

Policy Focus

Are We Winning or Losing the War on Poverty?

RECIPES FOR RATIONAL GOVERNMENT FROM THE INDEPENDENT WOMEN'S FORUM

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WHAT YOU NEED TO KNOW

Fifty years after the start of Lyndon Johnson's War on Poverty, there are many ways to highlight America's progress. Oddly, citing the official U.S. poverty rate is not one of them.

While the official data suggest that poverty is worse today than in the late 1960s, they measure only pre-tax money income, and thus fail to consider non-cash government benefits and refundable tax credits. When researcher Arloc Sherman of the Center on Budget and Policy Priorities adjusted the figures to include food stamps, rent subsidies, the Earned Income Tax Credit, and the refundable portion of the Child Tax Credit, he [estimated](#) that the poverty rate had dropped from 18.9 percent in 1964 to 10.9 percent in 2011. Moreover, economists Bruce Meyer of the University of Chicago and James Sullivan of Notre Dame have shown that consumption is a more reliable barometer than income for measuring material deprivation, and they [reckon](#) that America's consumption poverty rate declined from nearly 31 percent in the early 1960s to just 4.5 percent in 2010.

Unfortunately, this does not mean the War on Poverty—properly understood—has been a success. While means-tested welfare programs have contributed to higher living standards among the poor, they have also exacerbated family breakdown, skewed economic incentives, and discouraged work, thereby fueling a vicious cycle of fatherlessness, failing schools, and high crime rates.

Moving forward, the key policy question for U.S. lawmakers is this: How can we make our government anti-poverty system more effective at boosting upward mobility and promoting the cultural values that underpin prosperity?

WHY YOU SHOULD CARE

The cost of America's means-tested welfare programs is staggering. "If converted to cash," [writes](#) Heritage Foundation scholar Robert Rector, "current means-tested spending is five times the amount needed to eliminate all official poverty in the U.S." Programs disbursing that ocean of money are plagued by major deficiencies that may worsen the situation and prospects of those they are supposed to help:

- **Eligibility Thresholds Function As a Poverty Trap:** America's means-tested programs impose extremely high effective marginal tax rates on low-income workers, because a modest pay raise can mean a loss of government benefits (in addition to a higher statutory tax rate). Such perverse incentives reduce both work hours and labor-force participation.
- **They Contain Significant Marriage Penalties...:** Just as welfare programs can discourage work, they can also discourage low-income couples from tying the knot, through an implicit tax on marriage.
- **...At a Time When America's Poor Are Suffering from a Marriage Deficit:** In 2012, only [6.3 percent](#) of married-couple families lived below the official poverty line, compared with [nearly 31 percent](#) of female-headed families with no husband present.

MORE INFORMATION

Has Social Mobility Really Declined?

Make no mistake: Pre-tax wage stagnation is a very real long-term phenomenon, caused by a tangled web of factors. Yet more comprehensive measures of household income reveal substantial growth since the late 1970s and early 1980s.

For example, the Congressional Budget Office (CBO) has compiled [income data](#) that include the value of non-cash federal transfers (such as food stamps, housing assistance, and Medicaid) along with refundable tax credits and employer-provided health benefits. The CBO figures show that, despite the severity of America's post-2007 economic downturn and the weakness of our recovery, the lowest quintile's average post-tax income (in 2010 dollars) grew by 49 percent between 1979 and 2010, and by almost 65 percent between 1983 and 2010.

Of course, the Great Recession and its aftermath have contributed to a sharp rise in dependency on government transfer programs; the labor-force-participation rate was [2.7 percentage points lower](#) in January 2014 than it was in June 2009, when the recession formally ended; and the long-term-unemployment problem remains at crisis levels. President Obama has repeatedly traced our current economic struggles back to "decades-

old” trends that have weakened the middle class and jeopardized the American Dream. “Alongside increased inequality,” Obama said in a December 4 [speech](#), “we’ve seen diminished levels of upward mobility.” But is that really true?

