends on the relationship between a household's income and the apposite poverty threshold. In Fiscal Year 2002, perhaps $300 billion in public funds were allocated directly against the criterion of the "poverty guideline" (the Department of Health and Human Services' version of poverty thresholds).[2] Given its unparalleled importance—both as a touchstone for informed public discussion and as a direct instrument for public policy—the reliability of the official poverty rate (OPR) as an indicator of material deprivation is a critical question. How faithfully, in other words, does our Nation's poverty rate describe trends and patterns in the condition that most Americans would think of as poverty?

Although our official poverty rate is now by and large taken for granted, having become widely regarded with the passage of time as a "natural" method for calibrating the prevalence of material deprivation in American society, the measure itself was originally an ad hoc improvisation—and arguably a fairly idiosyncratic one—and in practical terms appears to be a problematic descriptor of poverty trends and levels in modern America. For one thing, its reported results do not track well with other indicators that would ordinarily be expected to bear directly on living

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[1] For informative background on the origin and evolution of the poverty rate, see Gordon M. Fisher, "The Development of the Orshansky Poverty Thresholds and Their Subsequent History as the Official U.S. Poverty Measure," U.S. Census Bureau Poverty Measurement Working Papers (May 1992, partially revised September 1997).

[2] Douglas J. Besharov and Peter Germanis, "Reconsidering the Federal Poverty Measure: Project Description," http://www.welfareacademy.org (June 14, 2004), 5. Poverty guidelines are based on poverty thresholds but differ from them in that they are more currently updated to reflect intervening changes in price levels and have a slightly more simplified schema for determining household eligibility levels, with fewer categories for family size and composition than are found in the Census Bureau's poverty threshold tables.

conditions across the Nation. In fact, over the past three decades, the relationship between the OPR and these other indicators has been perversely discordant.

While the official poverty rate suggests that the proportion of the American population living below a fixed "poverty line" has stagnated—or increased—over the past three decades, data on U.S. expenditure patterns document a substantial and continuing increase in consumption levels for the entire country—including the strata with the lowest reported income levels. And while the poverty threshold was devised to be measuring a fixed and unchanging degree of material deprivation (i.e., an "absolute" level of poverty) over time, an abundance of data on the actual living conditions of low-income families and "poverty households" contradicts that key presumption—demonstrating instead that the material circumstances of persons officially defined as poor have improved broadly and appreciably over the past four decades.

In short, America's most relied-upon metric for charting a course in our national effort to reduce and eliminate poverty appears to offer unreliable, and indeed increasingly misleading, soundings on where we are today, where we have come, and where we seem to be headed.

History of a Calculation

The schema and framework for estimating official poverty rates in the United States today are basically the same as in 1965. Annual OPRs are still determined on the basis of poverty thresholds maintained and updated by the U.S. Census Bureau; official poverty status is still contingent upon whether a household's measured annual pretax money income exceeds or falls below that stipulated threshold. While a number of minor revisions have been introduced, the original approach of computing poverty rates on the basis of poverty thresholds and annual household income levels remains entirely intact. The most significant change in the original poverty thresholds is their annual upward adjustment to compensate for changes in general price levels. In 1969, the Bureau of the Budget directed that the poverty line would thenceforth be pegged against the Consumer Price Index (CPI) and ruled that the CPI deflator would also be used to establish official "poverty thresholds" back to 1963, the base year for the original study.

As of 2005, the U.S. official poverty rate is the single longest-standing official index for assessing deprivation and material need in any contemporary country. That fact alone makes it unique. But America's OPR is unique in another sense, as well. For although a multitude of governments and international institutions have pursued quantitative efforts in poverty research over the past two decades, and have even fashioned particular national and international poverty indices, *none* has elected to replicate the United States' approach to counting the poor. This curious fact is not often remarked upon by U.S. statistical authorities—but it is not only worth bearing in mind, it is also worth pondering as one evaluates the U.S. poverty rate and its long-term performance.

Stark Numbers

Estimates of the official poverty rate for the United States are available from the year 1959 onward. For the total population of the U.S., the OPR declined by nearly half over this period, from 22.4 percent in 1959 to 12.7 percent in 2004, and dropped by roughly similar proportions for America's families, from 20.8 percent to 11.0 percent. Measured progress against poverty was more pronounced for older Americans (the OPR for persons 65 and older fell from 35.2 percent to 9.8 percent) but more limited for children under 18 (27.3 percent vs. 17.8 percent). For African Americans, the official poverty rate declined by almost three-fifths—by over 30 percentage points—between 1959 and 2004, but in 2004 remained over twice as high for whites.

One may note that most of the reported reduction in overall U.S. poverty, according to this federal poverty measure, occurred at the very beginning of the series—that is to say, during the first decade for which numbers are available. Between 1959 and 1968, the OPR for the total population of the United States fell from 22.4 percent to 12.8 percent, or by more than a point per year. In 2004, by contrast, the U.S. poverty rate was only imperceptibly lower than it had been in 1968—and actually slightly higher than it had been back in 1969.

Indeed, to judge by the official poverty rate, the United States has suffered a generation and more of stagnation—or even retrogression—in its quest to reduce poverty. Figure 1 illustrates the situation. For the entire U.S. population, the lowest OPR yet recorded was for the year 1973, when the index bottomed at 11.1 percent. Over the subsequent three decades, the OPR nationwide has remained steadily above 11.1 percent, often substantially; in 2004, the rate reported was 12.7 percent.

Between 1973 and 2004, the official poverty rate did decline for older Americans as a whole (16.3 percent vs. 9.8 percent) and for persons living alone (25.6 percent vs. 20.5 percent); it also declined for African Americans overall (31.4 percent vs. 24.7

percent). But for the rest of the country, the official poverty rate was in general higher at the start of the new century than it had been in the early 1970s. Measured poverty rates, for example, were higher in 2004 than they had been in 1973 for children under 18 (14.4 percent in 1973 vs. 17.8 percent in 2004) and for people of working ages, i.e. 18 to 64 (8.3 percent vs. 11.3 percent). The nationwide OPR for U.S. families likewise rose over those years (from 9.7 percent to 11.0 percent). Outside of the South, where the OPR registered a slight decline (from 15.3 percent to 14.1 percent), poverty rates were higher in every region of America in 2004 than in 1973. Overall poverty rates for non-Hispanic whites—so-called Anglos—were also higher than they had been in 1973 (7.5 percent vs. 8.6 percent). No less striking, the overall poverty rate for Hispanic Americans was exactly the same in 2004 as in 1973—21.9 percent—implying that the circumstances of this diverse but often socially disadvantaged ethnic minority had not improved at all over the course of three full decades.

Taken on their face, these stark numbers would seem to be a cause for dismay, if not outright alarm. To go by the official poverty rate, modern America has failed stunningly to lift the more vulnerable elements of society out of deprivation—out from below the income line, according to the author of the Federal poverty measure, where "everyday living implied choosing between an adequate diet of the most economical sort and some other necessity because there was not money enough to have both." This statistical portrait of an apparent long-term rise in absolute poverty in the contemporary United States evokes the specter of profound economic, social, and political dysfunction in a highly affluent capitalist democracy. All the more troubling is the near-total failure of social policy implied by such numbers, for despite the War on Poverty and all subsequent governmental antipoverty initiatives, official poverty rates for the Nation have mainly moved in the wrong direction over the past three decades.

Other Measures

Although the official poverty rate is accorded a special official status as an index of poverty conditions in modern America, it is by no means the only available indicator that might provide insight on poverty conditions and material deprivation in the country. Many other indices bearing upon poverty are readily available, and their trends can be compared with the reported OPR. Curiously, the official poverty rate does not seem to exhibit the normal and customary relationship with any of these other poverty proxies.

Table 1 illustrates the problem. It contrasts results for the years 1973 and 2001 for the official poverty rate and several other indicators widely recognized as bearing directly upon the risk of poverty in any modern urbanized society. (The choice of these two specific end-years is admittedly and deliberately selective—but it is a selection that highlights the underlying contradictions discussed below.)

In the period between 1973 and 2001, for example, per capita income in the United States rose very significantly in real (inflation-adjusted) terms: by roughly 60 percent, according to estimates from the Census Bureau's CPS series. By the same token, the measured rate of unemployment for persons 16 and older was somewhat lower in 2001 (4.7 percent) than it had been in 1973 (4.9 percent). As for educational attainment, America's working-age adults clearly had completed more years of schooling in 2001 than in 1973. In 1973, nearly 40 percent of U.S. adults 25 or older had no high school degree; by 2001, the corresponding fraction was under 16 percent.

Then there are the trends in spending by government at the Federal, state, and local levels on means-tested benefit programs: that is to say, public antipoverty outlays. Between Fiscal Year 1973 and Fiscal Year 2001, real spending on such programs more than tripled, leaping from $153 billion to $484 billion (in constant 2002 dollars). One can make arguments for excluding the health and medical care component from the measure of antipoverty program spending; doing the sums, nonhealth antipoverty spending would still rise in constant 2002 terms from $109 billion in 1973 to $231 billion in 2001, or by 57 percent per capita.[3] These data, one must emphasize, account for just the government's share of anti-poverty programs: Private charitable donations provide additional resources for meeting the needs of America's poor, and those resources are considerable. In the year 2001, total private philanthropic giving was estimated at $239 billion—in real terms, 156 percent more than in 1973; and in real per capita terms, an increase of over 90 percent. Although

[3] Derived from Vee Burke, Cash *and Noncash Benefits for Persons with Limited Income: Eligibility Rules,* Recipient and Expenditure Data, fy2000–fy2002, Congressional Research Service Report rl32233 (November 25, 2003), Table 5, and *Statistical Abstract of the United States 2004–2005,* Table 2.

we cannot know the exact proportion of these private funds earmarked for poverty alleviation, it seems safe to say that antipoverty spending by both the public and the private sectors increased very significantly on a real per capita basis between 1973 and 2001.

Per capita income, unemployment, educational attainment, and anti-poverty spending are factors that would each be expected to exert independent and important influence on the prevalence of poverty in a modern industrialized society—any modern industrialized society. When trends for all four of these measures move conjointly in the direction favoring poverty reduction, there would ordinarily be a strong expectation that the prevalence of measured poverty would decline as well (so long, of course, as poverty was being measured against an absolute rather than a relative benchmark). Yet curiously, the official poverty rate for the United States population was *higher* for 2001 (11.7 percent) than for 1973 (11.1 percent).

Needless to say, this is a discordant and counterintuitive result that demands explanation. Further examination, unfortunately, reveals that the paradoxical relationship between the poverty rate and these other indicators of material deprivation in Table 1, while perverse, is not at all anomalous. To the contrary: For the period since 1973, the U.S. poverty rate has ceased to correspond with these other broad measures of poverty and progress in any common-sense fashion. Instead, the poverty rate seems to have become possessed of a strange but deeply structural capriciousness: For while it continues to maintain a predictable relationship with these other indicators, the relationship is by and large precisely the opposite of what one would normally expect for a poverty indicator.

