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Testimony

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Chairman Ryan, Ranking Member Van Hollen, and members of the Committee, thank you for inviting me to testify on this important topic.

My name is Douglas Besharov, and I am a professor at the University of Maryland School of Public Policy, where I teach courses on poverty alleviation and program evaluation. I also direct our Welfare Reform Academy (WRA) and our Center for International Policy Exchanges (CIPE). I am also a Senior Fellow at the Atlantic Council, where I conduct research on international competitiveness.

Today, I would like to make two sets of overarching points.

- *First, in the past five decades, we have made much more progress against poverty than is suggested by the official poverty measure or the administration's new Supplemental Poverty Measure (SPM).* In fact, both measures substantially understate our progress—thus distorting academic as well as political debates.

By my calculation, using a constant measure of poverty, rather than the "updated" one promulgated by the administration, in 2011, the reported poverty rate would have been about 7.2 percent, rather than the 15.0 percent reported by the Census Bureau.[1] This does not mean that we have eradicated poverty. Besides the material hardship faced by many low-income Americans—whether or not officially "poor"—the psychological and social conditions under which they live can sap energy and ambition, worsening cycles of intergenerational poverty.

Nevertheless, real progress has been made against many forms of material hardship and we should celebrate that reality, even if some of it was purchased at the price of government transfer programs that have exacerbated many socially counterproductive behaviors. Further progress will require an honest assessment of this progress—followed by a clear-eyed view of the challenges that remain.

- *Second, building on this past progress, much more is possible, but only if we have a clear-eyed view of the challenges faced by middle- as well as low-income Americans, especially those created by well-intentioned but counterproductive government policies.*

  These challenges include (1) the greater productivity of workers worldwide (especially through automation), and the consequent global competition over wages and outsourcing creating downward pressure on American wages; (2) rising health care expenditures, apparently exacerbated by the Affordable Care Act (Obamacare), that increase the cost of American labor and threaten to make it less globally competitive; (3) an aging population that is making greater demands on underfunded public and private retirement systems, including Medicare and Medicaid, and that threatens to trigger sharply higher taxes on all American workers; (4) millions of low-skilled immigrants, often starting at the bottom of the economic ladder, that have increased our low-income population and the burdens placed on the social safety net; (5) a rising percentage of single-parent families, many of whom face great financial hardships and emotional stresses, with often severely negative consequences for both the parents and the children; (6) racial discrimination, especially against black men, coupled with poor education and disproportionate criminality, that reduces job opportunities; (7) the continuing inability of public schools to give their graduates the skills needed in the global economy; and (8) the work and marriage disincentives embedded in most means-tested benefit programs that send the wrong economic signals about the behaviors needed to succeed in a modern economy.

Many of these challenges require long-term solutions, often outside the effective reach of government. Some, however, are caused by government—and, if addressed right now, could

[1] Calculations from UMD Poverty Tabulation Tool using 2007 data from the Current Population Survey and applying to 2011 poverty rate.

begin to have an impact before the next presidential election. This includes an area that I have spent many years studying: the work and marriage disincentives embedded in means-tested benefit programs.

Hence, I close with a description of what many of our European allies are doing to reduce dependency on their social programs (primarily unemployment insurance, disability, and social assistance). They call it "labor activation," and we call it "welfare-to-work" or, more generally, "work-first." Their experience provides many lessons for the U.S.

(Unless otherwise indicated, all dollars in 2012 dollars.)

Contents

Mismeasuring poverty

In the past five decades, we have made more progress against poverty than is suggested by either the official poverty measure or the administration's new Supplemental Poverty Measure (SPM). Both substantially understate our progress.

The official poverty measure fails to provide a full picture of family income, including government assistance and support from other household members. Ronald Reagan famously said, "In the sixties, we waged a war on poverty and poverty won."[2] But that's only because we did not know as much as we do now about the weaknesses of the official poverty measure.

Since the Reagan presidency, research from the left and the right has documented how badly skewed is the official poverty measure. The following is a well-known list, but worth repeating. The official poverty measure simply *ignores*:

- *The underreporting of means-tested government benefits (and of income generally).* The Current Population Survey (from which poverty statistics are derived) only captures between 53 and 75 percent (depending on the program) of total disbursed program benefits.[3] In 2011, the independent effect of adjusting for this underreporting would have reduced poverty by 0.7 percentage points (from 15.0 percent to 14.3 percent).

- *The provision of noncash benefits,* such as Medicare ($562.4 billion),[4] Medicaid ($422.4 billion),[5] SNAP ($77.3 billion),[6] housing vouchers ($54.8 billion),[7] school meals ($14.6

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[2]Nicholas Leman, "The Unfinished War," *The Atlantic* 262, no. 6 (December 1988): 37–56, http://www.theatlantic.com/past/politics/poverty/lemunf1.htm (accessed July 29, 2013).

[3]Laura Wheaton, *Underreporting of Means-Tested Transfer Programs in the CPS and SIPP* (Washington, DC: The Urban Institute, 2007), http://www.urban.org/UploadedPDF/411613_transfer_programs.pdf (accessed July 29, 2013).

[4]Kaiser Family Foundation, *Medicare Spending and Financing* (Washington, DC: Kaiser Family Foundation, September 2011), https://www.astro.org/uploadedFiles/Content/Advocacy/KFF%20-%20Medicare%20Spending%20Fact%20Sheet.pdf (accessed July 29, 2013).

[5]Kaiser Family Foundation, "Total Medicaid Spending: FY 2011," http://kff.org/medicaid/state-indicator/total-medicaid-spending-fy2010/ (accessed July 29, 2013).

[6]U.S. Department of Agriculture, Food and Nutrition Service, "Supplemental Nutrition Assistance Program Participation and Costs," http://www.fns.usda.gov/pd/SNAPsummary.htm (accessed July 29, 2013).

[7]U.S. Office of Management and Budget, "Table 5.1—Budget Authority by Function and Subfunction: 1976–2016," in *Budget of the US Government: FY 2013* (Washington, DC: Government Printing Office, 2012), http://www.gpo.gov/fdsys/pkg/BUDGET-2013-TAB/xls/BUDGET-2013-TAB-5-1.xls (accessed July 29, 2013).

billion),[8] child care ($10 billion),[9] Head Start ($7.7 billion),[10] and WIC ($7 billion).[11] In 2011, the independent effect of adding in the value of these programs would have reduced poverty by 2.3 percentage points (from 15.0 percent to 12.9 percent).