In mid-January, economists Raj Chetty and Nathaniel Hendren of Harvard, Patrick Kline and Emmanuel Saez of UC-Berkeley, and Nicholas Turner of the Treasury Department released a landmark study of intergenerational income mobility among U.S. children born between 1971 and 1993. They [found](#) that, despite rising inequality, social mobility has “remained extremely stable.” In other words, if the income scale were a ladder, then we might say that “the rungs of the ladder have grown further apart . . . but children’s chances of climbing from lower to higher rungs have not changed.”

The Consequences of Family Breakdown

The same four Harvard and UC-Berkeley economists also examined demographic and geographic disparities in intergenerational mobility across the United States. “The strongest predictors of upward mobility,” they [concluded](#), “are measures of family structure such as the fraction of single parents in the area.” Indeed, family structure matters at both the individual level and the community level: “Children of married parents also have higher rates of upward mobility if they live in communities with fewer single parents.”

Sadly, unmarried women now account for [40.7 percent](#) of all U.S. births, up from [25.7 percent](#) in 1988, [6.9 percent](#) in 1964, and [3.8 percent](#) in 1940. Right from the start of President Johnson’s War on Poverty, the combination of Great Society welfare programs and shifting cultural attitudes made it easier—both socially and financially—for single women to raise children on their own. Moreover, the benefit structure of federal welfare programs actively *discouraged* many low-income mothers from getting married.

While high levels of nonmarital childbearing are visible across Western Europe, America stands out for its overall levels of family breakdown. As Jim Manzi has [observed](#) in *National Affairs*: “The estimated percentage of 15-year-olds living with both of their biological parents is far lower in the United States than in Western Europe, because unmarried European parents are much more likely to raise children together.” This helps explain why America exhibits lower rates of social mobility than many other advanced industrialized democracies. “By 2010,” [writes](#) American Enterprise Institute scholar Nicholas Eberstadt, “a child was more likely to grow up in a broken home in America than in practically any other Western society.”

The demographics of marriage and out-of-wedlock births highlight widening socioeconomic gaps. According to a 2012 [report](#) published by the National Marriage Project (NMP) and the Institute for American Values (IAV), the nonmarital-birth

ratio (i.e., the proportion of births occurring outside marriage) among moderately educated women aged 15 to 44 spiked from 13 percent in 1982 to 44 percent in 2006–08. Over that same period, the ratio among America’s least-educated women climbed from 33 percent to 54 percent, while the ratio among highly educated women stayed far lower, rising from 2 percent to 6 percent.

These trends are exacerbating, not just economic inequality, but also cultural inequality, with the children of more-educated women receiving (on balance) much greater parental support than the children of less-educated women.

How to Improve Our Anti-Poverty Programs

Reformers hoping to fix our anti-poverty system should start by reducing or abolishing the marriage penalties in programs such as Medicaid and Temporary Assistance for Needy Families (TANF). “Marriage penalties in transfer programs will exacerbate marriage tax penalties and may swamp any marriage tax bonuses low-income cohabiting couples enjoy,” declared a 2005 Urban Institute [study](#). As analysts Gregory Acs and Elaine Maag explained: “For low-income families, the potential loss of cash welfare benefits under TANF may be a greater financial barrier to marriage than any bonus or penalty resulting from federal taxes.”

Implicit marriage taxes are part of a broader problem with America’s means-tested welfare programs, which create steep effective marginal tax

rates (EMTRs), thereby discouraging low-income workers from seeking longer hours or better jobs. “When a taxpayer’s income rises above the eligibility limits set for Medicaid or CHIP,” noted a 2012 CBO [report](#), “the loss of health insurance benefits sharply increases marginal tax rates.” The Affordable Care Act (a.k.a. “Obamacare”) will now offer premium subsidies to many individuals whose rising income forces them to give up Medicaid or CHIP coverage. But in a February 2014 [report](#), CBO projected that Obamacare would shrink America’s labor supply by the equivalent of 2 million full-time workers in 2017, largely because of its impact on EMTRs.