Clearly, something is badly amiss here. And unless someone can offer a plausible hypothesis for why U.S. data series on per capita incomes, unemployment rates, adult educational attainment, *and* anti-poverty spending should be collectively flawed and deeply biased for the post–1973 period, the simplest explanation for these jarring results would be that the officially measured poverty rate happens to offer a highly misleading, or even dysfunctional, measure of material deprivation and has, moreover, been doing so for some considerable period of time.

A Major Discrepancy

The implicit assumption that a poverty-level household's annually reported money income will equate to the level of its annual expenditures represents an additional problem with the official poverty rate. The original methodology estimated "poverty thresholds" to designate consumption levels consonant with poverty status, and matched these against annually reported household incomes—but it made no effort to determine the actual consumption levels of those low-income households. Instead, it posited an identity between reported money income and expenditures for these families. To this date, the method by which the official poverty rate is calculated continues to presume an identity between measured annual money incomes and annual expenditure levels for low-income households. Yet this presumption is dubious in theory, and it is confuted empirically by virtually all available data on spending patterns for America's poorer strata.

Families and individuals base their household budgets not just on the fortunes (and uncertainties) of a single year, but instead against a longer life-course horizon—stabilizing their long-term living standards (and smoothing their consumption trajectory) against the vagaries of short-term income fluctuations. Such behavior naturally suggests that the marginal propensity to consume will tend to be disproportionately high for lower-income households—and for the perhaps considerable number of households where expected "permanent income" exceeds current income (i.e., "transitory income"), current consumption will likewise exceed current income if financial arrangements permit.[4]

From the standpoint of empirics, U.S. survey data provides evidence of a major discrepancy between reported annual expenditure levels and reported annual income levels for poorer households in the United States—a disproportion that seems to have been widening steadily over the decades since the official poverty rate was first devised. These trends are evident from the Consumer Expenditure (CE) Survey, produced by the Bureau of Labor Statistics (BLS). In 2002, constant expenditures for the poorest fifth (lowest income quintile) of U.S. households were 77 percent higher than they had been for the poorest fourth (lowest quartile) in 1960–61;

[4] The concept of transitory income can be traced back at least as far as Milton Friedman and Simon S. Kuznets, *Income from Independent Professional Practice* (National Bureau of Economic Research, 1945), Chapter 7, where the term itself was perhaps coined. Consumer behavior theory would suggest that annual incomes would equate to annual expenditures in the lowest income strata only where those low income levels were in fact consonant with a household's expectations of its long-term financial outlook—or where institutional barriers prevented the household from financing additional near-term consumption.

between 1972–73 and 2002, real expenditures for the lowest quintile of households increased by 57 percent.

It is striking that real levels of household expenditures for the poorest fifth of U.S. households have risen by over half during a period in which the official poverty rate should also have risen (from 11.5 percent of the population in 1972–73 to 12.1 percent in 2002)—and during which, according to the same CE survey data, real incomes for the poorest fifth of U.S. households reportedly fell. The contradiction is explained, in proximate terms, by a dramatic increase in the ratio of expenditures to income for poorer U.S. households. By 1972–73, the poorest fifth of households were spending nearly 40 percent more than their annual income—and by 2002 were spending well over double their reported annual income.

Temporary Poverty

The stark and increasing mismatch between reported annual incomes and reported annual expenditures for low-income households in contemporary America may go far in helping to explain why the official poverty rate—predicated as it is on reported annual money income—seems so very out of keeping with other data series bearing on the incidence of material deprivation in modern America. But how is this widening gap to be explained?

One hypothesis for the growing discrepancy between income levels and expenditure levels for poorer Americans might be that low-income Americans are "overspending"—i.e., going ever deeper into debt. By the reasoning of this surmise, the apparently widening gap between income and expenditures reported for poorer Americans, far from being an artifact, would represent an all-too-genuine phenomenon: an unsustainable binge that must eventually end, with ominous consequences for future living standards of the vulnerable and the disadvantaged.

On its face, this hypothesis might seem plausible. In the event, however, it appears to be confuted by data on the net worth of poorer American households. If expenditures for lower-income households were being financed through a steady draw-down of assets or accumulation of debt, we would expect the net worth of poor Americans to decline steadily over time in absolute terms. No such trend is evident from the two government data sources that attempt to estimate the net worth of poorer Americans: the Census Bureau's Survey of Income and Program Participation (SIPP) and the Federal Reserve Board's Survey of Consumer Finance (SCF).[5]

If the growing statistical discrepancy between incomes and expenditures for poorer Americans cannot be explained by a growing indebtedness of lower-income households, how, then, can we account for it? Three partial explanations come immediately to mind.

- *Changes in CE survey methods and practices.* The growing mismatch between reported income and reported expenditures for lower-income households could in part be an artifact of changes in the CE survey itself.
- *Income underreporting.* A second potential problem, related to the first, might be a tendency over time toward increased misreporting of income. As already mentioned, the BLS staff responsible for the CE surveys carefully note that users should place more confidence in their expenditure estimates than their income estimates, especially for the lowest reported income deciles.
- *Increased year-to-year income variability.* The third possible explanation for a secular rise in the expenditure-to-income ratio for households in the lowest annual income quintile would be a long-term increase in year-to-year variations in household income. If U.S. consumer behavior comports with the "permanent income" hypothesis, and if the stochastic year-to-year variability (i.e., transitory variance) in American income patterns were to increase, then we would expect, all other things being equal, that the ratio of reported annual expenditures to reported annual incomes would increase.

The greater the proportion of "temporary poor" in the total poverty population, the greater the discrepancy between observed income levels and observed expenditures levels should be within the poverty population. If poverty is defined in terms of a particular income threshold, it should be readily apparent that poverty status is not a fixed, long-term condition for the overwhelming majority of Americans who are ever designated as poor. Quite the contrary: Since American society and the U.S. economy are characterized by tremendous and incessant mobility, long-term poverty

[5] SCF appears to offer more a comprehensive inventory than SIPP of the various components of household wealth. For a detailed comparison and evaluation, see John L. Czaijka, Jonathan E. Jacobson, and Scott Cody, *Survey Estimates of Wealth: A Comparative Analysis and Review of the Survey of Income and Program Participation* (Mathematica Policy Research Inc., August 22, 2003).

status appears to be the lot of only a tiny minority of the people counted as poor by the official U.S. measure.

The Census Bureau's longitudinal Survey on Income and Program Participation (SIPP) documents this central fact. For the calendar year 1999, nearly 20 percent of the noninstitutionalized American population was estimated to have experienced two or more months in which their household income fell below the poverty threshold. And at some point during the four years 1996–1999, fully 34 percent of the surveyed population spent two months or more below the poverty line. On the other hand, just 2 percent of the population spent all 48 months of 1996–99 below the poverty line. The long-term poor (or "permanent poor"), in other words, accounted for barely one-tenth of those who passed through officially designated poverty at some point in 1999, and less than 6 percent of those who were counted as poor at any point between the start of 1996 and the end of 1999.

As might be expected, the incidence of chronic or long-term poverty varies according to ethnicity, age, household composition, and location. Whereas just 1 percent of the non-Hispanic white population is estimated to have spent all of 1996–99 below the poverty line, the rate was over 5 percent for both African-Americans and Hispanic-Americans; long-term poverty rates of over 5 percent also typified female-headed households and persons living alone. Yet even for the groups with the highest measured rates of long-term poverty, these permanent poor accounted for a very small fraction of the "ever poor": Fewer than a sixth of the Hispanics counted as poor at any time during 1999, for example, had been below the poverty line throughout 1996–99.

Given the high proportion of the temporarily poor within the overall population of those counted as poor, it should not be surprising that reported expenditures would exceed reported income among America's lower-income strata, as they apparently do today.

Clearly more research is warranted here. For now, however, we may note that the curious divergence between reported income and expenditure patterns that has been recorded in consumer expenditure surveys for the period since the early 1970s appears to be matched by a simultaneous reported rise in proportionate year-to-year variations for families on the borderline of the bottom income quintile.

Incontestably Better Off

By indexing annual changes in nominal poverty thresholds against the Consumer Price Index, the official poverty rate for the U.S. is, in principle, devised to track over time a set of fixed and constant household income standards for distinguishing the poor from the nonpoor. The OPR was intended to be an absolute measure—one that would identify people living in conditions determined by a specific and unchanging budget constraint.

The notion that the official poverty rate tracks a fixed and unchanging material condition, however, is contradicted by a wide array of physical and biometric indicators. These data demonstrate steady and basically uninterrupted improvements in the material conditions and consumption levels of Americans in the lowest income strata over the past four decades.

The poverty rate was intended to designate an income level below which "everyday living implied choosing between an adequate diet of the most economical sort and some other necessity because there was not money enough to have both." In purely material terms, today's American poverty population is incontestably better off than were the measurement's original poor back in 1965.

To track the changing material circumstances of America's low-income population, we will follow trends in four areas: 1) food and nutrition; 2) housing; 3) transportation; and 4) health and medical care. From the early 1960s through the beginning of the twenty-first century, American consumers, poor and nonpoor alike, devoted the great majority of their personal expenditures to these four categories of goods and expenditures. Between 1960–61 and 2002, food, housing, transport, and health/medical care together accounted for about 70 percent of mean U.S. household expenditures, and for about 80 percent of the expenditures of households in the lowest income quintile. And while the composition of these allocations by category shifted over these decades, their total claim within overall expenditures remained remarkably stable. Let us then examine in turn trends in food and nutrition, housing, transportation, and health/medical care.

Food and nutrition. In the early 1960s—the years for which the poverty rate was first devised—undernourishment and hunger were unmistakably in evidence in the United States. Indeed, self-assessed food shortage was clear from the expenditure patterns of American consumers: In the 1960–61 consumer expenditure survey, for example, the marginal propensity of consumers to spend income on food rose between the lowest and the next lowest income groupings. This poorest grouping of

Americans—accounting for about 1 percent of the households surveyed—defined a grouping for which foodstuffs were "luxury goods."

For purely biological reasons, a society's most nutritionally vulnerable groups are typically infants and children. Anthropometric and biometric data suggest that nutritional risks to American children have declined almost continuously over the past three decades. Even for low-income children—i.e., those who qualified for means-tested public health benefits—those nutritional risks look to have been declining progressively. According to the National Pediatric Surveillance System of the CDC, for example, the percentage of low-income children under five years of age who were categorized as underweight (in terms of BMI for age) dropped from 8 in 1973 to 5 in 2003. Similarly, the proportion of medically examined low-income children who presented height-for-age below the expected fifth percentile level on pediatric growth charts declined from 9 percent in 1975 to 6 percent in 2003. Blood work for these same children suggested a gradually declining risk of anemia, to judge by the drop in the proportion identified as having a low hemoglobin count.