- *Taxes, and particularly refundable tax credits,* such as the Earned Income Tax Credit ($55.3 billion) and the Additional Child Tax Credit ($27.4 billion).[12] In 2011, the independent effect of adding the value of these two tax credits would have reduced poverty by 1.4 percentage points (from 15.0 percent to 13.6 percent).

- *The income of other members of the household* (including boyfriends). In 2011, the independent effect of counting the income of other members of the household would have reduced poverty by 1.4 percentage points (from 15.0 percent to 13.6 percent).

- *The value of home equity.* In 2011, the independent effect of counting the value of home equity would have reduced poverty by 1 percentage point (from 15.0 percent to 14.0 percent). (Before the crash of the housing market in 2007, this adjustment reduced poverty for the elderly by one-third, from 9.7 percent to 6.8 percent.).

- *The existence of more accurate inflation corrections.* In 2011, the independent effect of using the Chained CPI inflation adjustor would have reduced poverty by 2.9 percentage points (from 15.0 percent to 13.1 percent).

In 2011, if all these corrections had been made, the reported poverty rate would have been about 7.2 percent, rather than the 15.0 percent reported by the Census Bureau.[13] (See figure 1.)

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[8] U.S. Department of Agriculture, Food and Nutrition Service, "Federal Cost of School Food Programs," http://www.fns.usda.gov/pd/cncosts.htm (accessed July 29, 2013).

[9] U.S. Department of Health and Human Services, Administration for Children and Families, *Child Care and Development Fund Fiscal Year 2011 State Spending from All Appropriation Years* (Washington, DC: Administration for Children and Families, 2012), http://www.acf.hhs.gov/sites/default/files/occ/final_overview_allyears11508_compliant.pdf (accessed July 29, 2013).

[10] U.S. Department of Health and Human Services, Office of Head Start, "Head Start Program Facts: Fiscal Year 2011," http://eclkc.ohs.acf.hhs.gov/hslc/mr/factsheets/docs/hs-program-fact-sheet-2011-final.pdf (accessed July 29, 2013).

[11] U.S. Department of Agriculture, Food and Nutrition Service, "Special Supplemental Nutrition Program for Women, Infants and Children (WIC),"http://www.fns.usda.gov/pd/37WIC_Monthly.htm (accessed July 29, 2013).

[12] Internal Revenue Service, "Table 2. All Returns: Tax Liability, Tax Credits, and Tax Payments, by Size of Adjusted Gross Income, Tax Year 2010," http://www.irs.gov/file_source/pub/irs-soi/10in02ar.xls (accessed July 29, 2013).

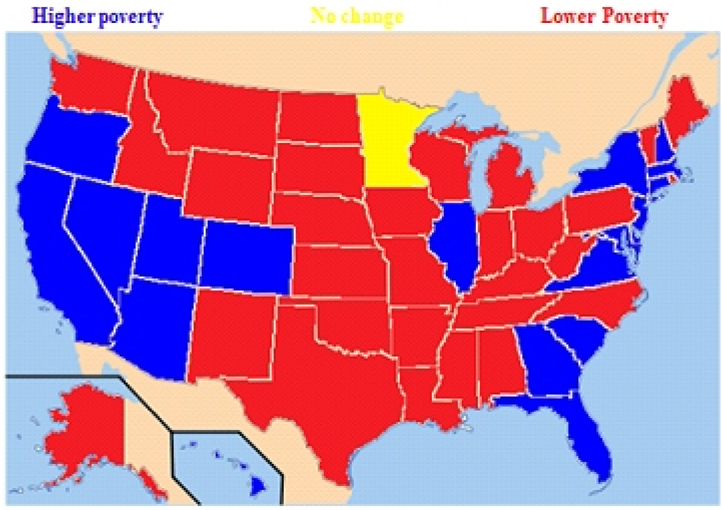
[13] Calculations from UMD Poverty Tabulation Tool using 2007 data from the Current Population Survey and applying to 2011 poverty rate.

Figure 1
Independent and Cumulative Effects of Adjustments to Poverty Measure (2011)

	Official poverty rate	15.0%
UMD Adjustments	1. Underreporting of government cash aid	-0.7 percentage points
	2. Noncash government assistance	-2.1 percentage points
	3. Refundable tax credits	-1.4 percentage points
	4. Income of other household members	-1.4 percentage points
	5. Value of home equity	-1.0 percentage points
	6. Chained CPI	-2.9 percentage points
	Adjusted poverty rate	7.2%
	Supplemental Poverty Measure rate	16.1%

The administration's Supplemental Poverty Measure (SPM) claims to fix the problems of the official poverty measure by making some (but not all) of the changes listed above. But because of other changes it makes—such as raising the poverty line to negate the counting of more forms of income—the administration's poverty measure actually *raises* the measured poverty rate. In 2011, by about 1.1 percentage points (from 15.0 percent to 16.1 percent). (See figure 2.)

Figure 2
The New Geography of Poverty



Perhaps the best way to demonstrate the importance of measuring income accurately is to see what more complete counting of income does to the much discussed growth in inequality. Figures 3 and 4 shows mean family income by quintile with and without some key forms of income, such as employer-paid health insurance premiums, non-cash government benefits, taxes, and the imputed value of owner-occupied housing.[14] As you will see, when more forms of income are included, the income of the bottom quintile, instead of being relatively flat for forty years, actually rose by about $14,100 or about 91 percent.

