



Statement before the U.S Senate Committee on the Budget

Back to Work:
How to improve the prospects of low-income Americans

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The views expressed in this testimony are those of the author alone and do not necessarily represent those of the American Enterprise Institute.

Chairman Murray, Ranking Member Sessions, and other members of the committee, thank you for the opportunity to testify today before the Senate Committee on the Budget on the economic outlook of individuals, families, and communities.

My remarks will focus on how we, as a nation, can do a better job of helping poor Americans. I will lead with my summation:

I. The economic status and outlook for low-income Americans is not as strong as it could be or as it should be;

II. Policymakers should adhere to the following principles to enhance the well-being of and opportunity of economically vulnerable working-age Americans:

1. Foster more and better work opportunities;
2. Require work as a condition of means-tested public assistance;
3. Reward work with robust support for those working at low wages;
4. Foster two-parent married families.

III. I recommend the following policies:

1. Stronger work requirements for public assistance programs;
2. Better targeted and sometimes more generous work supports to make low wages stretch farther;
3. Mitigate marriage penalties embedded in means-tested welfare programs and send honest public messages about the significant challenges of raising children in single parent families.
4. Targeted programs for young men and young parents in poor communities;
5. Pro job-growth and labor mobility policy, specifically relocation assistance for the unemployed;

I. Low-income Americans are struggling

The lackluster economic recovery—which is now more than 50 months old—has not brought relief to American individuals, families and communities. According to the latest data from the Bureau of Labor Statistics, 10.2 million Americans are unemployed. 3.6 million have been jobless for more than 27 weeks. 7.3 million are involuntarily working part-time. And 837,000 workers are so discouraged, they have stopped looking¹.

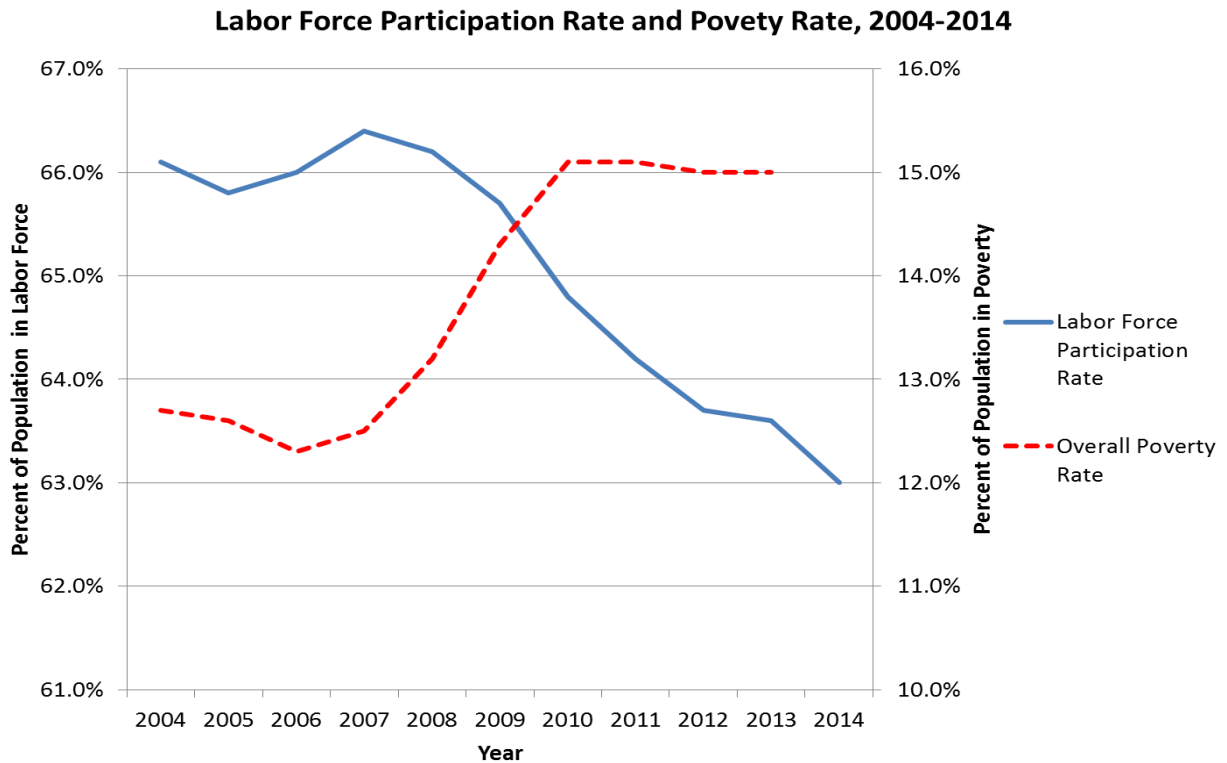
The unemployment rate has fallen substantially from a peak of 10 percent in October 2009 to its current 6.6 percent, but those numbers tell a false tale of the recovery. A smaller share of working-age Americans are either working or looking for work than five years ago. In October 2009, 65 percent of Americans age 16 and older were participating in the labor force. As of January 2014, 63 percent were².