Housing and home appliances. Statistical information on U.S. housing conditions and home appurtenances are available today from three main sources: 1) the decennial census of population and housing; 2) the Census Bureau's American Housing Survey (AHS), conducted in 1984 and every few years thereafter; and 3) the Department of Energy's Residential Energy Consumption Survey (RECS), initially conducted in 1978 and currently re-collected every four years. Since 1970, the decennial census has cross-classified household housing conditions by official poverty status; AHS and RECS also track poverty status and its correlates in their surveys.

In terms of simple floor-space, the homes of the officially poor were more spacious at the dawn of the new century than they had been three decades earlier. In 1970, almost 27 percent of poverty-level households were officially considered overcrowded (the criterion being an average of over one person per room). By 2001, according to the AHS, just 6 percent of poor households were "overcrowded"—a lower proportion than for nonpoor households as recently as 1970. Between 1980 and 2001, moreover, per capita heated floor-space in the homes of the officially poor appears to have increased substantially—to go by official data, by as much as 27 percent or perhaps even more.[6] By 2001, the fraction of poverty-level households lacking some plumbing facilities was reportedly down to 2.6 percent—a lower share than for nonpoor households in 1970.

Trends in furnishings and appurtenances for American households similarly record the steady spread of desirable consumer appliances to poor and nonpoor households alike. From 1970 to the present, poorer households' access to or possession of modern conveniences has been unmistakably increasing. For many of these items—including telephones, television sets, central air conditioning, and microwave ovens—prevalence in poverty-level households as of 2001 exceed availability in the typical U.S. household as of 1980, or in nonpoor households as of 1970. By the same token, the proportion of households lacking air-conditioning was lower among the officially poor in 2001 than among the general public in 1980. By 2001, over half of all poverty-level households had cable television and two or more television sets. Moreover, by 2001 one in four officially poor households had a personal computer, one in six had Internet access, and three out of four had at least one VCR or DVD—devices unavailable even to the affluent a generation earlier.

These data cannot tell us much about the quality of either the housing spaces that poverty level households inhabit or the appurtenances furnished therein. They say nothing, furthermore, about nonphysical factors that bear directly on the quality of life in such housing units—most obvious among these being crime. These data, however, strongly support the proposition that physical housing conditions are gradually improving not only for the rest of America, but for the officially poor as well. In any given year, a gap in physical housing conditions separates the officially poor from the nonpoor—but the data for today's poor appear similar to those for the nonpoor a few decades earlier.

Transportation. At the time of the 1972–73 consumer expenditure survey, almost three-fifths of the households in the lowest income quintile had no car. Since the official poverty rate for families in those years was only about 10 percent, we may suppose that the proportion of poverty-level households without motor vehicles at that time was somewhat higher. By 2003, however, over three-fifths of U.S. poverty-

[6] RECS 2001 (upon whose figures the calculation above was based) places the mean heated floor space per poverty household at 472 per person; the ahs 2001, for its part, indicates a median value of 739 square feet per person for poverty households, although this total appears to include both heated and unheated floor space and pertains only to the 55 percent of poverty-level households in single, detached and/or mobile/manufactured homes. (American Housing Survey 2001, Table 2–3.)

level households had one car or more—and nearly three of four had some sort of motor vehicle. (The distinction is pertinent, owing to the popularity and proliferation of SUVs, light trucks, and other motor vehicles classified other than as cars from the late 1970s onward.)

By 2003, quite a few poverty-level households had multiple motor vehicles: Fourteen percent had two or more cars, and 7 percent had two or more trucks. In 2003, to be sure, vehicle ownership was more limited among the officially poor than among the general public; for the country as a whole, fewer than 9 percent of households reported being without any motor transport whatever. The increase in motor vehicle ownership among officially poor households has followed the general rise for the American public—albeit with a very considerable lag. As of 2003, auto ownership rates for poverty-level households mirrored ownership rates for U.S. families in general in the early 1950s; for all forms of motor transport, U.S. poverty households' ownership levels in 2003 matched overall U.S. families' auto ownership levels from the early 1960s; and poverty households' ownership levels for two or more motor vehicles paralleled that of the general U.S. public in the late 1950s or early 1960s.

Health and medical care. NCHS data can be used to illuminate two separate aspects of health status and medical care in modern America: outcomes and service utilization. The most critical datum for health status is arguably mortality: All other health indicators are subsidiary to survival. For babies and infants, the single most important measure of health status is surely the infant mortality rate. Between 1970 and 2002, the infant mortality rate in the United States fell by nearly two-thirds, from 20 per 1,000 live births to 7 per thousand. The infant mortality rate continued its almost uninterrupted annual declines after 1973, when officially measured poverty rates for U.S. children began to rise. The contradistinction is particularly striking for white babies. Between 1974 and 2001, their infant mortality rates fell by three-fifths, from 14.8 per 1,000 to 5.8 per 1,000; yet over those same years, the official poverty rate for white children rose from 11.2 percent to 13.4 percent. (See Figure 2.)

These survival gains were achieved not only in the face of purportedly worsening poverty status, but also despite unfavorable trends in biological risk. In 2001, the proportion of white babies born at high-risk "low birth weight" (below 2,500 grams) was actually somewhat higher than in 1974. Yet despite these troubling trends in low-birth-weight disposition, infant mortality rates improved dramatically. Since the inherent biological disparities in mortality risk between low-birth-weight and non-low-birth-weight newborns did not diminish over this period, the reasonable inference might be that medical and health care interventions—changes in the quality and availability of services—accounted for most of the difference. And since low-birth-weight infants are disproportionately born to mothers from disadvantaged socioeconomic backgrounds, a further reasonable inference is that these improvements in quality and availability of medical care extended to America's poorer strata, not just the well-to-do.

Trends in utilization of health care for the poor are further illustrated by the circumstances of children under 18—more particularly by the proportion reporting no medical visits over the year preceding their health interview survey. While the percentage of children without an annual medical visit is always higher among the poor than among the nonpoor, steady declines are reported for both groups—and the declines were substantial. The proportion of children without a reported annual medical visit, in fact, was significantly lower for the poverty population in 2002 (12.1 percent) than it had been for the nonpoverty population 20 years earlier (17.6 percent). This cannot address the question of preexisting health needs—it could be that pediatric medical problems were on the rise during this period. These data thus do not conclusively demonstrate that "access" or "availability" of health and medical care have been improving. But they are strongly suggestive of this possibility—all the more so in conjunction with the salutary trends in health status outcomes.

To summarize the evidence from physical and biometric indicators: Low-income and poverty-level households today are better-fed and less threatened by undernourishment than they were a generation ago. Their homes are larger, better equipped with plumbing and kitchen facilities, and more capaciously furnished with modern conveniences. They are much more likely to own a car (or a light truck, or another type of motor vehicle) now than 30 years earlier. By most every indicator apart from obesity, their health care status is considerably more favorable today than at the start of the War on Poverty. Their utilization of health and medical services has steadily increased over recent decades. The official poverty rate is incapable of representing what it was devised to portray: namely, a constant level of absolute need in American society. The biases and flaws in the poverty rate are so severe that it has depicted a great period of general improvements in living stand-

ards—three decades from 1973 onward—as a time of increasing prevalence of absolute poverty.

To state this much is not to assert that material progress for America's poverty population has been satisfactory, much less optimal. Nor is it to deny the importance of relative as opposed to absolute deprivation in the phenomenon of poverty as the poor themselves experience it. In some quarters, criticism of the various shortcomings of America's official poverty rate will be taken as evidence of indifference to the plight of America's disadvantaged and poor. Such an inference is illogical at best. Proponents of more effective antipoverty policies should be in the very front ranks of those advocating more accurate information on America's poverty problem. Without such information, effective policy action will be impeded; under the influence of misleading information, policies will be needlessly costly—and ineffective.

As we have seen, the U.S. federal poverty measure is premised on the assumption that official poverty thresholds provide an absolute poverty standard—a fixed intertemporal resource constraint. Such a standard should mean that general material conditions for the poverty population should remain more or less invariant over time. Yet quite clearly, the material condition of the poverty population in modern America has not been invariant over time—it has been steadily improving. The OPR thus fails—one is tempted to say that it fails spectacularly—to measure what it purports to be tracking over time. As an indicator of a condition originally defined in 1965, the official poverty rate seems to have become an ever less faithful and reliable measure with each passing year. The task of devising a better statistical lodestar for our Nation's antipoverty efforts is by now far overdue. Properly pursued, it is an initiative that would rightly tax both our formidable government statistical apparatus and our finest specialists in the relevant disciplines. But such exertions would also stand to benefit the common weal in as yet incalculable ways.

Statement of Legal Momentum, New York, New York

We appreciate the opportunity to submit this statement on behalf of Legal Momentum, the Nation's oldest women's legal rights organization, for the Committee's hearing on the important topic of the Economic and Societal Costs of Poverty. Poverty is one of the main causes of family hardship. A 2001 study by the Economic Policy Institute found that about 30% of those below the poverty line experienced critical hardship, defined as being evicted, having utilities disconnected, doubling up in others' housing due to lack of funds, or not having enough food to eat; and that an additional 30% to 45% experienced other serious hardships.[1] Compared with families whose income is above 200% of the Federal poverty level, families whose income is less than 200% of poverty are more than six times as likely to not have enough food to eat (12.6% vs. 1.6%); more than five times as likely to miss meals (17.5% vs. 3.4%); eleven times more likely to be evicted (1.1% vs. .1%); 50% more likely to skip necessary medical care (12.7% vs. 8.0%); seven times as likely to have their utilities disconnected (4.1% vs. 0.6%); and three times as likely to have their telephone disconnected (10.4% vs. 3%).[2]

The Children's Defense Fund has estimated that child poverty will cost our society over $130 billion in future economic output as poor children grow up to be less productive and effective workers.[3] Poverty damages children in ways that harm their own and the Nation's future. Poor children experience increased risk of stunted growth and anemia, more often have to repeat years of schooling, have lower test scores and drop out more often. As adults, they earn less and are unemployed more.[4]

Women bear a disproportionate share of the cost of poverty. There has been a large gender poverty gap in every year since the official poverty standard was created in the 1960's. In 2005 women were 45% more likely to be poor than men. As set out in the table we have compiled from the detailed poverty statistics on the Census Bureau Web site, the poverty gap persists even when factors such as age, work experience, education, or family structure are taken into account: aged women

[1] Boushey & Gunderson, *When Work Just Isn't Enough,* Economic Policy Institute Briefing Paper (Washington D.C.: Economic Policy Institute 2001), available at http://www.epinet.org/briefingpapers/hardshipsbp.pdf.

[2] Boushey et. al, *Hardships in America,* (Washington D.C.: Economic Policy Institute 2001), available at http://www.epinet.org/books/hardships.pdf.

[3] Arloc Sherman, *Poverty Matters: The Cost of Child Poverty in America,* (Washington D.C.: Children's Defense Fund 1997), available at http://www.childrensdefense.org/fairstart-povmat.htm.