[14]Non-adjusted mean family income by quintile data from U.S. Census Bureau, " Mean Income Received by Each Fifth and Top 5 Percent of Families, All Races: 1966 to 2011," http://www.census.gov/hhes/www/income/data/historical/families/2011/F03AR_2011.xls (accessed July 30, 2013). Employer health insurance data from Kaiser Family Foundation, *Employer Health Benefits: 2005 Summary of Findings* (Washington, DC: Kaiser Family Foundation, 2005), http://www.frettbarrington.com/PDFs/KaiserHealthSurvey2005.pdf (accessed July 30, 2013). Adjusted mean family income from author's calculations from the UMD Poverty Analysis and Tabulation Tool (PATT), using Current Population Survey data from 1968–2005 (latest year available). The PATT allows users to calculate the average value of noncash government benefits, tax credits, and owner-occupied housing for families in the lowest quintile. The Census Bureau "top-codes" the top 3 percent of the income distribution in the public use files. All incomes in the top 3 percent are changed so as to preserve the families' anonymity. Before 1996, all incomes in the top 3 percent were top-coded to the income of the 97th percentile. From 1996 on, all incomes in the top 3 percent were top-coded to the mean of all incomes in the top 3 percent. See U.S. Census Bureau, *Revised Income Topcodes for the Annual Social and Economic Survey (ASEC) Public Use Files* (Washington, DC:U.S. Census Bureau, n.d.), www.census.gov/housing/extract_files/pu_swaptopcodes_readme.docx (accessed July 30, 2013).

Figure 3
Mean Family Income by Quintile*

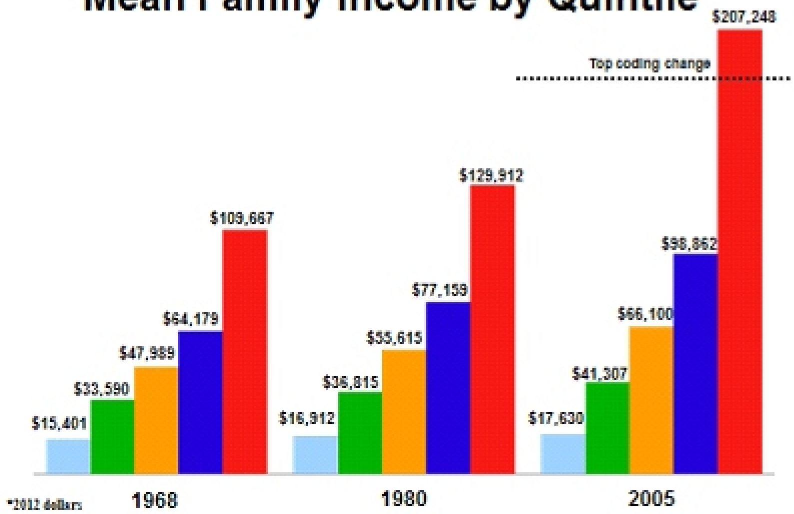
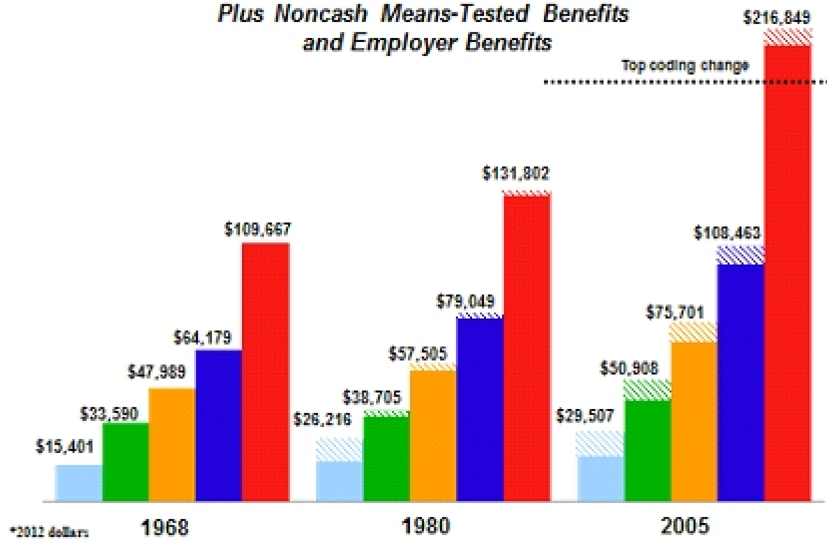


Figure 4
Revised Mean Family Income by Quintile*
Plus Noncash Means-Tested Benefits and Employer Benefits



The well-being of low-income Americans, of course, is a main reason why we are worried about poverty status. An outsider to the political debate would think that the evidence of progress is incontestable. Over the past five decades, a combination of higher earnings and sharply increased means-tested spending has improved the physical status of most low-income Americans.

Here is one example: Food program advocates typically cite the “food insecurity” data to claim how much feeding and other nutrition programs should be expanded. Perhaps. But it is worth noting that, since the 1970s, the physical manifestations of real malnutrition—including emaciation, kwashiorkor, marasmus, stunting, and wasting— have all but disappeared from the nation's health data.

Between 1973 and 2011, the percent of children who were underweight declined from 7.3 percent to 3.5 percent and the percent of children who were short in stature declined from 9 percent to 6.3 percent.[15] (Many of these children suffered from other illnesses or diseases that caused their being underweight.) Over the past thirty years, there have been almost zero cases of children suffering from protein-energy malnutrition (PEM) and, where cases of PEM have been diagnosed in adults, the vast majority are the result of chronic diseases or drug addictions, and not hunger.[16]

I do not mean to suggest that we have eradicated poverty. Besides the material hardship still faced by many low-income Americans—whether or not officially "poor"—the psychological and social conditions under which they live can sap energy and ambition, worsening cycles of intergenerational poverty.

Nevertheless, real progress has been made against many forms of material hardship and we should celebrate that reality, even if some of it was purchased at the price of government transfer programs that have exacerbated many socially counterproductive behaviors. Further progress will require an honest assessment of this progress—followed by a clear-eyed view of the challenges that remain. I turn to them next.

Economic challenges

Greater productivity (including automation) and globalization have been a mixed blessing for Americans.

On the one hand, they have brought the gift of lower-priced consumer goods in area after area. In 2005, Jason Furman (then at New York University, and now the chairman of the President's Council of Economic Advisers) summarized the economic literature on the effects of "supercenters," such as Wal-Mart, on income and wages. Because supercenters have low prices, competing supermarkets also lower their prices, leading to about a 25 percent gain in consumer purchasing power. Households with incomes under $10,000 enjoyed an increase of about 29 percent in purchasing power.[17]

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[15] Centers for Disease Control, "2011 Pediatric Nutrition Surveillance: National Summary of Trends in Growth and Anemia Indicators Children Aged Less Than 5 years," http://www.cdc.gov/pednss/pednss_tables/html/pednss_national_table12.htm (accessed July 29, 2013).