1 Bureau of Labor Statistics. <<http://www.bls.gov/news.release/empsit.nr0.htm>>. Accessed 7 February 2014.

2 Bureau of Labor Statistics. <<http://data.bls.gov/timeseries/LNS11300000>>. Accessed 20 February 2014.

The average American household is also earning less than it did five years ago. From 2007 through 2012, the inflation-adjusted median household income dropped from \$55,627 to \$51,017.

These trends have hurt the most economically vulnerable. As work participation has fallen, the official poverty rate has risen. In 2007, 12.5 percent of Americans were living below the poverty line. Now, 15 percent do. In 2007, 18 percent of children lived below the poverty line. Now 21.8 percent do³. The official poverty rate is seriously flawed in that it overstates the material hardship faced by low income Americans by not taking into account much of what government provides in assistance. But as an indication of the extent to which Americans are not earning a minimum income through their own work, the most recent official poverty numbers tell a very disturbing story.



Source: US Census Bureau and Bureau of Labor Statistics

3 United States Census Bureau. "Historical Poverty Tables." <http://www.census.gov/hhes/www/poverty/data/historical/people.html>. Accessed 5 February 2014.

II. Principles for helping poor Americans

I have spent the last 18 years working on these issues for both New York State and New York City. I have found that there are certain essential ingredients to successful public assistance programs.

1. *Work requirements as a condition of public assistance.* Not working is the quickest pathway to poverty in the United States. In 2012, 60 percent of the poor ages 18-64 did not work at least one week out of the year. In contrast, the poverty rate for full-time, year-round workers was 2.9 percent⁴. A strong work-first approach must be central to public assistance programs. The work first approach has been shown to have better outcomes with regard to attachment to the labor force than approaches which focus on training and education. If the goal of public assistance is to help the poor lift themselves out of poverty and into self-sufficiency, then work requirements as a condition of that help must be central.

2. *Robust work supports for those who are working at low wages.* In many areas—like New York City—it is difficult to make ends meet while working at low wages. We need to recognize that, and provide supports that honor and supplement the work efforts of low-income Americans without discouraging them from work. The Earned Income Tax Credit, child care assistance, public health insurance, food stamp benefits and child support enforcement collections can all be important work supports that make earnings go farther for a family.

3. *Business growth and investment.* In New York City, I was fortunate to benefit from an economy that though impacted by the recession recovered much sooner than the nation as a whole. Even during the national recession, our welfare to work program was able to find thousands of employment opportunities and that strong economy was a key reason that thousands of low-income citizens were able to leave the welfare rolls. The same is not the case nationwide: New York City was the only city among the nation's 20 largest that has not seen an increase in poverty since 2001⁵. Policies, both at the national and state level that raise the cost of doing business and deter growth do little to create what the poor need most: jobs.

4. *Foster married, two-parent families.* The consensus view of academic research, and of common sense, is that children raised in married, two-parent families are more likely to be successful than those raised by single parents. Yet many public assistance programs are structured in ways that provide greater financial benefits to single parent families than married families. And unfortunately most of our leading institutions—and leaders—shy away from reiterating that children are less likely to grow up in poverty if they are born into married two-parent families. We need to mitigate marriage penalties in public assistance programs and we need to be honest about the consequences for children of single parenthood.

