

**Testimony of John D. Podesta
Before the Subcommittee on Income Security and Family Support of the Committee
on Ways and Means
U.S. House of Representatives**

Hearing on Proposals for Reducing Poverty

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Thank you, Chairman McDermott and members of the Subcommittee. I am John Podesta, President and Chief Executive Officer of the Center for American Progress. I am also a Visiting Professor of Law at the Georgetown University Law Center.

I appreciate the opportunity to speak with you today about a central challenge for policymakers and society at large today: how best to reduce the ranks of the poor and build a strong and growing middle class.

As you well know, the U.S. has one of the highest poverty rates of any developed country in the world. Even with an economy that produces \$13 trillion annually, 37 million Americans live below the official poverty line, including nearly one-fifth of our children. Sixteen million Americans live in “extreme poverty” (defined as a family of four living on less than \$10,000 per year or an individual living on about \$5,000 annually). Roughly one quarter of African Americans and Native Americans, and over one-fifth of Hispanics, are poor. All told, more than 90 million Americans can be classified as “low income” (living on less than about \$40,000 per year for a family of four), meaning they face a constant struggle to keep ahead and avoid falling out of bare minimum economic existence.

In February of 2006, the Center for American Progress convened a diverse group of national experts and leaders to examine these and other issues of poverty and to make recommendations for national action. I'd like to acknowledge Peter Edelman, who is here with me today and who, along with Angela Glover Blackwell, served as a co-chairman of the Center's Task Force on Poverty.

Our Task Force was formed in the wake of Hurricane Katrina, a searing national event that exposed the desperate condition of many of our fellow citizens who were jobless, underemployed, and incapable of exercising the most basic elements of self-survival due to their poverty.

In its report, the Task Force calls for a national goal of cutting poverty in half in the next ten years and proposes a strategy to reach the goal. The report calls for the Congress, the president, and the next administration to join this effort and set our country on a course to end American poverty in a generation. We recommend a strategy that promotes decent work, provides opportunity for all, ensures economic security, and helps people build wealth.

The taskforce started with the belief that our nation has both a moral and an economic obligation to address poverty. The persistence of millions of our fellow citizens living in economic hardship amid great national wealth violates America's basic commitment to human dignity, freedom, and advancement for everyone. Poverty also imposes enormous

costs on our society in terms of the lost potential of our children, lower productivity and earnings, poor health, and increased crime and broken neighborhoods.

A recent report commissioned by the Center for American Progress, co-authored by Harry Holzer, Diane Whitmore Schanzenbach, Greg Duncan, and Jens Ludwig, concludes that allowing children to grow up in persistent poverty costs our economy \$500 billion dollars per year in lost adult productivity and wages, increased crime, and higher health expenditures.

Before I describe our strategy and recommendations in more detail, I'd like to quickly discuss some of the misleading ideas that define many discussions of poverty.

First, poverty is not just a “poor person’s” issue. It affects us all in distinct and important ways. Too often, discussions of poverty are treated as if they’re unrelated to the issues facing the middle class. But large numbers of Americans—both low-income and middle class—are increasingly concerned about uncertain job futures, downward pressures on wages, and decreasing opportunities for advancement in a global economy.

Employment for millions of Americans is now less secure than at any point in the post-World War II era. Jobs are increasingly unlikely to provide health care coverage and guaranteed pensions. The typical U.S. worker will change jobs numerous times over his or her working years and must adapt to rapid technological change. One-quarter of all jobs in the U.S. economy do not pay enough to support a family of four above the poverty line.

It is in our nation's interest that those jobs be filled and that employment rates be high. It is not in our nation's interest that people working in these jobs be confined to poverty.

Large numbers would benefit if more jobs paid enough to support a family. Some issues are distinct, particularly for the smaller group of Americans in long-term, persistent poverty. But much of the agenda to reduce poverty is also one to promote opportunity and security for millions of other Americans, too.

Second, poverty is not unconquerable. Our country has made great strides against poverty in the past. With the right mix of policies and societal action, we can make even greater strides in the future. Fueled by years of inaccurate characterizations of past efforts ("We fought a war on poverty and poverty won," as Ronald Reagan stated) many Americans are left to conclude that little can be done beyond providing private charity and urging the poor to do better.

Nothing could be farther from the truth.

The United States has seen periods of dramatic poverty reduction. Amid the strong economy of the 1960s and the War on Poverty, the poverty rate fell from 22.4 percent to 11.1 percent between 1959 and 1973. In the 1990s, a strong economy was combined with policies to promote and support work; the poverty rate dropped from 15.1 percent to 11.3 percent between 1993 and 2000. In each period, a near-full employment economy, sound federal and state policies that focused on rewarding work, individual initiative, supportive

civic institutions and communities, and a sustained national commitment led to significant progress.