[16] Author's calculations from U.S. Department of Health and Human Services, Centers for Disease Control, "National Hospital Discharge Survey," http://www.cdc.gov/nchs/nhds/nhds_questionnaires.htm (accessed July 29, 2013).

[17] Jason Fermion, "Wal-Mart: A Progressive Success Story," (working paper, Center for American Progress, Washington, DC, October 2005), http://www.mackinac.org/archives/2006/walmart.pdf (accessed July 27, 2013); and Jerry Hausman and Ephraim Leibtag, *Consumer Benefits from Increased Competition in Shopping Outlets: Measuring*

On the other hand, both greater worker productivity (often through automation) and greater competition from abroad have surely cost millions of American jobs across many industries and regions. Between 2000 and 2011, for example, the number of manufacturing jobs in the United States declined by almost a third (from about 17 million to about 11.7 million).[18] As President Obama said in one of last year's debates with Mitt Romney, "There are some jobs that are not going to come back because they are low wage, low skill jobs."[19]

In today's political rhetoric, this tends to be called the loss of middle-class jobs, but when an entire industry moves abroad—almost all its jobs go with it, low-wage included. What remains are jobs in distribution, sales, and government lobbying.

Health care expenses have risen much faster than average wages over the last two decades (an average of 5.3 percent compared to 3.5 percent per year)[20]—with the result that take-home pay has not risen as much as increased productivity would have predicted—further pressuring those at the bottom. As members of this committee well know, the U.S. spends more on health care per capita and more as a percent of GDP than any every other country on earth.

Figure 5 compares the annual *salary and wages* of the average worker to *total compensation* (which includes fringe benefits, such as health insurance and retirement benefits). In 1990, the average worker received an additional $9,700 in fringe benefits.[21] Not quite twenty years later, in 2011, the value of fringe benefits had climbed to $13,300—an increase of 38 percent.[22] (Significantly, the effect is also to shelter a higher portion of compensation from taxation.) By the way, the figure for 1969 was $5,167.

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the Effect of Wal-mart (Cambridge, MA: National Bureau of Economic Research, 2005), http://www.nber.org/papers/w11809.pdf?new_window=1 (accessed July 25, 2013).

[18] Robert D. Atkinson, Luke A. Stewart, Scott M. Andes, and Stephen J. Ezell, *Worse Than the Great Depression: What Experts Are Missing About American Manufacturing Decline* (Washington, DC: The Information Technology & Innovation Foundation, 2012), http://www2.itif.org/2012-american-manufacturing-decline.pdf (accessed July 25, 2013).

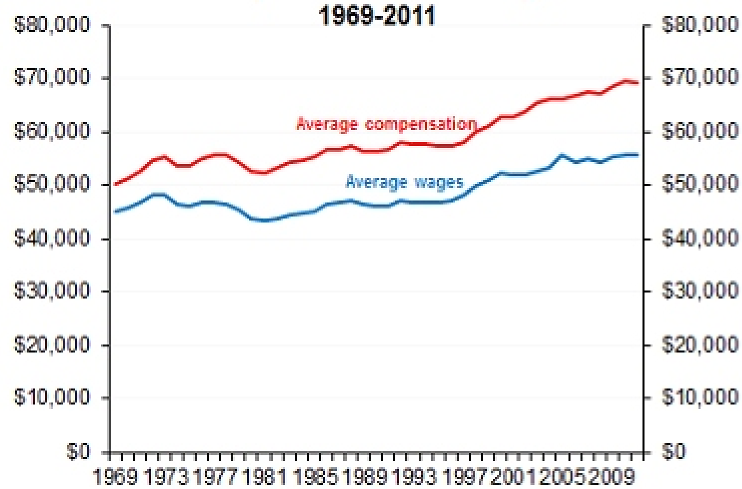
[19] Barack H. Obama, "Presidential Debate Transcript, Questions, Oct. 16, 2012," (debate, Hofstra University, Hempstead, New York, October 16, 2012), http://dyn.politico.com/printstory.cfm?uuid=32A5CB39-C11C-68A5-C4831867713C087F (accessed July 27, 2013).

[20] Kaiser Family Foundation, "Average Annual Percent Growth in Health Care Expenditures per Capita by State of Residence," http://kff.org/other/state-indicator/avg-annual-growth-per-capita/ (accessed July 29, 2013); and Social Security Administration, "National Average Wage Index," http://www.ssa.gov/OACT/cola/AWI.html (accessed July 29, 2013).

[21] U.S. Census Bureau, *The Statistical Abstract of the United States: 2001* (Suitland, MD: U.S. Census Bureau, 2012), http://www.census.gov/prod/2002pubs/01statab/labor.pdf (accessed July 29, 2013).

[22] U.S. Census Bureau, *The Statistical Abstract of the United States: 2012* (Suitland, MD: U.S. Census Bureau, 2012), http://www.census.gov/compendia/statab/2012edition.html (accessed July 29, 2013).

Figure 5
Average Annual Employee Compensation vs. Wages
1969-2011



By ignoring how growing health care and retirement benefits have reduced take-home pay, it is all too easy to demagogue income inequality issues.

This is, of course, a much more complicated issue than I have made out. Surely, as a society becomes wealthier, we should expect to spend more on keeping people healthy and living longer. (That's better than ever larger houses, I think—but, of course, only if health care spending is reasonably efficient.)

On the left, many think that wise health care spending requires government supervision and subsidies. On the right, many think the answer is market competition. I favor market-based solutions whenever possible, but the underlying truth is that, since WWII, we have added so many subsidies and non-market provisions (accelerated by Obamacare) that it is extremely difficult to envision a purely market approach.

In any event, even with Obamacare's unprecedented subsidies (and many think because of them), health care costs will continue to rise, worsening the employment and earnings prospects of most Americans, especially low-income workers.