4 United States Census Bureau. "Income, Poverty, and Health Insurance Coverage in the United States." <<http://www.census.gov/prod/2013pubs/p60-245.pdf>>. September 2013

5 Office of the Mayor, City of New York. "Mayor Bloomberg Receives Award for Anti-poverty Efforts." <<http://www1.nyc.gov/office-of-the-mayor/news/367-13/mayor-bloomberg-receives-award-anti-poverty-efforts-children-s-aid-society-releases-new/#/0>>. 14 November 2013.



Source: New York City Human Resources Administration, Department of Social Services

III. Policy reforms that should be explored

1. Work Requirements

Work requirements were a key element of the 1996 welfare reform. They created a reciprocal relationship between low-income Americans and the government. In the words of then-President Bill Clinton, the work requirement helped “make welfare a second chance, not a way of life.”⁶ Women on welfare had been told they couldn’t work. After reform, employment among never-married mothers soared from 44 percent to more than 65 percent⁷. The work requirement was critically important to that success.

Given that work is proven to help low-income Americans rise out of poverty, tightly-administered work requirements must be a condition of support in current and future programs. During my time in New York City, we took these requirements very seriously. If an individual qualified for cash assistance but was not employed, we required his participation in an employment program. If an individual without children in the household qualified for food stamps, was not employed, and was able to work, we required her participation in an employment program. With those clear expectations in place, we were able to help

⁶ Clinton, Bill. "How We Ended Welfare, Together." *The New York Times*. 21 Aug. 2006. Web. 23 Feb. 2014.

⁷ Haskins, Ron. *Work Over Welfare: The Inside Story of the 1996 Welfare Reform Law*. Brookings Institution Press 2006, p. 335.

hundreds of thousands of New Yorkers move from welfare to work, reducing the City's welfare caseload from 1.1 million under Mayor Giuliani to 346,000 at the end of the Bloomberg administration.

Many states and localities—and the federal government—have not taken these requirements as seriously as we did in New York. Given the body of research demonstrating that work-first is the most effective way of helping Americans help themselves, this needs to change⁸.

2. Work Supports

Low-income Americans must know that work is expected and also rewarded. To that end, there is merit in seriously considering how work supports could be improved—and in some cases made more generous. In my experience in New York City, programs like Medicaid, child care assistance, and child support collections—taken as whole—were very helpful at keeping people working, moving up, and rising out of poverty.

One of the most successful work support programs, the Earned Income Tax Credit (EITC), has proven very successful in this regard. Yet given the economic situation faced by many low-income Americans, enhancement of the EITC should be carefully considered, especially for single Americans and non-custodial parents.

The Earned Income Tax Credit (EITC)

The EITC is one of the most important federal anti-poverty programs currently in existence, and is estimated to have lifted 6.5 million Americans out of poverty in 2012⁹. The EITC is also notable in that it was designed to encourage work, and has been successful in doing so. A review of welfare reform policies in the 1990s by Dr. Jeffrey Grogger showed that the EITC helped raise the employment and earnings of female-led households, and led to a decrease in welfare use¹⁰.

But there are opportunities to improve the EITC: it leaves single individuals—most notably non-custodial fathers—without much financial support at all. The maximum benefit for singles is capped at \$487, while being much more generous for household with children, offering a maximum benefit of more than \$6,000 for workers with three or more children.

Although it makes sense to have larger benefits for parents, there are reasons now that expanding the EITC for non-parents and non-custodial parents makes sense as well.

First, non-custodial parents—particularly fathers—are among the most economically vulnerable and societally detached groups of adults. A 2001 study by Sorensen and Zibman found that only 36 percent

⁸ Brown, Amy, "ReWORKing Welfare." U.S. Department of Health and Human Services. <<http://aspe.hhs.gov/hsp/isp/work1st/pt1.htm>>. March 1997.

⁹ Center on Budget and Policy Priorities, "Policy Basics: The Earned Income Tax Credit," <<http://www.cbpp.org/cms/?fa=view&id=2505>>. January 31, 2014.

¹⁰ Grogger, Jeffrey, "The Effect of Time Limits, The EITC, and Other Policy Changes on Welfare Use, Work, and Income Among Female-Headed Families," *The Review of Economics and Statistics*, May 2003, Vol. 85 (2), p. 394-408.

of the 11 million non-custodial fathers paid child support. Of those who did not pay support, 23 percent were poor, 60 percent were minority, and 42 percent had not finished high school¹¹. This group of Americans—even more than other vulnerable populations—is struggling. This impacts not only their own well-being, but their ability to contribute financially and personally to the lives of their children and mothers.