[4] Id.

are much more likely to be poor than aged men; women who work outside the home are much more likely to be poor than men who work outside the home; single mothers are much more likely to be poor than single fathers; at every educational level, women are much more likely to be poor than men with the equivalent education.

Poverty Rates for Adult Women and Men in 2005

	Women	Men	Increased incidence of poverty among women compared to men
All adults (18 or above)	12.9	8.9	45%
Age 65 or above	12.3	7.3	67%
Single parents	36.2	17.6	106%
Worked	7.0	5.1	39%
High School only	14.3	9.4	52%
College less than 4 yrs	10.2	7.0	44%
College 4 yr degree	4.5	3.6	24%

Poverty rates and the gender poverty gap are much higher in the United States than in other rich countries. One study found that the United States had the highest poverty rate for female-headed households among the 22 countries studied, 30.9% compared to the 10.5% average for the group.[5] The exceptionally high poverty rate for single mothers in the United States is not the result of below average work effort. In a study of single mothers' employment rates (full or part time) in eight rich countries in the mid-1990's, the 69% rate in the United States was the highest rate and was twenty percentage points higher than the 49% average in the other seven countries (United Kingdom, Australia, Netherlands, Germany, Norway, Finland, Denmark).[6] In a study reporting on average annual hours worked by poor single parents around 2000, the 1,087 average hours of work for poor single parents in the United States was the highest total, and almost twice the 582 average in the other six countries (Canada, Netherlands, Austria, Germany, Belgium, Ireland).[7]

One reason for the exceptionally high poverty rates in the United States is that we invest less in social welfare programs: in 2000 the United States spent less than 3% of Gross Domestic Product on social assistance to the non-elderly, and this was less than half the spending by Canada and Great Britain; less than a third of the spending by Germany, the Netherlands, and Belgium; and less than a fourth of the spending by Finland and Sweden.[8] We have much less generous parental leave than other rich countries and far less public support for child care,[9] and we have allowed our minimum wage to decline to such a low level that even year round full time work does not guarantee an above poverty income.[10]

Our Nation needs to take steps to reduce poverty and the gender poverty gap. We must find fiscally responsible ways to broaden the scope of our social welfare programs, including expanding parental leave and enacting paid leave legislation, increasing governmental and public support for child care, raising the minimum wage

[5] Pressman, *Explaining the Gender Poverty Gap in Developed and Transitional Economies,* Luxembourg Income Study Working Paper No. 243 (Sept. 2000), available at http://www.lisproject.org/publications/liswps/243.pdf. This study defined poverty as an income less than 50% of the median income and was based on national income surveys conducted in the early 1990's.

[6] Mia Hakovirta, *The Income Sources Of Single Parents: A Comparative Analysis,* Luxembourg Income Study Working Paper No. 282 (Nov. 2001), available at http://www.lisproject.org/publications/liswps/282.pdf.

[7] Timothy Smeeding, *Poor People in Rich Nations: The United States in Comparative Perspective,* Luxembourg Income Study Working Paper No. 419 (Oct. 2005), available at http://www.lisproject.org/publications/liswps/419.pdf.

[8] Timothy Smeeding, *Public Policy and Economic Inequality: The United States in Comparative Perspective,* Luxembourg Income Study Working Paper No. 367 (Feb. 2005), available at http://www.lisproject.org/publications/liswps/367.pdf.

[9] Jane Waldfogel, "What Other Nations Do: International Policies Toward Parental Leave and Child Care," *The Future of Children* 11(4): 99–111 (2001), available at http://www.futureofchildren.org/information2826/information_show.htm?doc_id=79378

[10] Legal Momentum, *Working Women & Increasing Minimum Wage: A Down Payment on the Future of America's Families,* (2007), available at http://legalmomentum.org/legalmomentum/2007/01/working_women_increasing_minim_1.php.

and indexing it for inflation, and of course continuing to combat sex and race discrimination.

Statement of Theo MacGregor and Jerrold Oppenheim

Investing in the eradication of poverty in America could increase the resources of American households by an average of more than $18,000 a year, equivalent to a wage increase of more than 30 percent. Investments in the eradication of poverty would:

- substantially reduce losses due to crime, a large fraction of which is caused by poverty;
- increase incomes to people now unemployed or underemployed, which would result in new expenditures (including income and sales taxes) circulating through the economy and becoming income to others;
- reduce the cost of health care, including the cost we all share of taking care of people who cannot afford health insurance or medicines;
- virtually eliminate the need for societal supports to ameliorate the most extreme manifestations of poverty.

A study conducted by the authors for Entergy Corporation found that, in the wealthiest country on Earth, more than 30 million households try to live on $26,640 or less (60% of current median income), while the rest live on incomes averaging more than $60,000. In order to make it to that $26,640 income level, a family would need two adults working full time at 1½ times the minimum wage. The average service job pays only twice the minimum wage, so there are many who earn less than that. Those folks, although working, are unable to afford the basics of food, shelter and medicine. And the buying power of the minimum wage is at its lowest in 50 years. For the poor, there is not enough income to heat and/or cool their homes, feed their children, and afford medical care. This discrepancy in incomes, as well as poverty itself, leads to real and growing costs.

What makes poverty expensive to the rest of us is not social supports but rather its large but *in*direct costs, especially in health care, crime, and lost productivity. Indeed—*middle*-income supports—such as Medicare, social security, and income tax breaks—cost the average family about four times as much as do low-income supports such as homeless shelters and food. Eliminating the indirect costs of poverty in the simplest way—directly raising incomes to a low but decent level (60% of current median income)—would cost $12,047 per low-income household, or $397.2 billion per year, but would return almost four times the investment. In other words, the annual cost of eliminating poverty would be no more than about a quarter of the annual savings for the average non-low-income family. These calculations are conservative and leave out many benefits of eradicating poverty, such as the savings of increased preventive health care and the productivity lost due to underemployment (employment below skill level).

How do people cope with skyrocketing prices and incomes that are not keeping pace? American low-income households are the best money-managers there are. But that is not enough. A study by the National Bureau of Economic Research shows that, in extreme weather, low-income families actually *eat less*—about ten percent less. Other studies show that another strategy is to skip needed medicines or forego medical care.[1]

We do not, however, propose simply raising incomes because, as we will explain, we think more targeted investments will have even *larger* payoffs.

Health Care. For example, increasing health care coverage. Studies show that the health of individuals in society is strongly and inversely correlated with inequality of income. The U.S. is the wealthiest nation on earth—ever—but people live longer in Sweden and Norway, where incomes are more equal. Japan, which has the longest life expectancy in the world, also has among the narrowest of income distributions.[2] People lower down the income scale in rich, developed countries have death rates two to four times higher than those nearer the top of the scale; and the

[1] We appreciate the opportunity to provide this information to the Committee. For further information, see the attached full report: "The Economics of Poverty: Benefits to All Americans from Investments to Eliminate Poverty" or go to our Web site: www.DemocracyAndRegulation.com. We can also be reached by telephone: 1–978–283–0897 (office), or 1–978–335–6748 (mobile).

[2] Blane, Brunner and Wilkinson, *Health and Social Organization,* pp. 60–61, Routledge, London and New York (1996).

greater the extremes between wealth and poverty, the greater the health differences.[3] Economic equality is thus more important to health than wealth is.

Poverty carries with it a much higher risk of illness. The Census Bureau recently reported that 47 million Americans have no health insurance at all, and as our study shows, the number with only partial insurance is about double that. Even the Census Bureau figure is almost 16 percent—a fraction that has been steady or *rising steadily* in every year but two of the last 18. Poor uninsured individuals often defer seeking out care when they are ill. As a result, their illness progresses and can become needlessly severe. They then require more expensive care, often through the emergency room or hospitalization.[4] An estimate from the National Academy of Sciences puts the number who die each year because they lack health insurance at 18,000.[5] More than half of the bankruptcies in the U.S. are now due to medical expenses, even though a large majority (75.7 percent) had insurance at the onset of the illness that contributed to the bankruptcy.[6]

Medicaid served 38 million people in 2005,[7] yet "more than eight in ten low-income, uninsured adults do not qualify for Medicaid or other public health coverage because their incomes are too high . . . .In 42 states, unless they are severely disabled, they are ineligible for Medicaid regardless of their income."[8] In addition, most of the care provided through the Medicaid program goes to low-income elderly or seriously disabled people who are also covered under Medicare. Only 30 percent of Medicaid costs go to cover low-income children and pregnant women.[9]

In addition to all of the uninsured Americans, many more are "underinsured." Nearly two million people under 65 spent more than 10 percent of their pre-tax income on health care.[10] A Kaiser Commission study found that uninsured hospital services alone would cost $41 billion.[11] The same study estimated total costs to be spent on health care for the uninsured came to $125 billion.[12] Investing in adequate health care coverage for all Americans would eliminate these costs to society.

Education. "Poverty prevention is more dependent on education than on any other factor, as is escape from poverty."[13] Education is the primary means by which people can lift themselves out of poverty, yet the amount spent on education targeting low-income children falls far short of the need. Educating all of our people so that people can take jobs at higher skill levels would increase the money circulating throughout our economy. "The achievement gap between poor and non-poor children is well-documented. Low-income children consistently fall behind their peers in test scores, graduation rates, college enrollment, and other measures of academic success."[14] Head Start has enrolled over 20,000,000 low-income children since its inception as a summer program in 1965.[15] Long-term follow-up studies on a

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[3] Richard G. Wilkinson, *Unhealthy Societies: The Afflictions of Inequality,* p. 54–56, 76, Routledge, London and New York (1996).

[4] Whitney W. Addington, "No Health Insurance? It's Enough to Make You Sick—Scientific Research Linking the Lack of Health Coverage to Poor Health," ACP Online, http://www.acponline.org/uninsured/lack-fore.htm.

[5] Joan Gralla, "U.S. Uninsured Health Care Cost Put at $125 Billion," Common Dreams News Center, (Reuters, May 11, 2004).

[6] Himmelstein, et al., "MarketWatch: Illness and Injury As Contributors to Bankruptcy," *Health Affairs* (Feb. 2, 2005).

[7] Michelle Chen, "Poor 'Share' More Costs Under Medicaid 'Cost Sharing' Initiatives," *The New Standard,* (June 3, 2005).

[8] "Working without a Net: The Health Care Safety Net Still Leaves Millions of Low-Income Workers Uninsured," (Families USA, April 2004). Other public health services include the State Children's Health Assistance Program and local health clinics.

[9] "Future Medicaid Growth is not Due to Flaws in the Program's Design, but to Demographic Trends and General Increases in Health Care Costs," (Center on Budget and Policy Priorities, Feb. 4, 2005).