Demographic challenges

An aging population means higher taxes on young workers to pay for the elderly's underfunded public and private retirement systems, including Medicare and Medicaid, that threatens sharply higher taxes on all American workers. Although those with modest incomes may not pay income tax, they all pay the payroll tax.

According to the Pew Research Center, in the last twenty-five years, the average wealth of American householders over the age of sixty-five has increased by 42 percent, compared to a decline of 68 percent for those under thirty-five. The average wealth of elderly American households is now forty-seven times that of younger ones.[23]

As more Baby Boomers retire, the burden on younger workers will only grow. Barring unprecedented taxation of the “rich” (itself a tax on all workers from a macroeconomic perspective), all working Americans will have to pay for the retirement of the often relatively well-off—unless Social Security and Medicaid/Medicare are better targeted.

This committee knows the substantive and political issues well, so I will only mention that, as the European experience demonstrates, sharply higher taxes on workers is a direct threat to their wage competitiveness in the global market. I explored this general issue in greater detail in a 2010 article, entitled “The Global Budget Race,” that appeared in *The Wilson Quarterly*.[24]

Immigration is responsible for an additional 25 million workers in the labor force or about 16 percent of the total labor force.[25]

Although there is some disagreement, most researchers have concluded that—on balance—immigration has been good for the U.S. economy. But that is “on balance.” While about a quarter of all foreign-born (mainly from Asia) are better educated than the average native-born American, the other three-quarters are not. In 2011, for example, an estimated 31.5 percent of the foreign-born aged twenty-five and over, had neither graduated from high school nor passed a high school equivalency exam such as the General Educational Development test (GED), compared to only about 10.6 percent of the native-born.

Low education means low wages. In 2011, the median income for full-time workers was $50,056 for native-born men, $47,547 for naturalized men, and $28,507 for noncitizen men, compared to $38,044 for native-born women, $38,419 for naturalized women, and $24,347 for noncitizen women.[26] Because so many immigrants start at the bottom of the economic ladder,

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[23] Richard Fry, D’Vera Cohn, Gretchen Livingston and Paul Taylor, *The Rising Age Gap in Economic Well-Being: The Old Prosper Relative to the Young* (Washington, DC: Pew Research Center, November 2011), http://www.pewsocialtrends.org/2011/11/07/the-rising-age-gap-in-economic-well-being/ (accessed July 29, 2013).

[24] Douglas J. Besharov and Douglas M. Call, “The Global Budget Race,” *Wilson Quarterly* 34, no. 4 (Autumn 2010): 38–50, http://welfareacademy.org/pubs/budgetpolicy/Budget_The%20Global%20Budget%20Race_10_0924b.pdf (accessed July 29, 2013).

[25] Migration Policy Institute, “Total Population and Persons in the Civilian Labor Force by Nativity and State, 2011,” http://www.migrationinformation.org/DataHub/charts/MPIDataHub_Imm_in_labor_force_by_state_2011.xlsx (accessed July 29, 2013).

[26] Migration Policy Institute Data Hub, “Income and Poverty Fact Sheet,” Migration Policy Institute, http://www.migrationinformation.org/datahub/state4.cfm?ID=US#1 (accessed December 13, 2011).

these low-skilled/low-wage immigrants have had the effect of increasing the number of American poor. A rough indication is revealed by the following, pre-recession calculation that I made for *The New York Times*: "If the proportion of Hispanics in the population in 2006 had been the same as it was in 1975, then the overall American poverty rate in 2006 would have been 7 percent lower (11.4 percent rather than 12.3 percent)."[27]

Lest we feel too bad for the economic plight of these immigrants, Robert Lerman of the Urban Institute and American University calculates that the foreign-born in the United States labor force have earnings that are more than double that of their earnings in their native countries.[28]

Recently, the Congressional Budget Office estimated that, over the next twenty years, legalizing the status of currently illegal or undocumented immigrants would lead to a 5.3 percent increase in GDP.[29] That is plausible, although it seems to leave out the costs associated with their underfunded Social Security and Medicare benefits in the third decade. It is also an average for all immigrants. Those at the bottom will continue to be a burden of the social safety net.

Social challenges

Single-parent families are a major cause of poverty and, according to many analysts, also a major consequence of poverty. In 2010, 41 percent of all U.S. births were nonmarital.[30] About 29 percent of white births, as well as about 53 percent of Latino births, and about 73 percent of African American babies.[31] For each group, rates were far lower before the War on Poverty. As figure 6 suggests, one reason that nonmarital birth rates are so high is that there has been a sharp decline in marriage and in the number of births to married women. According to the American Community Survey, about 40 percent of all nonmarital birth are to women in

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[27]Douglas J. Besharov, "The Rio Grande Rises," *New York Times*, October 1, 2007, http://www.nytimes.com/2007/10/01/opinion/01besharov.html?_r=0 (accessed July 27, 2013).

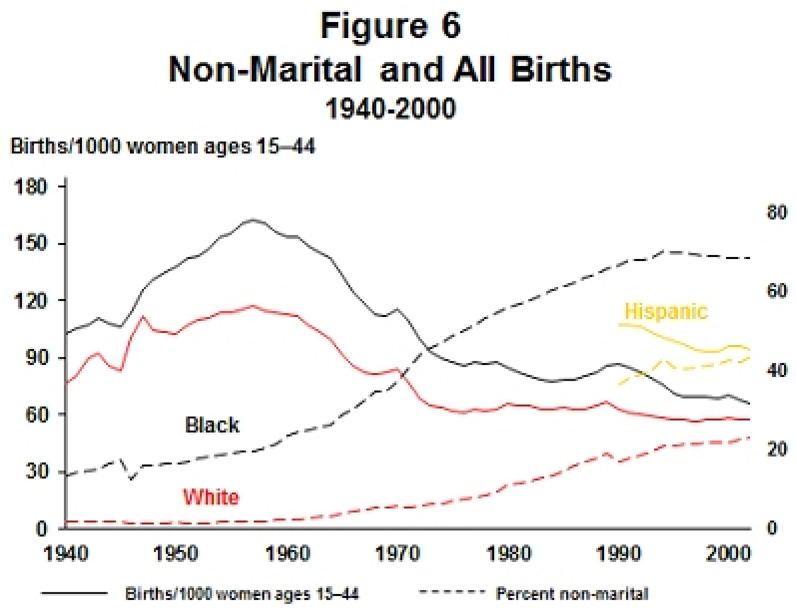
[28]Robert Lerman, "U.S. Wage-Inequality Trends and Recent Immigration," *American Economic Review* 89, no. 2: 23–28, http://www.aeaweb.org/articles.php?doi=10.1257/aer.89.2.23 (accessed July 29, 2013).