Second, current policy does little to encourage them to help themselves and their families through work: a non-custodial father working full time at minimum wage would not be eligible for EITC support. Public policy enforces appropriate responsibilities for non-custodial parents—in the form of child support obligations—but it provides few carrots. Enhancing the EITC for this group of Americans could help.

Third, the expansion of other programs that provide benefits to single Americans—but do not encourage work—make supports that do require work more critical. The Affordable Care Act, for example, significantly expanded Medicaid for low-income singles and non-custodial parents. By providing support detached from work effort, such expansions lower the incentive to work. Targeted EITC expansion could help offset these disincentives.

Given the EITC's success in encouraging workers with children to enter the labor force and continue working, it makes sense to re-evaluate how the EITC works for single non-parents and non-custodial parents.

3. Better family policy

When it comes to promoting the benefits of two-parent married families for children, I do not want to stigmatize or impose my culture on others. But I do want to be honest. The consensus of academic research is that married parents are good for children. A recent study by Harvard economist Raj Chetty and colleagues looked at the best available community-level data on mobility in America, seeking the strongest predictor of upward mobility for children. They found that,

“The fraction of children living in single-parent households is the strongest correlate of upward income mobility among all the variables we explored”¹²

Family structure was more predictive of mobility than race, income inequality, or educational opportunity. The authors' findings are consistent with a large body of academic work showing that children are most likely to thrive in a stable two-parent, married family; for instance, Child Trends noted that “research clearly demonstrates that family structure matters for children, and the family structure that helps children the most is a family headed by two biological parents in a low-conflict marriage.”¹³ If

11 Lucky, Irene and Lisa Potts, 2010. “Alternative to incarceration for low-income non-custodial parents.” Child and Family Social Work, 2010. <<http://www.scfathersandfamilies.com/public/docs/1330102066.pdf>>.

12 Chetty, Raj et al., 2014 “Where is the Land of Opportunity? The geography of intergenerational mobility in the United States” NBER Working Paper 19843. <http://obs.rc.fas.harvard.edu/chetty/mobility_geo.pdf>.

13 <http://www.childtrends.org/wp-content/uploads/2013/03/MarriageRB602.pdf>. See, also, Paul Amato, 2005, http://futureofchildren.org/futureofchildren/publications/docs/15_02_05.pdf

we are serious about addressing child mobility, we must be willing to talk honestly about the role of one of its most influential predictors: family structure.

Marriage penalties

Recognizing that married, two-parent families help poor children succeed, we must address policies that make marriage hard—especially among low- and middle-income Americans. Marriage penalties can be especially discouraging for those individuals who have the least freedom to forego income. As Eugene Steuerle of the Tax Policy Center and colleagues have explored in detail, policies aimed at assisting low- and moderate-income households with children often penalize marriage. Take this example:

A single parent with two children who earns \$15,000 enjoys an EITC benefit of about \$4100. The credit decreases by 21.06 cents for every dollar a married couple earns above \$15040....[I]f the single parent marries someone earning \$10,000, for a combined income of \$25,000, the EITC benefit will drop to about \$2,200. The couple faces a marriage tax penalty of...\$1,900.”¹⁴

Similar penalties are embedded in Medicaid, Temporary Assistance for Needy Families (TANF), food stamps, housing assistance, and child care—all of which apply to low- and moderate-income Americans. Efforts to mitigate marriage penalties have largely taken the form of tax cuts directed toward married couples. But according to Carasso and Steuerle’s analysis, 81 percent of that relief flowed to couples earning above \$75,000.

A host of reforms could alleviate this burden. As Carasso and Steuerle describe, implementing a maximum marginal tax rate for low-income families would tamp marriage-induced hikes in rates. Providing a subsidy on individual earnings—not combined earnings (like the EITC)—would enable a low-wage American to marry someone with a child, but do so without sacrificing significant income or transfer payments. And mandatory individual filing, as done in Canada, Australia, Italy and Japan, would either require or allow low-income individuals to avoid income tax penalties.

The first step, however, is to recognize that tax policy and social services program structures hinder an institution that is vital to the flourishing of poor children. We need to find a way to address it.