[10] "PHC4 FYI—Uninsured Stats Continue to Climb," citing Kathleen Stoll, Director of Health Policy Analysis for Families USA, (Pennsylvania Health care Cost Containment Council, April 2005), http:/www.phc4.org/reports/fyi29.htm

[11] "PHC4 FYI—Uninsured Stats Continue to Climb," (Pennsylvania Health care Cost Containment Council, April 2005), http:/www.phc4.org/reports/fyi29.htm; May 2004 report projecting 2005.

[12] Joan Gralla, "U.S. Uninsured Health Care Cost Put at $125 Billion," Common Dreams News Center, (Reuters, May 11, 2004).

[13] S. Levitan *et al., Programs in aid of the Poor,* p. 274 (Johns Hopkins Press, 8th ed., 2003).

[14] Kevin Carey, "Education Funding and Low-Income Children: A Review of Current Research," Center on Budget and Policy Priorities (Nov. 5, 2002).

[15] Joan E. Ohl, "Head Start: Building on the Pillars of our Success" presented at the National Head Start Association Conference, May 28, 2003.

number of these children have shown that Head Start participants achieve greater school success and avoid crime as they grow.[16]

In an earlier study for Entergy, Oppenheim and MacGregor found that educating low-income children when they are very young returns about $9 for every dollar spent. Benefits include children staying in school through high school, developing a work ethic, and getting and keeping better jobs, with the commensurate rise in pay and associated income taxes, along with the multiplier effect of putting more money in the economy.[17]

Employment. Unemployment is devastating for the family depending on a breadwinner to pay the rent and put food on the table. Underemployment is also difficult for families in today's economy, where two full-time salaries at one-and-a-half times the minimum wage[18] just make it to the poverty cut-off of 60 percent of median income.[19] Almost half of the prisoners in the U.S. are unemployed when they're arrested, and 70% are functionally illiterate. After release from prison, they face a wage penalty of as much as 12% for longer than 8 years. So the cycle continues: low wages, low self-esteem, more crime. The cost of our judicial, correctional, and security systems could be substantially reduced by removing the desperation of unemployment that causes a substantial fraction of crime.

Unemployment and underemployment push families into poverty. Families falling into poverty are costly to the Nation because of the increased costs they cause of crime, health care, and social services. Thus, as difficult as unemployment and underemployment are for the families that experience them, unemployment and underemployment are costly drags on the economy that affect everyone. Some of the costs that could be avoided by reducing unemployment and underemployment are taxpayer-financed social supports such as unemployment compensation, job training, and retraining. In addition, unemployed and underemployed persons pay less in taxes than if they were fully employed. They also spend less on job-producing goods and services—the so-called multiplier effect.

Crime. In societies where inequality of income prevails, violence is more prevalent than in more equal societies, and the poor are more likely to commit crimes than the wealthy. During the past 25 years, the population of people convicted of criminal activity in the U.S. rose from 1.8 million to 6.3 million—with over two million in prison and another four million on probation, the highest per capita incarceration rate in the world.[20] With more money from full employment at decent wages, people are less likely to commit crimes, saving society costs of the judicial system, police, corrections facilities, and security systems. Added to these costs are the enormous costs to victims, both persons and businesses.

The total net burden of crime in the United States is estimated to be $1 trillion annually, or $4,118 for every U.S. resident.[21] According to The National Center for Victims of Crime, in 2002, crime was estimated to create $105 billion in medical expenses, lost earnings, and costs for victim services. Including intangible costs, such as pain and suffering and a reduced quality of life, brought the estimated cost of crime to victims to $450 billion annually.[22] The costs to society of incarcerating criminals are almost as staggering. Recent estimates put the cost at $38 billion annually.[23] The costs of police and the judicial system at the Federal, state and local levels add another $110 billion.[24] The vast majority of prisoners are poor, but even attributing only 50 percent of crime to poverty and its effects results in a cost to society from crime committed by poor people of nearly $661 billion a year. Saving one child from a life of crime can save society around $2 million. Providing full employment at a living wage, with health and other benefits, can reduce crime and save society an estimated $661 annually.

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[16] Oden, et al., "Into Adulthood: A Study of the Effects of Head Start" (High/Scope Educational Research Foundation, 2005).

[17] J. Oppenheim and T. MacGregor, "The Economics of Education: Public Benefits of High-Quality Preschool Education for Low-Income Children" (Entergy Corp., n.d. [2002]).

[18] Minimum wage is $5.15 per hour. Average hours worked for a service worker is 32.4 hours a week or 1684.8 hours per year. Bureau of Labor Statistics. The total income would be $26,030.

[19] $26,640 in 2004. U.S. Census.

[20] David Mericle, "Profiting from Poverty: The U.S. Prison-Industrial Complex," Http://www.impactpress.com/aticles/febmar01/prisonind020301/html.

[21] http://www.ncpa.org/pi/crime/pd041100e.html, citing David A. Anderson, "The Aggregate Burden of Crime," *Journal of Law and Economics* (October 1999).

[22] http://www.ncvc.org/ncvc/main.aspx?dbName=DocumentViewer&DocumentID=38710, citing Miller et al. (1996). Victim Costs and Consequences: A New Look. Washington, DC: National Institute of Justice, U.S. Department of Justice. Online: http://www.ncjrs.org/pdffiles/victcost.pdf.

[23] http://www.ncvc.org/ncvc/main.aspx?dbName=DocumentViewer&DocumentID=38710.

[24] *www.ojp.usdoj.gov/bjs/glance/tables/exptyptab.htm.*

Housing. Homelessness exploded in the 1980s. Yet current federal spending on housing assistance programs targeted at low-income populations is less than 50 percent of 1976 spending levels.[25] More than 3.5 million Americans are affected by homelessness for at least part of the year each year. On any given day, at least 840,000 people in the United States are homeless—nearly 40 percent of them children. Over 40 percent of homeless persons are eligible for disability benefits, but only 11 percent actually receive them. Most are eligible for food stamps, but only 37 percent receive them. Most homeless families are eligible for welfare benefits, but only 52 percent receive them.[26]

More than one in eight households pay more than 50 percent of their income for housing, and another 2.5 million live in over-crowded or severely inadequate housing.[27] These factors contribute to interrupted educations, lack of adequate health care, persistent hunger, and higher crime rates. Children living with families that are homeless attend school less frequently, score lower on standardized tests, are less likely to graduate from high school and become productive members of society.[28]

Homelessness can both cause and result from serious health care issues. Homelessness can exacerbate drug and alcohol addictions. Other major causes of homelessness are unemployment or underemployment; high housing costs, including rising utility bills; domestic abuse; mental illness and substance abuse, with lack of treatment services; cuts in public assistance; and the general state of the economy. The study calculates the costs of homeless shelters, public housing, and public subsidies to private housing (including tax expenditures) at $69.1 billion.

Hunger. In addition to being homeless, too many Americans are hungry. An estimated 14 million American children live in homes where there is not enough food.[29] Bread for the World reported that 35 percent of Americans had to choose between food and rent, while 28 percent had to choose between medical care and food, in the first half of 2004.[30] Other studies show that money devoted to food by families is typically the first to be sacrificed. Families will often pay their fixed payments first, such as rent and utilities, rather than pay for food.[31] The direct cost to other Americans to provide food for hungry people includes: food grants from non-governmental food pantries ($2.3 billion); the Federal Women, Infants and Children (WIC) program ($5.2 billion); Food Stamps ($27.2 billion in 2004); school and other child nutrition programs ($11.9 billion); and other food assistance ($300 million), for a conservative $46.9 billion.

Energy. Poor people cannot afford the full cost of heating and lighting their homes. Utilities, governments, and social service agencies have long assisted low-income ratepayers in paying their bills through such programs as the Low-Income Home Energy Assistance Program (LIHEAP), charitable fuel funds, levelized billing, discounts, home weatherization, energy efficiency, energy usage education, and arrearage forgiveness/debt management. Nevertheless, utility bad debt costs around $1 billion annually.[32] American utilities, through their ratepayers, paid an average of $3 per customer to collect bad debt and, in some cases, the cost was as high as $10.[33] If all Americans lived in weatherized and energy efficient homes, and had the income to pay their full share of utility bills, all other ratepayers would save nearly $6 billion in poverty costs, including fuel assistance, lifeline and other rate

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[25] "Overview of Homelessness In America" National Student Campaign Against Hunger and Homelessness, http://www.studentsagainsthunger.org/hunger.

[26] Jay Shaft, "U.S. Homelessness and Poverty Rates Skyrocket," (Information Clearing House, July 7, 2003), http://www.informationclearinghouse.info/article4305.htm.

[27] "The State of the Nation's Housing" (Harvard University Joint Center for Housing, June 13, 2005) http://www.jchs.harvard.edu/media/son2005_fact_sheet.pdf.

[28] "A Plan, Not a Dream: How to End Homelessness in Ten Years," citing research by Dr. Yvonne Rafferty of Pace University (National Alliance to End Homelessness, 2000), http://www.endhomelessness.org/pub/tenyear/cost.htm.

[29] "Hunger, Poverty and Nutrition Policy: Childhood Hunger, Childhood Obesity" (Tufts University 1995–2005), http://nutrition.tufts.edu/consumer/hunger/hunger_and_obesity.html.

[30] "Overview of Hunger In America" National Student Campaign Against Hunger and Homelessness, http://www.studentsagainsthunger.org/hunger.

[31] *Id.*

[32] Industry Solutions, The CBE Group, http://www.cbegroup.com/industry/utilities.aspx.

[33] "Utility Collections Best Practice: Theory Into Practice" (Peace Software White Paper, May 2005). http://www.peace.com/industry-watch/whitepapers/Peace-Collections-Best-Practice.pdf This paper also states that total utility bad debt written off in the U.S. each year is as high as $1.7 billion. This study used the more conservative $1 billion.

assistance; weatherization and efficiency costs; and the costs of late and unmade payments, such as service disconnections.[34]

Other Social Services. Some additional anti-poverty programs and initiatives for which the average non-low-income household contributes, and which are not detailed above but are included in the total estimate of the cost of poverty, include the following:

- Legal Services and other civil legal aid—$573 million;
- Transitional Aid to Needy Families (TANF)—$27.5 billion, federal and states combined;
- Supplemental Security Income (SSI)—$42.6 billion;
- Earned Income Tax Credit (EITC)—$36.7 billion;
- Services to low-income seniors—$1.830 billion;
- Other social services—$2.673 billion;
- Community Services Block Grants—$636.8 million; and
- Community Development Block Grants—$4.116 billion.[35]

INVESTMENT NEEDED TO ELIMINATE POVERTY

The maximum investment needed to eradicate poverty in the United States is an amount that would raise the income of every low-income household to the minimum income required to be a non-low-income household. As explained above, there are investments that are more effective, as well as more cost-effective, than cash transfers to eradicate poverty—such as education, job training, nutrition, housing, and health care.[36] But even paying people directly to eradicate poverty is considerably less than the annual benefit that it would achieve by reducing the costs of crime, health care, unemployment and underemployment, and transfers and other current investments in low-income families.