[29]Congressional Budget Office, *The Economic Impact of S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act* (Washington, DC: Congressional Budget Office, June 2013), http://www.cbo.gov/sites/default/files/cbofiles/attachments/44346-Immigration.pdf (accessed July 29, 2013).

[30]Joyce A. Martin, Brady E. Hamilton, Stephanie J. Ventura, Michelle J.K. Osterman, Elizabeth C. Wilson, and T.J. Mathews, "Births: Final Data for 2010," *National Vital Statistics Report* 61, no. 1 (August 2012), http://www.cdc.gov/nchs/data/nvsr/nvsr61/nvsr61_01.pdf (accessed July 25, 2013).

[31]U.S. Census Bureau, " Families by Age of Householder, Number of Children, and Family Structure," http://www.census.gov/hhes/www/cpstables/032012/pov/POV04_100_1.xls (accessed July 29, 2013); and U.S. Census Bureau, "Families With Related Children Under 18 by Number of Working Family Members and Family Structure: 2011," http://www.census.gov/hhes/www/cpstables/032012/pov/POV07_100.htm (accessed July 29, 2013).

households with incomes below $25,000.[32]



Whether a cause or effect of poverty, single-mother families have lower incomes than two-parent families and often have far greater needs for child care and other social supports. About 45 percent of families with incomes below the poverty line are headed by single mothers. Many researchers have estimated the impact of family breakdown on poverty rates. According to Maria Cancian and Deborah Reed of the University of Wisconsin, between 1969 and 2006, increased rates of divorce and nonmarital births increased official poverty by about 2.6 percentage points (from 11.5 percent to 14.1 percent).

The financial hardships and emotional stresses faced by single-mother families can have severely negative consequences for both parents and children. Although here, too, there is disagreement about the magnitude, researchers have documented the negative effects of family breakdown on children. Summarizing studies that attempt to control for preexisting or other factors, Robert Rector of the Heritage Foundation writes that children growing up in single-parent homes are "more than twice as likely to be arrested for a juvenile crime, twice as likely to be treated for emotional and behavioral problems, roughly twice as likely to be suspended or expelled from school, and a third more likely to drop out before completing high school, . . . three times more likely to end up in jail by the time they reach age 30, . . . and more than twice as

[32] Rachel M. Shattuck and Rose M. Kreider, *Social and Economic Characteristics of Currently Unmarried Women With a Recent Birth: 2011* (Suitland, MD: U.S. Census Bureau, May 2013), http://www.census.gov/prod/2013pubs/acs-21.pdf (accessed July 25, 2013).

likely to have a child without being married."[33]

All across the developed world, and in most income groups, divorce and nonmarital birth rates are rising to unprecedented levels—reflecting cultural and social roots as well as economic ones. What to do? Many suggestions have been made from the left as well as the right. For today, in my comments below, I will only address the role of government means-tested programs play in discouraging marriage.

Racial discrimination has long hurt the economic prospects of African Americans and other disadvantaged minorities. Most experts think that racism still plays a significant role, especially for black men. But even here, progress is real, if mixed.

According to Harry Holzer of Georgetown University, in 2004, there was little difference in the incomes of white and black women—when education was taken into account. Yet, there were still large differences between white and black men, about 28 percent between college-educated, for example.[34] Expert opinion is mixed, but the cause of earnings differences is undoubtedly a combination of poor schooling (even if black and white men have the same number of years in school), disproportionate levels of criminal activity and incarceration, as well as continuing discrimination.

Government programs

The poor quality of K-12 education leaves many students ill-equipped to find well-paying employment. In consequence, the absence of a skilled workforce leads many firms to relocate abroad, contributing to the downward spiral in "good" jobs that the U.S. is experiencing.

Although the underlying impact of weak public schooling is difficult to disentangle from the demographic changes that have engulfed American schools (as well as those in other developed countries), the available data suggest that, despite billions of dollars of added spending, the performance of American students has been essentially unchanged—for forty years.

The most widely used measure of student learning is the National Assessment of Educational Progress (NAEP), a large, ongoing nationally representative assessment of U.S. students' knowledge and ability in a variety of subject areas. Often called "The Nation's Report Card," the main NAEP assesses reading and math skills every two years, based on a random sample of all American 4th, 8th, and 12th grade students.U.S. students evidence no statistically

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[33] Robert Rector, *Marriage: America's Greatest Weapon Against Child Poverty* (Washington, DC: Heritage Foundation, September 2012): 7, http://thf_media.s3.amazonaws.com/2012/pdf/sr117.pdf (accessed July 29, 2013).

[34] Harry J. Holzer, "Expanding the African American Middle Class: Improving Labor Market Outcomes," (testimony, United States Civil Rights Commission, Washington, DC, July 15, 2005), http://www.urban.org/uploadedPDF/900828_holzer_072905.pdf (accessed July 29, 2013).

significant increases in either math or reading over the last three decades in reading and math.[35]

It is difficult to see how there will be great progress against poverty without substantially improved schooling, particularly for disadvantaged minorities.

Means-tested benefit programs undermine much of the good they do because their very structure creates substantial disincentives to work and marriage. As these programs have become more generous and as eligibility has crept to families with higher incomes, many more Americans have become subject to these disincentives. Economist and Nobel laureate Gary S. Becker and other have called this "European disease" of over--dependence on government programs, but, as I will describe, many European countries have adopted policies that attempt to to remedy the problem while we seem unable to do so.[36]

Even before the Financial Crisis and the continuing economic weakness, safety net programs were steadily increasing in size. Between 2000 and 2011:

- *Unemployment insurance (UI)* spending (combined state and federal) increased almost four-fold, from about $27.5 billion to $118 billion ($48 billion state, and $70 billion federal), and the number of recipients increased almost five-fold, from 2.1 million to 9.8 million.