4. Targeted programs for the most vulnerable

Programs targeted toward the most vulnerable Americans, particularly young men and young parents in poor communities, attack intergenerational poverty head-on. Though these programs are still in developmental stages, they deserve attention and could serve as models for larger state- or national programs.

Two-gen programs

14 Carasso, Adam, and C. Eugene Steuerle. "The Hefty Penalty on Marriage Facing Many Households with Children." *The Future of Children* 15.2 (2005): 157-75.
<http://futureofchildren.org/futureofchildren/publications/docs/15_02_09.pdf>.

Two generation programs operate on the premise that vulnerable households are best helped with simultaneous supports for both child and parent. By combining pre-k and early childhood education for children with work programs, parenting classes, fatherhood education and marriage counseling for adults, the programs seek to create a better foundation for regular work, healthy homes, and smart children.

Programs like AVANCE in Texas and New Mexico, INPEACE in Hawaii, and Career Advance in Oklahoma are examples of such initiatives. We need to nurture these types of programs, while carefully evaluating them with randomized assignment studies—and replicate them if they are shown to be successful.

Programs for young men

Young minority men are disproportionately poor and unemployed, have higher rates of crime, and drop out of high school more often than whites. Programs—often joint public-private efforts at the local level—need to tackle that problem and connect young minority men to educational, employment, and mentoring opportunities.

Mayor Bloomberg's Young Men's Initiative in New York City is one such program. A coordinated program across thirteen separate agencies, the initiative works to prepare young men of color to compete with their peers in the classroom and in the workplace, equip them to be responsible fathers, and help a run-in with the criminal justice system from defining a young man's life through mentoring, case management, and therapy¹⁵.

Chicago has pioneered a highly successful “Becoming a Man” initiative targeted toward at-risk males grades 7-12. That program focuses on developing the social-cognitive skills that reduce violence and anti-social behavior¹⁶. In a randomized trial conducted by the University of Chicago Crime Lab, B.A.M was shown to reduce violent crime arrests by 44 percent; reduce the likelihood of attending school in a juvenile justice setting by 53 percent; and increase graduation rates by 10-23 percent.

The Doe Fund in New York City helps largely minority men get back to work more directly with a 6-9 month program that fosters a strong work and drug free environment. It offers and enforces a contract: If you get up every day and go to work and stay drug free, we will pay you and house you and feed you¹⁷. And its average graduate has a starting wage of \$10.88 per hour.

President Obama has announced a broader initiative, “My Brother’s Keeper,” which seeks to target the same population at larger scale. Though the details of this program have not yet been announced, it is encouraging to see thoughtful engagement of the issue at the federal level.

¹⁵ "Young Men's Initiative." *Young Men's Initiative*. City of New York, n.d. Web. 23 Feb. 2014. <<http://www.nyc.gov/html/yimi/html/home/home.shtml>>.

¹⁶ "B.A.M. – Becoming A Man." Youth Guidance, 2012. Web. 23 Feb. 2014. <<http://www.youth-guidance.org/our-programs/b-a-m-becoming-a-man/>>.

¹⁷ "Ready, Willing & Able." The Doe Fund, n.d. Web. 19 Feb. 2014. <<http://www.doe.org/>>.

Programs for Young Parents

64 percent of African-American lived apart from their biological fathers in 2012¹⁸. Such children are more likely to grow up in poverty, drop out of school, and become either single mothers or non-custodial fathers. Initiatives to help young parents improve their parenting practices and family life show some promise in breaking this cycle.

The bulk of these programs capitalize on the moment of childbirth to bring parents together and engage fathers in the lives of their children and mothers. A 2010 study by Philip Cowan and colleagues reviewed a broad range of couple-oriented family strengthening programs. Though the data on such programs are far from robust, the authors find that some such programs positively impact father involvement, marriage health, and child outcomes¹⁹.

5. Encouraging Job Growth and Mobility

What low-income Americans need most is work. Policies that lend businesses the confidence they need to invest and grow are also policies that will help the poor. Conversely, policies that reduce job growth hurt the poor. I do not pretend to be an economist, but I do know how the slow economy made work harder to find and hold for many low-income New Yorkers, and am keenly aware of the impact of burdensome regulation and policy on the economic well-being of vulnerable Americans.

The impact of public policy on work

At this particularly difficult time for American families we cannot be indifferent to the effect on the labor market of our public policies.