Such investment would not even come close to raising incomes to the self-sufficiency income standard.[37] These are very detailed calculations, usually done on a county-by-county, state-by-state basis that take into account actual expenditures necessary to live a basic life in various family configurations. Bare bones budgets for a working family are calculated to include housing, child care, food, transportation, health care, clothing, household items, and taxes—no recreation, entertainment, or savings.[38] In particularly costly locales, such as along the two ocean coasts, self-sufficiency incomes can be as high as a state's median income, as, for example, in Boston.[39] However, even in Atlanta, the self-sufficiency requirement for such a family is 90 percent of the state's median income.[40]

Avoidable annual costs of poverty are described in the full report and fall into four broad categories. These are costs to the society at large that are caused by the existence of poverty and do not include the substantial costs to low-income households themselves.

Costs of criminal activity, including property losses, costs of the judicial and correctional system, and security costs;

Costs of health care, including costs that are preventable by improving health care and costs of low-income health care that are spread through the society;

Costs of unemployment and underemployment, including unemployment compensation, job training, and the multiplier effect of lost economic activity;

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[34] LIHEAP Clearinghouse, National Energy Assistance Directors' Association (NEADA), National Center for Appropriate Technology (NCAT), National Community Action Foundation (NCAF).

[35] Legal Services Corp. fy2005 appropriation; "Documenting the Justice Gap in America" Legal Services. Corp, Sept. 2005; Tax Policy Center—Urban Institute and Brookings Inst. Joint venture from OMB; http://www.whitehouse.gov/omb/budget/fy2006/treasury.html; U.S. Dept. of Health and Human Services—Office of Family Assistance; Center on Budget and Policy Priorities; http://www.ssa.gov/policy/docs/statcomps/ssi__monthly/2005–11/table01.html; National Center for Appropriate Technology (NCAT).

[36] S. Levitan *et al., Programs in aid of the Poor* at pp. 43, 262 *et seq.* (Johns Hopkins Press, 8th ed., 2003).

[37] *See generally* http://www.sixstrategies.org/includes/productlistinclude.cfm?strProductType=resource&searchType=type&strType=self-sufficiency%20standard.

[38] *E.g.,* D.Pearce and J. Brooks, "The Self-Sufficiency Standard for Georgia" (Women's Policy Group, 2002).

[39] Self-sufficiency income required for a single parent with two children in Boston is $51,284. D.Pearce and J. Brooks, "The Self-Sufficiency Standard for Massachusetts" (Women's Educational and Industrial Union, 2003). Massachusetts state median income in 1999 was $50,502. http://quickfacts.census.gov/qfd/states/25000.html.

[40] Self-sufficiency income required for a single parent with two children in Atlanta is $37,982. D.Pearce and J. Brooks, "The Self-Sufficiency Standard for Massachusetts" (Women's Educational and Industrial Union, 2003). Georgia median income in 1999 was $42,433. http://quickfacts.census.gov/qfd/states/13000.html.

Costs of current anti-poverty investments, including costs for social services, elderly services, income supports, affordable housing, food, education, energy and utility supports, and block grants for community services and community development.

As substantial as these avoidable costs are, they are significantly understated. For example, this study conservatively did not include:

- many state expenditures;
- most non-governmental expenditures;
- increased risks of damage from fire caused by inadequate housing;
- increased pressure on energy prices caused by energy waste in leaky homes;
- increased property tax receipts caused by needed property improvements;
- increased borrowing costs caused by bad debt and slow payments of low-income consumers; and
- increased vulnerability to disasters such as hurricanes, causing additional requirements for disaster relief.

An additional benefit of eradicating poverty not fully quantified is the increased economic activity caused by the multiplier effect of increased income.[41]

These costs are shared by all non-low-income households, the number and median income of which are derived from the U.S. Census. From these data, it is possible to compute the annual per-household burden of poverty:

It is also possible to compute a benefit:cost ratio on the assumption that investments are made to close the income gap in order to eradicate poverty and thus eliminate the avoidable costs of poverty described above.

Conclusion. Investments in low-income Americans are among the most cost-effective investments we can make. Simple cash payments to low-income families may be among the least cost-effective investments against poverty in the long-run. Yet, as we show above, even simple cash payments sufficient to lift all Americans out of poverty would immediately be returned almost fourfold. Yet, as we have shown elsewhere, there are investment strategies on behalf of low-income families with even greater potential payoffs. For example, investing in weatherization and installing efficient appliances in low-income homes returns at least seven times the investment.[42] Investing in the education of three-and-four-year-olds returns nine times the investment.[43] Others have shown that investments in preventive health care earns a positive return.[44] Additional study should confirm the economic wisdom of other investments in low-income families. Indeed, in many cases, the science is established and the political decision has been made to create a program. All that remains to do in those cases is to adequately fund the existing programs.[45]

Weatherization, Head Start, and preventive health care are examples of underfunded cost-effective investment opportunities that have already been mentioned. Another example is childhood nutrition. It is well established that a nutritious breakfast and lunch determines a child's ability to learn, with significant implications for later success in life,[46] just as it is well established that nutrition during the first two years of life, as well as of pregnant mothers, has an enormous impact on later health and intellect.[47] That is why there is a successful program to provide

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[41] At a multiplier of 2, the impact of an increase in income is doubled through the economy. This is accounted for in the report only with regard to unemployment.

[42] J. Oppenheim and T. MacGregor, "The Economics Of Low-Income Electricity Efficiency Investment" (Entergy, 2001, rev. 2002).

[43] J. Oppenheim and T. MacGregor, "The Economics of Education: Public benefits of High-Quality Preschool Education for Low-Income Children" (Entergy, n.d. [2002]).

[44] *E.g.,* J. Abramson, M.D., *Overdosed America* at pp. 49, 166 (Harper Perrennial 2005).

[45] *E.g.,* "Millions of eligible children do not receive free or reduced price lunches." S. Levitan *et al., Programs in aid of the Poor* at p. 122 (Johns Hopkins Press, 8th ed., 2003). "Whereas [the job training program phased out in 2000] ended with sufficient funds to enroll approximately 1 percent of those who were eligible for its services, [its replacement program] adult ratio approaches the infinitesimal." *Id.* at p. 234. Housing programs are inadequately funded and do not pay enough in many markets to keep housing costs below 40 percent of income. "They simply need more resources to meet the needs of those eligible by cutting interminable waiting lists." *Id.* at p. 272.

[46] *E.g.,* J. Fraser Mustard, "Health and social capital" *in* D. Blane *et al., Health and Social Organization,* at p. 306 (Routledge, 1996).

[47] *E.g.,* M. Wadsworth, "Family and education as determinants of health," *in* D. Blane *et al., Health and Social Organization,* at pp. 154–156 (Routledge, 1996); J. Fraser Mustard, "Health and social capital" *in id.* at pp. 304–306; V. Lazariu-Bauer *et al.,* "A Comparative Analysis of Effects of Early Versus Late Prenatal WIC Participation on Birth Weight: NYS, 1995," 8 Maternal and Child Health Journal 77 (2004), www.springerlink.com/(baf1qf55lma12mnqiwgv13qi) / app / home / contribution.asp?referrer=parent&backto=issue,5,8;journal,9,38;linkingpublicationresults,1:105600,1; USDA, Economic Research Service, Effects of

Continued

adequate nutrition to infants and pregnant mothers.[48] Similarly, this is the basis for the free and reduced price school meal program.[49]

Later in life, effective vocational training and re-training can turn a marginal worker into an economic success.[50] Investing in decent housing provides the first prerequisite for a homeless family to even participate in the economy.[51] All are cost-effective investments in low-income families that could pay huge dividends if expanded.

It is time for America to invest in eradicating poverty for the benefit of all Americans.

Wisconsin Community Action Program Association
Madison, Wisconsin 53714
January 24, 2007

Chairman Rangel:

The Wisconsin Community Action Program Association (WISCAP) is the statewide voluntary association of Wisconsin's 16 Community Action Agencies (CAAs) and three special purpose agencies with statewide anti-poverty missions. On behalf of our membership, we thank you for calling this very important hearing on the economic and social costs of poverty.

For over forty years, Community Action has been a catalyst for change and a vital part of the effort to eliminate poverty in Wisconsin and throughout the United States. CAAs are independent, nonprofit organizations that are community-based and locally controlled by boards composed of one-third people experiencing poverty, one-third local elected officials, and one-third community and business leaders. All members of WISCAP are nonprofit organizations committed to creating economic opportunities and community-based solutions to poverty.

In 2005 over 428,000 individuals living in Wisconsin built assets, developed knowledge and skills, increased economic self-sufficiency, or met basic needs through the resources offered by Community Action. Our funding comes from an array of public and private sources, but critical core support is provided by the Community Services Block Grant (CSBG). We strongly support reauthorization and full funding of CSBG, without which Community Action would lose significant capacity to assist low-income people and their communities.

We are appreciative of this opportunity to discuss the costs and consequences of poverty and believe that our organizations have the successful track record, involvement of the poor, and credibility in our communities to participate in this discussion and play an even larger role in eliminating poverty in our Nation. Poverty is the cause of unnecessary and preventable suffering among millions of Americans of all ages, and the economic and social costs are enormous.

We believe that all Americans are vulnerable to poverty and that the costs and consequences of poverty have significant effects on everyone, whether poor or not.

Over the period 2003–2004, Wisconsin had the highest growth rate of people living in poverty in the United States. About 600,000 people live in poverty in our state. Please refer to our Web site, www.wiscap.org for our report "Poverty Matters: Facing Poverty in Wisconsin" and more about the work of Community Action. We believe that poverty matters and that we can do something about it.

Consequences to Children

The costs of child poverty to society in terms of lost potential, unnecessary suffering, reduced achievement, and other social ills are staggering. Children from low-income families are more likely to:

Food Assistance and Nutrition Programs on Nutrition and Health, Volumes 1–4, and Nutrition and Health Characteristics of Low-Income Populations, volumes 1–4, www.ers.usda.gov/Publications/fanrr19–1/.

[48] www.fns.usda.gov/wic/

[49] *E.g.,* The "School Breakfast Program provides nutritious breakfasts to promote learning readiness and healthy eating behaviors." www.fns.usda.gov/cnd/Default.htm.

[50] "Some form of postsecondary career preparation has become essential to earning a family-sustaining income. . . . *** . . . skill training can be accomplished through apprenticeship or employment with an employer committed to substantial incumbent training . . . few will escape poverty or near-poverty in the future without setting foot on a substantial career ladder and following it upward." S. Levitan *et al., Programs in aid of the Poor* at pp. 208–209 (Johns Hopkins Press, 8th ed., 2003). *See generally* chapters 5–6. "Poverty prevention is more dependent on education than on any other factor, as is escape from poverty." *Id.* at p. 274.

[51] "Marriage is unlikely to occur or last without [affordable housing]." S. Levitan *et al., Programs in aid of the Poor* at p. 271 (Johns Hopkins Press, 8th ed., 2003).