- *SNAP* expenditures more than doubled, from $29.7 billion to $77.2 billion, and the number of recipients also more than doubled, going from about 17.2 million individuals to about 44.7 million individuals.[37]

- *Medicaid* spending about doubled, from about $280 billion to about $422.6 billion, and the number of recipients increased from 31.7 million to 52.6 million.[38]

- *Social Security Disability Insurance (SSDI)* spending grew by about 31 percent, from about $98.9 billion to about $129.6 billion, and the number of recipients increased by

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[35]Data generated from National Center for Education Sciences, "NAEP Data Explorer," http://nces.ed.gov/nationsreportcard/lttdata/ (accessed July 29, 2013).

[36]Gary S. Becker, *A European Disease* (New York: Project Syndicate, April 1996), http://www.project-syndicate.org/commentary/a-european-disease (accessed July 30, 2013).

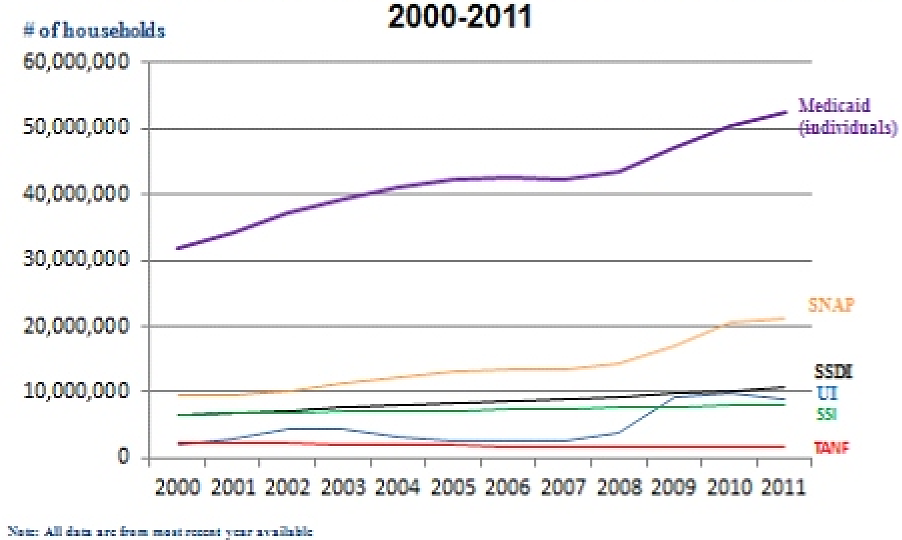
[37]U.S. Department of Agriculture, Food and Nutrition Service, "Supplemental Nutrition Assistance Program Participation and Costs," http://www.fns.usda.gov/pd/SNAPsummary.htm (accessed July 13, 2012).

[38]John Holahan, Lisa Clemans-Cope, Emily Lawton, and David Rousseau, *Medicaid Spending Growth over the Last Decade and the Great Recession, 2000-2009* (Washington, DC: Kaiser Family Foundation, February 2011), http://kaiserfamilyfoundation.files.wordpress.com/2013/01/8152.pdf (accessed July 29, 2013); and Kaiser Family Foundation, "Trends in Medicaid Enrollment," http://kff.org/medicaid/state-indicator/june-medicaid-enrollment-01-11/#notes/ (accessed July 29, 2013).

about 52 percent, from 6.7 million to 10.2 million.[39] For *Supplementary Security Income (SSI)*, spending increased from $42.4 billion to $53 billion, and the number of recipients increased from 6.6 million to 8.1 million.[40]

As figure 7 reveals, the increases in UI were linked to the Financial Crisis, but all the other programs started growing under President George W. Bush.

Figure 7
Enrollment in Select U.S.
Cash and Noncash Government Programs
2000-2011



With so many more low-income and now moderate-income workers receiving benefits from these programs, the impact of high marginal tax rates for increased earnings have worsened and spread the disincentives to employment and marriage to many more Americans.

The varied eligibility requirements, benefit phase-out rates, and time limits of these safety-net programs create high marginal tax rates for recipients reentering the workforce (or able to earn more through a promotion or by working more hours). Considering all the programs for which a family could be eligible (TANF, SNAP, the EITC, UI, child care, housing benefits, and

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[39] Social Security Administration, "Disabled Worker, Spouse of Disabled Worker, Child of Disabled Worker," http://www.ssa.gov/cgi-bin/currentpay.cgi (accessed June 25, 2012).

[40] Social Security Administration, "SSI Federally Administered Payments: Table 1. Recipients (by type of payment), total payments, and average monthly payment, January 2000–December 2000," http://www.ssa.gov/policy/docs/statcomps/ssi_monthly/2000/table01.html (accessed June 25, 2012); and Social Security Administration, "SSI Federally Administered Payments:Table 1. Recipients (by type of payment), total payments, and average monthly payment, January 2011–December 2011," http://www.ssa.gov/policy/docs/statcomps/ssi_monthly/2011/table01.html (accessed June 25, 2012);

health benefits), Adam Carasso and Eugene Steuerle of the Urban Institute estimate that, in 2005, the average marginal tax rate for households making between $10,000 and $40,000 was about 89 percent.[41] That is an admittedly extreme case, but consider the much more likely possibility: according to other Urban Institute researchers, if a mother working twenty hours a week increased her hours to thirty-five hours a week (to an annual income of around $13,000), her income would only increase 20 percent because of corresponding declines in government benefits.[42]

These high marginal tax rates also create a disincentive to marry, assuming that the new spouse has an earned income. By getting married, the new spouse's earnings are applied to the total overall earnings of the family which can lead to a loss in benefits. As Carasso and Steurle point out, they would have enjoyed those lost benefits "had they simply cohabited or lived separately."[43]

Moreover, SNAP benefits undermine UI and TANF activation efforts—because benefits rise if UI or TANF are terminated. If the average UI recipient (in a three-person household) loses benefits, monthly SNAP benefits rise from about $180 to about $530. If the average TANF recipient (in a three-person household) loses benefits (about $430 a month), then monthly SNAP benefits rise from about $400 to about $530 a month.