At least so far, the Affordable Care Act has done little to foster the participation of low-income Americans in the work force. The Congressional Budget Office estimates that the ACA will reduce full-time equivalent employment by 2.3 million jobs by 2021²⁰. Policies, like the ACA, that reduce labor supply and total hours worked in the economy are indifferent at best and harmful at worst to the goal of full time, year-round work that is the most direct poverty-protection mechanism.

Recent proposals to raise the minimum wage would not help the prospects of the most poor Americans. A recent study by Joseph Sabia and Richard Burkhauser found that only 11.3 percent of individuals who would benefit from raising the minimum wage to \$9.50 per hour were living below the poverty line. 42.3 percent of those who would benefit live in households with incomes three times the poverty line²¹. And

¹⁸ Solomon-Fears, Carmen Solomon-Fears, Gene Falk, and Adrienne Fernandes-Alcantara. "Child Well-Being and Noncustodial Fathers." Congressional Budget Office, 12 Feb. 2013. Web. 19 Feb. 2014.

¹⁹ Cowan, Philip A., Carolyn Pape Cowan, and Virginia Knox. "Marriage and Fatherhood Programs." *The Future of Children* 20.2 (2010): 205-30. Print.

²⁰ *The Budget and Economic Outlook: 2014 to 2024*. Congressional Budget Office, 4 Feb. 2014. Web. 23 Feb. 2014.

²¹ Sabia, Joseph J., and Richard V. Burkhauser. "Minimum Wages and Poverty: Will a \$9.50 Federal Minimum Wage Really Help the Working Poor?" *Southern Economic Journal* 76.3 (2010): 592-623. Web. <<http://www.people.vcu.edu/~lrizzolini/GR2010.pdf>>.

a recent study released by the Congressional Budget Office estimated that raising the minimum wage to \$10.10 per hour could lead to lost jobs for hundreds of thousands of workers²².

Direct work supports provide a much better avenue for raising the incomes of working families, and would do so without damaging an already tenuous job market. They might cost a little more for American taxpayers, but they do not lower the number of jobs available for those who need them.

Work Relocation Vouchers

We also need to do a better job of physically connecting individuals with work. While some regions have a strong demand for workers, others do not. We need to acknowledge that, and help Americans take advantage of better opportunities. My colleague Michael Strain has proposed work relocation vouchers as one way to lower barriers to work for low-income Americans.

In the U.S. today many communities are plagued by very high levels of unemployment, such as Yuma, Arizona, whose December 2013 unemployment rate was 27.1 percent. Unemployment in other areas, like Providence, RI, is less severe but still 50 percent higher than the national average: 9.2 percent versus 6.5 percent nationally. In contrast, regions with strong job growth have very low levels of unemployment. Midland, Texas, for example, has an unemployment rate of 2.8 percent, and the Minneapolis-St.Paul area, 4.3 percent²³. Unemployed workers in high unemployment regions will have a much more difficult task of finding and maintaining full time work than they would in low unemployment regions, where jobs are more plentiful.

The problem is that many unemployed workers—especially the long-term unemployed—lack the financial resources and information about the labor market that would allow them to move to areas where job growth is stronger and the chances of securing employment are higher. Relocation vouchers would target unemployed workers in areas with elevated levels of unemployment and provide them with a grant – potentially using funds from the unemployment insurance pool—to move to an area with a lower than average unemployment rate.

Conclusion

Low-income Americans are struggling. Labor force participation has fallen, poverty rates have risen, and median incomes have stagnated. The best and most proven path out of poverty is work, and our policies should do a better job of encouraging it.

My experience in New York City leads me to suggest that strengthening work requirements in means-tested social services; rewarding work by enhancing programs that support Americans working at low wages; being honest about the benefits of marriage for children and minimizing the impacts of policies

²² *The Effects of a Minimum-Wage Increase on Employment and Family Income*. Congressional Budget Office, 18 Feb. 2014. Web. 19 Feb. 2014. <<http://www.cbo.gov/publication/44995>>.

²³ Unemployment data from the Bureau of Labor Statistics, "Metropolitan Area Employment and Unemployment Summary," February 5, 2013.

that discourage it; promoting proven programs for young men and young parents; and advancing policies that strengthen the economy and connect Americans to work are the best ways to give struggling Americans a hand up, and help them get on a path toward success.

Thank you for the opportunity to share my views on this important issue.