Short of eliminating means-tested programs entirely or making them universal—neither of which is realistic—we will never fully solve the EMTR problem. For that matter, even a partial solution would be politically difficult, as it would involve either spending much *less* on these programs (to mitigate the effects of losing benefits) or spending much *more* (whether in the form of expanded transfers or expanded tax credits).

If we go the latter route, we should concentrate our efforts on the Earned Income Tax Credit (EITC), a “negative tax” wage subsidy established in 1975. For all its success in lifting millions out of poverty, the EITC has imposed remarkably high EMTRs on certain beneficiaries. According to a 2010 Richmond Fed [study](#): “Single parent households that receive the EITC face some of the highest (positive) marginal income tax rates

in the United States.” If we are going to expand the EITC (as liberals and conservatives alike have recommended) we should focus on mitigating the EMTR problem. We should also use the EITC to help boost the incomes—and marriage prospects—of childless single men.

Encouraging and Strengthening Marriage

How else might the federal government encourage and strengthen marriage among low- and middle-income Americans? The 2012 NMP-IAV report contained a series of recommendations, such as (1) ending the aforementioned marriage penalties in welfare programs (perhaps through a refundable tax credit), (2) tripling the Child Tax Credit for kids below the age of three, (3) promoting workplace apprenticeships, (4) funding and studying marriage- and relationship-education initiatives, and (5) having the U.S. surgeon general spearhead a nationwide, “community-oriented” pro-marriage campaign similar to past campaigns against smoking, drunk driving, and teen pregnancy.

That last idea is particularly noteworthy, because it suggests—correctly—that rebuilding the marriage culture will require a tectonic realignment of social attitudes. As University of Pennsylvania law professor Amy Wax reminded us in her brilliant 2009 book, *Race, Wrongs, and Remedies*: “In general, governments have so far proven more effective in undermining informal social institutions than in strengthening those that have disintegrated.”

An ingrained cultural problem ultimately requires a cultural solution, which cannot be imposed by government or created by mere economic forces.

In that spirit, it’s worth closing with a remark that Brookings Institution scholar Isabel Sawhill [made](#) in the *Washington Post* on the 20th anniversary of Dan Quayle’s famous Murphy Brown speech: “Unless the media, parents and other influential leaders celebrate marriage as the best environment for raising children, the new trend—bringing up baby alone—may be irreversible.”

The Minimum-Wage Mirage

In hopes of slashing poverty rates, President Obama and Congressional Democrats are proposing to raise the federal minimum wage by roughly 39 percent, from \$7.25 an hour to \$10.10 an hour. Unfortunately, a large body of evidence indicates that this would be ineffective at best, and highly counterproductive at worst.

For example, economists Joseph Sabia of San Diego State University and Richard Burkhauser of Cornell examined minimum-wage hikes implemented between 2003 and 2007, and they [concluded](#) that the increases failed to reduce state poverty rates. Furthermore, they calculated that boosting the federal minimum wage from \$7.25 to \$9.50 an hour would destroy close to 1.3 million jobs, “including 168,000 jobs currently held by the working poor.” Meanwhile, fewer than 12 percent of the workers whose incomes would grow would be members of poor households, whereas more than 63 percent would be “second or third earners living in households with incomes twice the poverty line.”

In short: Raising the minimum wage would be a deeply misguided way to fight poverty.

WHAT YOU CAN DO

You can help educate Americans about the real causes of poverty and what we can do about them!

- **Get Informed:** Learn more about this issue.

Visit:

- [Independent Women's Forum](#)
 - [The Equality of Opportunity Project](#)
 - [The National Marriage Project](#)
- **Talk to Your Friends:** Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.

- **Become a Leader in the Community:** Get a group together each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.
- **Remain Engaged Politically:** Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

ABOUT THE INDEPENDENT WOMEN'S FORUM

The Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.

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