- suffer from hunger or inadequate nutrition,
- develop learning disabilities,
- have untreated vision or dental problems,
- become the victim of child abuse or neglect,
- be expelled from school or repeat a grade,
- attend inferior schools with fewer resources and less-skilled teachers, and
- grow up with less hope and lower expectations.

These concrete hardships can contribute to:

- lower verbal and math performance,
- higher risk of dropping out of school,
- reduced likelihood of going to college,
- more involvement in juvenile crime, and
- lower skills upon entering the workforce.

Economic Costs and Consequences

- Our economy suffers when businesses have difficulty finding enough skilled workers to compete globally. Poverty greatly affects people preparing for and entering the workforce. Children who grow up with a poor education, poor nutrition, and poor health care are much less likely to escape poverty. Combined with unstable families or neighborhoods and faced by a chronic lack of opportunities, these children of poverty are much less likely to join the workforce with skills that make our economy stronger. We all pay the price. It is imperative that tomorrow's workers be well educated and well trained.
- A growing number of seniors are supported by fewer workers earning less money. Wisconsin's population is growing older, and the proportion of younger workers is shrinking. Social Security and other programs that assist seniors will have to be funded by a diminishing proportion of workers. But based on demographic and economic trends, a growing percentage of those future workers will be low-income. Addressing poverty today in earnest will create a future in which workers are prepared to pay taxes and contribute their skills.

Health Consequences and Costs

Health costs are soaring, and that affects all of us. Some of the costs stem from the direct and indirect effects of poverty on the health of low-income people. Due to inadequate nutrition, stressful or dangerous environments, lack of health care, and other factors poverty is associated with higher rates of:

- heart disease, asthma, diabetes, hypertension, and cancer,
- injury through violent crime,
- premature and underweight births, and infant mortality,
- lead poisoning, and dental problems.

These health problems contribute to the soaring cost of health insurance and medical care. Insurance premiums rise when hospitals must pass along costs associated with increased use of emergency rooms by those who have no insurance. Out of necessity, people in poverty often put off going to a doctor or dentist until a condition worsens and becomes an emergency. It is more cost-effective to invest upfront by offering good, affordable, preventive care rather than paying after the problems move to a crisis stage.

One study found that Wisconsin families who have their insurance through their private employers pay, on average, $739 more annually in premiums due to the cost of health care for the uninsured. (Families USA 2005: "Paying a Premium: The Added Cost of Care for the Uninsured," Washington, D.C., p. 4)

Women in poverty are much more likely to receive poor prenatal care and inadequate nutrition and to deliver underweight or premature babies, which require intensive medical care and incur long-term costs. These costs, borne by insurance providers and passed along to those who pay for health insurance, have been estimated at $500,000 for each such birth.

Other Social and Economic Consequences and Costs

- Loss of potential and participation. One of the greatest tragedies of poverty is the loss of human potential. Growing up in poverty causes many individuals to fall short of attaining their full potential, depriving them and their communities of their gifts, talents, and contributions. People in poverty often feel isolated and marginalized. They are less likely to vote or participate in civic or cultural activities. We must recognize the strengths and gifts of the poor and find ways to help them have hope for a better future.

- Crime and the costs of prisons and police. Crime and incarceration rates correlate with poverty. Although the vast majority of low-income people are law-abiding, children and youths who grow up in poverty are statistically more likely to become involved in crime. This is a powerful argument for upfront investment in education from early childhood throughout the school years, for community building and economic development in low-income neighborhoods, and for mentoring, supportive youth activities, and other measures that counteract the degrading effects of poverty.
- Racial discrimination and structural/institutional racism. People of color suffer from much higher rates of poverty and many of its consequences. Gaps in educational achievement, incarceration rates, ownership of assets, and many other inequities exacerbate racial divisions in our communities and present real barriers to self-sufficiency for many people of color.
- Family instability. Families in poverty often experience high levels of stress as parents juggle one or more low-paying jobs, child-care, getting around without reliable transportation, and other responsibilities—while struggling to pay the bills. A problem that would be minor for others, such as a sick child or the breakdown of a car, can be a major crisis for a parent in poverty.

WISCAP's Principles

All people of Wisconsin and the United States should have these basic necessities of life:

- Economic opportunity—All should have access to the opportunities and skills they need to obtain employment that offers health benefits and wages sufficient to lift them and their families out of poverty. All should have access to the tools they need to build savings and assets for a secure future.
- Affordable housing and energy—All should have decent, safe, sanitary, affordable, and energy-efficient housing. Those with accessibility needs should have those needs met.
- Food security—All should be able to afford enough nutritious food.
- Health and safety—All should have access to dependable, affordable health care—physical, mental, and dental—and all should live free from violence.
- A voice in the community—All should have the opportunity to contribute to a better neighborhood and nation through civic participation and community involvement.
- Education—All should have access to quality, affordable education throughout their lives so they have opportunities to develop skills and their personal potential.
- Human dignity—All deserve respect as human beings and should have equal opportunity in the basic aspects of life, regardless of income, wealth, race, ethnicity, gender, disability, age, religion, or sexual orientation.

There was a great deal of lip service given to the issue of poverty when Americans saw the images of the poor after the tragedy of Hurricane Katrina. But little has changed for the poor throughout our country since that time. We in Community Action have struggled alongside the poor for over 40 years, and we are ready to work with our national, state and local leaders to increase the focus on eliminating poverty for all Americans. As one step, we strongly support the reauthorization and full funding of the Community Services Block Grant, which provides critical core funding for the Nation's Community Action Agencies.

We must not accept the existence of poverty as something normal or routine. We believe it is possible, with all of our combined talents and resources, to eliminate poverty and increase the opportunities available to all of the people of Wisconsin and the United States. We believe that there are cost-effective solutions to poverty. Through efforts that create jobs that pay living wages with benefits, along with programs that emphasize strategies like prevention, skill development, access to health care, affordable housing, and community economic development, we can transform our common future to eliminate poverty. It is morally imperative and in our personal, social, and economic interests to do so.

Respectfully Submitted,

Richard Schlimm
Executive Director

Members of the Wisconsin Community Action Program Association

ADVOCAP, Inc.
Fond du Lac, WI

CAP Services, Inc.
Stevens Point, WI

Central Wisconsin Community Action Council, Inc.
Wisconsin Dells, WI

Community Action Coalition for South Central Wisconsin, Inc.
Madison, WI

Community Action, Inc.
Janesville, WI

Couleecap, Inc.
Westby, WI

Indianhead Community Action Agency, Inc.
Ladysmith, WI

Lakeshore CAP, Inc.
Manitowoc, WI

NEWCAP, Inc.
Oconto, WI

North Central Community Action Program, Inc.
Wisconsin Rapids, WI

Northwest Wisconsin Community Services Agency, Inc.
Superior, WI

Racine/Kenosha Community Action Agency, Inc.
Racine, WI

Social Development Commission, Inc.
Milwaukee, WI

Southwest Wisconsin Community Action Program, Inc.
Dodgeville, WI

West CAP, Inc.
Glenwood City, WI

Western Dairyland Economic Opportunity Council, Inc.
Independence, WI

Coalition of Wisconsin Aging Groups, Inc.
Madison, WI

Foundation for Rural Housing, Inc.
Madison, WI

United Migrant Opportunity Services, Inc.
Milwaukee, WI

Statement of Zero To Three Policy Center

Chairman Rangel and Members of the Committee:

I am pleased to submit the following written testimony on behalf of ZERO TO THREE. My name is Matthew Melmed. For the last 12 years I have been the Executive Director of ZERO TO THREE, a national non-profit organization that has worked to advance the healthy development of America's babies and toddlers for close to 30 years. I would like to start by thanking the Committee for its interest in examining the economic and societal costs of poverty and for providing me the opportunity to discuss the interaction between poverty and the healthy development of our Nation's infants and toddlers and how federal policy can help address the issues raised.

Some may wonder why babies matter in public policy. Surely they are the province of their parents or caregivers. Yet, public policies often affect very young children, policies that are sometimes created with little thought as to their consequences for this age group. In addition, many policies focus on the effects of *ignor-*

ing the needs of infants and toddlers, for example, by having to address the cognitive gaps between low-income preschoolers and their more affluent peers or providing intensive special education services for problems that may have begun as much milder developmental delays left untreated in a young baby. Mr. Chairman, my message to you is that babies can't wait—we know that early intervention and prevention works best and we know what works to promote healthy development in young children.

The early years create an important foundation for later school and life success. We know from the science of early childhood development that infancy and toddlerhood are times of intense intellectual engagement.[i] During this time—a remarkable 36 months—the brain undergoes its most dramatic development, and children acquire the ability to think, speak, learn, and reason. All babies and toddlers need positive early learning experiences to foster their intellectual, social, and emotional development and to lay the foundation for later school success. These years may be even more critical for young children living in poverty.

One of the most consistent associations in developmental science is between economic hardship and compromised child development.[ii] The malleability of young children's development and the overwhelming importance of the family (rather than school or peer) context suggest that economic conditions in early childhood may be far more important for shaping children's ability, behavior, and achievement than conditions later in childhood.[iii] Lower-income infants and toddlers are at greater risk than middle to high-income infants and toddlers for a variety of poorer outcomes and vulnerabilities such as later school failure, learning disabilities, behavior problems, mental retardation, developmental delay, and health impairments.[iv] Babies and toddlers living in high-risk environments need additional supports to promote their healthy growth and development.

Congress must consider the unique needs of very young children and their families who are living in poverty. Policies should help attack the intergenerational cycle of poverty by laying the foundations for early learning and improving prospects of later school success on the part of the children. We know that intervening early in the life of a child at-risk for poor development can help minimize the impacts of these risks. We must ensure that infants, especially those living in poverty, have time at home with their parents in the first months of life. We must also ensure that infants and toddlers living in poverty have access to quality, developmentally appropriate early learning programs such as Early Head Start or quality child care to help ensure that they are ready for school.

Portrait of Infants and Toddlers Living in Poverty

There are more than 12 million infants and toddlers living in the United States. Twenty-one percent—2.6 million—live in poor families.[v] After a decade of decline, the percentage of children under the age of 3 living in low-income families is on the rise again.[vi] Between 2000 and 2005, the number of children of all ages who were poor increased by 11 percent.[vii] During the same period, the number of infants and toddlers who were poor increased by 15 percent.[viii] It is important to note that young children are disproportionately impacted by economic stress. Forty-three percent of children under the age of 3—5.2 million—live in low-income families (defined as below 200 percent of poverty).[ix]

The environmental stresses to which these children are more likely to be exposed, such as inadequate nutrition, substance abuse, maternal depression, exposure to environmental toxins, and trauma/abuse can all negatively influence their development.[x] For example, the existence of maternal depression and other adult mental health disorders can negatively affect children if parents are not capable of providing consistent sensitive care, emotional nurturance, protection and the stimula-

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[i] Shonkoff, Jack and Phillips, Deborah. 2000. *From neurons to neighborhoods: The science of early childhood development.* Washington, DC: National Academy Press.