SSDI recipients lose their benefits if they have earnings above a specified earnings limit, but are able to keep 100 percent of their earnings below the specified limit and the entirety of their benefits.[44] No partial benefits are provided. Therefore, SSDI recipients do not have an incentive to take full-time employment unless it exceeds the amount they are already making by combining disability benefits and part-time work. And because benefits are not reduced for each additional dollar of earnings, the effect of exceeding the specified limit is magnified as it represents a 100 percent loss of benefits.

"Labor activation"

Starting in the 1980s and 1990s, many member countries of the Organisation of

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[41]Adam Carasso and Eugene Steuerle, *The Hefty Penalty on Marriage Facing Many Households with Children* (Washington, DC: Urban Institute, 2005), http://futureofchildren.org/futureofchildren/publications/docs/15_02_09.pdf (accessed June 18, 2012).

[42]Gregory Acs, Norma Coe, Keith Watson, and Robert I. Lerman, *Does Work Pay? An Analysis of the Work Incentives Under TANF* (Washington, DC: Urban Institute, 1998), http://www.urban.org/PDF/occa9.pdf (accessed June 22, 2012).

[43]Adam Carasso and C. Eugene Steuerle, *The Hefty Penalty on Marriage Facing Many Households with Children* (Washington, DC: Urban Institute, 2005), http://taxpolicycenter.org/UploadedPDF/1000844_marriage_penalty.pdf (accessed July 29, 2013).

[44]Disability recipients are also given nine "trial months" where they may earn more than the cap on earnings without losing their benefits.

Economic Co-operation and Development (OECD) experienced extended periods of high and persistent unemployment often coupled by low or declining rates of labor force participation and increases in the number of recipients of government benefits (essentially unemployment, disability and social assistance). In response, over the past two decades, a number of countries introduced policy changes aimed at "activating" those recipients apparently able to work, by requiring them to actively seek employment or to engage in other specified, work- or job training-related activities in order to remain eligible for support. With the possible exception of social assistance (welfare programs), other OECD countries have made more fundamental changes to their labor activation policies than has the U.S.

Since the beginning of the global financial crisis (starting in 2007 in the United States and in 2008 in the rest of the world), a number of other OECD countries have further modified their safety-net assistance programs in an effort to "activate" those receiving unemployment, disability, and social assistance. These changes are both programmatic (such as tightening eligibility, limiting the duration of benefit receipt, and mandating job search and other work-first activities) and administrative (such as consolidating programs, decentralizing authority, outsourcing services, and incentivizing systems of financing and reimbursement). (Many countries, of course, have not altered their policies.)

Figure 8summaries the major development in twelve countries. Here are some key examples:

Figure 8
Labor Activation Reforms in the OECD

	Tighten eligibility	Limit duration of benefit receipt	Require work-first activities	Consolidate programs	Decentralize authority	Outsource services	Incentivize systems of financing and reimbursem ent
Australia			X	X		X	
Denmark		X	X				X
Finland							X
France	X		X	X			X
Germany		X	X	X	X	X	X
Italy					X		
Japan							X
Nether-lands	X	X			X	X	X
Norway				X			
Spain						X	X
Sweden	X	X	X				
UK	X		X	X		X	

- *Tightened eligibility rules to improve program targeting.* The UK, for example, tightened its rules for determining eligibility for disability benefits. Of 1.2 million new disability claimants evaluated under the tighter eligibility rules, 75 percent either were found to be fit for work or dropped their disability claim before finishing the assessment.

- *Mandated job search and other work-first activities.* In recent years, countries as different as Australia, Denmark, France, Germany, Italy, the Netherlands, Sweden, and the UK have tightened their rules and procedures for encouraging work rather than benefit receipt—almost always including a benefit reduction or termination for noncompliance.

- *Time-limited benefits (or step-downs in benefit amounts).* In countries such as Denmark (unemployment insurance), Germany (unemployment insurance), and the Netherlands (disability), after a period of time, benefits have been restructured to be lower or modified as an incentive for recipients to take a less-preferred job. Japan also has time-limited benefits for unemployment insurance recipients, but provides monetary incentives for UI recipients who find work quickly.

- *Consolidated programs.* Australia consolidated the administration of unemployment, cash welfare, disability, pension, and other social benefits under one agency. Germany consolidated its unemployment and cash welfare programs, with one-stop centers for both. (Later held unconstitutional by the German courts for unrelated reasons.) Norway also consolidated its unemployment insurance, cash welfare, disability payments, and old-age pensions programs into one agency. And the UK created the Universal Credit that combines tax credits, cash welfare, disability benefits, and housing credits into a single benefit stream (which I will discuss in greater detail below).

- *Incentivized financing and reimbursement systems.* For example, Finland and the Netherlands have both made employers responsible for short-term disability payments (almost one year in Finland and two years in the Netherlands). In addition, the Netherlands uses cash welfare block grants to the municipalities based on the national government's estimate of how many cash welfare recipients there should be in each municipality (taking into account economic and demographic factors). The municipality is allowed to keep any excess funds it does not spend on cash welfare, but must use municipality funds to cover any excess spending on cash welfare. Spain allows recipients to receive the entirety of their UI payment in one lump sum for the purpose of starting businesses.

- *Decentralized responsibility and authority.* Germany gave municipalities joint responsibility with the national government in administering unemployment benefits to the long-term unemployed, and the Netherlands devolved the provision of cash welfare and related active labor market policies to the municipalities.

- *Outsourced/Privatized activation services.* Germany provides vouchers for activation services to recipients of unemployment benefits and municipalities are able to contract out activation services instead of providing them. The Netherlands does the same, and the government department that was responsible for providing such services was privatized and allowed to compete against other for-profit providers. (It subsequently failed.) The UK, in a reform effort with its origins in the Labour Government, contracts out the provision of activation services for the recipients of unemployment, cash welfare, and disability benefits to for profit and non profits firms.

Many Americans feel that the European experience is not applicable to the United States, either because of the deep economic crisis they face or because the Europeans are "socialists." I think that is wrong. In many ways, they have shown a greater willingness to accept the political costs of lessening the work disincentives embedded in many contemporary social welfare programs. In other words, they are seeking cures for the European disease.

Thank you very much for giving me this opportunity to speak to you about matters so important to the future of the nation.