[ii] Ibid.

[iii] Ibid.

[iv] Ibid.

[v] Douglas-Hall, Ayona; Chau, Michelle; and Koball, Heather. 2006. *Basic facts about low-income children: Birth to age 3.* September 2006. *http://www.nccp.org/media/ecp06b_text.pdf* (accessed February 5, 2007).

[vi] Ibid.

[vii] Ibid.

[viii] Ibid.

[ix] Ibid.

[x] National Center for Children in Poverty. 1999. *Poverty and Brain Development in Early Childhood. http://www.nccp.org/media/pbd99-text.pdf* (accessed February 6, 2007).

tion that young children need.[xi] Maternal depression, anxiety disorders, and other forms of chronic depression affect approximately 10 percent of mothers with young children[xii]—this number is even higher for families in poverty. In fact, findings at enrollment from the Early Head Start Research and Evaluation Project indicate that nearly half (48 percent) of mothers reported enough depressive symptoms to be considered clinically depressed.[xiii] Early and sustained exposure to the aforementioned risks can influence the physical architecture of the developing brain, preventing babies and toddlers from fully developing the neural pathways and connections that facilitate later learning.

The Importance of Unhurried Time

Welfare to work policy is an area where the importance of infant and toddler development may not be so obvious, but is a factor that should be given great weight. The need for infants, especially, to spend time with their parents should be balanced against society's goal of moving adults quickly into the workforce. Often, when this need is considered, it is only in the context of the expense of providing child care for this group.

According to a groundbreaking report released by the National Academies of Science, *From Neurons to Neighborhoods: The Science of Early Childhood Development,* parents structure the experience and shape the environment within which a young child's early development unfolds.[xiv] Infants and toddlers need unhurried time with their parents to form the critical relationships with them that will serve as the foundation for social, emotional, and cognitive development. The better parents know their children, the more readily they will recognize even the most subtle cues that indicate what the children need to promote their healthy growth and development. For example, early on infants are learning to regulate their eating and sleeping patterns and their emotions. If parents can recognize and respond to their baby's cues, they will be able to soothe the baby, respond to his cues, and make the baby feel safe and secure in his new world. Trust and emotional security enable a baby to explore with confidence and communicate with others—critical characteristics that impact early learning and later school readiness.

At-risk infants and toddlers in particular need time with their parents because their early attachments can help serve as a buffer against the impact of the multiple risk factors they may face. Early attachments are critical for infants and toddlers because a positive early relationship, especially with a parent, reduces a young child's fear in novel or challenging situations thereby enabling her to explore with confidence and to manage stress and also strengthens a young child's sense of competence and efficacy.[xv] In addition, early attachments set the stage for other relationships, foster the exploratory behavior that is so critical to early learning, and play an important role in shaping a young child's ability to react to stressful situations.[xvi]

The need for time with infants has direct relevance to welfare to work policies, and Congress should consider the developmental needs of infants and toddlers in shaping these policies. Excessive mandatory work requirements for low-income parents who are receiving Temporary Assistance to Needy Families (TANF) make unhurried time difficult. While states have the option of exempting parents with infants from work requirements, many do not take advantage or exempt these parents for only a few months.

There is evidence to suggest that long hours of maternal employment in the child's first year, can be a negative factor for infant development.[xvii] It is particularly difficult for mothers with young children living in poverty because of the kinds of jobs they tend to have (i.e. service jobs), the nontraditional hours they are often required to work, and the poor quality child care that is available. Young children living in poverty are much more likely to have a mother who works nontraditional

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[xi] Cohen, Julie., Onunaku, Ngozi., Clothier, Steffanie., and Poppe, Julie. 2005. *Helping young children succeed: Strategies to promote early childhood social and emotional development.* Washington, DC: National Conference of State Legislatures and ZERO TO THREE.

[xii] M. O'Hara, *Postpartum Depression: Causes and Consequences* (New York, NY: Springer-Verlag Inc., 1994).

[xiii] Early Head Start Evaluation and Research Project, *Research to Practice: Depression in the Lives of Early Head Start Families (*Washington, DC: U.S. Department of Health and Human Services, Administration for Children and Families, January 2003).

[xiv] Shonkoff, Jack and Phillips, Deborah. 2000. *From neurons to neighborhoods: The science of early childhood development.* Washington, DC: National Academy Press.

[xv] Ibid.

[xvi] Ibid.

[xvii] Ibid.

hours compared with young children living above the poverty line.[xviii] Service jobs, which often entail very low wages, few benefits and nontraditional work hours, are disproportionately filled by less-educated women who now comprise a large group of mothers who are entering the labor force as a result of welfare reform and federal work requirements.[xix]

Finally, we know almost nothing about how the TANF program with its work requirements has affected infants and toddlers, for good or ill. Some studies have looked at the impact of TANF on older children, but ignore the impacts on the youngest. I urge Congress to require research into the impacts this program has on the well-being of infants and toddlers.

Early Head Start: A Beacon of Hope for Babies Living in Poverty

Comprehensive high quality early learning programs for infants and toddlers, such as Early Head Start, can help to protect against the multiple adverse influences that may hinder their development across all domains. Very young children living in poverty are more at-risk for a variety of poor outcomes than low-income families. Programs like Early Head Start not only set the stage for later school readiness and success, but also for the parent's road to self-sufficiency.

Research from the Early Head Start Research and Evaluation Project, and its companion follow-up results, concluded that the program is making a positive difference in areas associated with children's success in school, family self-sufficiency, and parental support of child development. For example, Early Head Start produced statistically significant, positive impacts on standardized measures of children's cognitive and language development. A smaller percentage of Early Head Start children scored in the "at-risk" range of developmental functioning. Early Head Start children had more positive interactions with their parents than control group children. In addition, Early Head Start significantly facilitated parents' progress toward self-sufficiency. Although there were not significant increases in income, there was increased parental participation in education and job-training activities. The study also found that Early Head Start parents were more involved and provided more support for learning. Early Head Start parents were observed to be more emotionally supportive and less detached than control-group parents. They also provided significantly more support for language and learning than control-group parents.[xx]

The experience of Early Head Start suggests that exempting parents of young children from work requirements need not mean an unproductive period. They can be engaged in activities that are good for their own development as well as that of their children—if resources are available. In fact, a few states have channeled TANF funds into expanding Early Head Start services.

Although the benefits of Early Head Start are clear, the program is only reaching a small proportion of at-risk children and families. Currently, only 10 percent of the overall Head Start budget is used to serve 61,243 low-income families with infants and toddlers in the Early Head Start program—less than three percent of those eligible. In order to ensure that the program can serve more eligible babies, Congress must increase the Early Head Start set-aside to at least 25 percent over five years and expand funding for Head Start to make those increases a reality. We can't wait until these at-risk children are already behind at age four to intervene.

Quality Child Care for At-Risk Infants and Toddlers

Second only to the immediate family, child care is the context in which early childhood development most frequently unfolds, starting in infancy.[xxi] According to 2005 data, 42 percent of one-year-olds and 53 percent of one-to-two-year-olds have at least one regular non-parental care arrangement.[xxii] The increase in the number of working parents with babies and toddlers comes at a time when science has demonstrated the critical importance of supporting the development and learning of children ages birth to three, and makes the need for quality child care even more significant.

[xviii] Ibid.

[xix] Ibid.

[xx] U.S. Department of Health and Human Services, Administration for Children and Families. 2002. *Making a difference in the lives of infants and toddlers and their families. The impacts of Early Head Start.*

[xxi] Shonkoff, Jack and Phillips, Deborah. 2000. *From neurons to neighborhoods: The science of early childhood development.* Washington, DC: National Academy Press.

[xxii] Schumacher, Rachel, Hamm, Katie, Goldstein, Anne, and Lombardi, Joan 2006. *Starting off right: Promoting child development from birth in state early care and education initiatives.* Washington, DC: Center for Law and Social Policy and ZERO TO THREE.

The evidence associating the quality of infant and toddler care with early cognitive and language outcomes "is striking in consistency."[xxiii] High quality child care is associated with outcomes that all parents want to see in their children, ranging from cooperation with adults to the ability to initiate and sustain positive exchanges with peers, to early competence in math and reading—all of which are key ingredients to later school success. However, more than 40 percent of infants and toddlers are in child care rooms of poor quality.[xxiv]

Research indicates that the strongest effects of quality child care are found with at-risk children—children from families with the fewest resources and under the greatest stress.[xxv] Yet, at-risk infants and toddlers who may benefit the most from high-quality child care are unlikely to receive it—they receive some of the poorest quality care that exists in communities across the United States.[xxvi] Poor quality child care for at-risk children may diminish inborn potential and lead to poorer developmental outcomes.[xxvii]

Congress should ensure that all babies and toddlers, particularly those living in poverty, have access to quality child care. An increase in federal funding for child care would lead to increased investments in quality and would help to ensure that more low-income infants and toddlers have access to quality child care settings. More funding needs to be directed specifically at improving the quality of care for infants and toddlers, and providing professional development opportunities with infant-toddler content for early childhood staff who work with this age group.

Conclusion

During the first three years of life, children rapidly develop foundational capabilities—cognitive, social and emotional—on which subsequent development builds. These years are even more important for infants and toddlers living in poverty. All young children should be given the opportunity to succeed in school and in life. We know that all babies, especially those at-risk, need unhurried time in the first months of life with their parents. We also know that access to comprehensive, high-quality, developmentally appropriate programs and services—whether Early Head Start or child care—can serve as a protective factor for at-risk infants and toddlers.

Too often, the effect of our overall policy emphasis is to wait until at-risk children are already behind developmentally before significant investments are made to address their needs. I urge the Committee to change this pattern and invest in at-risk infants and toddlers early on, when that investment can have the biggest payoff—preventing problems or delays that become more costly to address as the children grow older. We do not need to accept that vulnerable children will inevitably have already fallen behind at age four and then provide special education and intensive prekindergarten services to help them play catch up. We know what at-risk babies need to help them grow up healthy and ready to learn. I urge the Committee to consider the very unique needs of babies living in poverty as you address the economic and societal costs of poverty.

Thank you for your time and for your commitment to our Nation's at-risk infants, toddlers and families.

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[xxiii] Shonkoff, Jack and Phillips, Deborah. 2000. *From neurons to neighborhoods: The science of early childhood development.* Washington, DC: National Academy Press.

[xxiv] Cost, Quality and Child Outcomes Study Team. *Cost, Quality and Child Outcomes in Child Care Centers,* Public Report, 2nd edition. (Denver Economics Department, University of Colorado at Denver, 1995).

[xxv] Shonkoff, Jack and Phillips, Deborah. 2000. *From neurons to neighborhoods: The science of early childhood development.* Washington, DC: National Academy Press.

[xxvi] Ibid.

[xxvii] Ibid.