In the last six years, our nation has moved in the opposite direction. The number of poor Americans has grown by five million. The federal minimum wage has remained flat. Funding for key federal programs that help people get and keep jobs has been stagnant or worse.

Third, fighting poverty does not mean the poor will become more dependent on government. To the contrary, as our Task Force report shows, smart policies to fight poverty will actually increase the value of work and the commitment to work and help low-income families become more economically self-sufficient in the long run. A false argument exists that anything done by the federal government to combat poverty naturally leads to negative consequences. In fact, we know that policies such as the Earned Income Tax Credit and expanded child care provisions encourage work and strong families.

Therefore, our Task Force has recommended a four-part strategy to fight poverty:

Promote Decent Work. We start from the belief that people should work, and that work should pay enough to ensure that workers and their families can avoid poverty, meet basic needs, and save for the future.

Ensure Opportunity for All. Children should grow up in conditions that maximize their opportunities for success; adults should have opportunities throughout their lives to connect to work, get more education, live in a good neighborhood, and move up in the workforce.

Ensure Economic Security. Americans should not fall into poverty during times when they cannot work or work is unavailable, unstable, or pays too little to make ends meet.

Help People Build Wealth. All Americans should have assets that allow them to weather periods of flux and volatility and to have the resources that may be essential to upward economic mobility.

Our strategy is based on the reality that poverty is complex and that the faces of the poor are many. No single approach or policy solution could viably move huge numbers out of poverty. Good jobs and benefits matter. Solid education matters. Safe and enriching neighborhoods matter. Opportunities to increase assets and wealth matter. Economic security and access to health care matter. Protections for the most vulnerable matter. Personal initiative, strong families, and corporate responsibility matter.

We understand that some policymakers highlight the importance of promoting marriage as a strategy for reducing poverty. Research consistently finds that all else being equal, children growing up with both parents in a healthy marriage are more likely to fare better

over time in terms of social and educational outcomes. At the same time, all else is often not equal. Children with loving parents can and do thrive in a range of family structures. Government policies should find ways to support marriage, such as eliminating the marriage penalty in the EITC, but they should also support families in ways that recognize the range of settings in which children grow up.

In more general terms, our basic strategy is to offer solutions to help replace America's cycle of poverty—the tens of millions of people consigned to destitution every year because of our collective inability and unwillingness to prevent it—with a new cycle of prosperity.

We believe that decent work should be at the center of this new approach. Nothing is more important to the cycle of prosperity than good jobs—with adequate income and benefits—that allow people to take care of their families and start building assets.

Along with a job that pays a livable wage, strong personal character and individual initiative help to build strong and stable families. Strong families, in turn, help to build stable, safe, and caring communities. Communities foster good schools and encourage a culture that takes pride in personal achievement and educational success—all essential elements of economic mobility. Research clearly shows that educational attainment and personal qualities that value success and achievement early in life are directly correlated to higher wages and a better quality of life later in life.

Educational achievement leads to enhanced job prospects and increased earning potential.

As wages rise, opportunities to build wealth and assets through increased savings, homeownership, and small business investments increase one's life prospects and bring additional funds to neighborhoods, communities, and local schools.

As economists and academics have shown, assets provide insurance and cushions against unforeseen economic shocks. They encourage people to focus long term and improve their own intellectual and creative development. They increase self-sufficiency and help people move away from public support. And they encourage people to become active in the actions of government and society. Rising wages and wealth in turn provide new opportunities for the overall economy and a better quality of life in our neighborhoods and communities.

To flesh out this strategy, we specifically recommend 12 steps for federal, state, and local governments, non-governmental actors, individuals, and businesses to take in order to move millions of Americans from poverty to prosperity.

1. Raise and index the minimum wage to half the average hourly wage. At \$5.15, the federal minimum wage is at its lowest level in real terms since 1956. The federal minimum wage was once 50 percent of the average wage, but is now 30 percent of that wage. Congress should restore the minimum wage to 50 percent of the average wage, about \$8.40 an hour in 2006. Doing so would help over 4.5 million poor workers and nearly 9 million other low-income workers.

2. Expand the Earned Income Tax Credit and Child Tax Credit. As an earnings supplement for low-income working families, the EITC raises incomes and helps families build assets. The Child Tax Credit provides a tax credit of up to \$1,000 per child, but provides no help to the poorest families. We recommend tripling the EITC for childless workers, eliminating the marriage penalty by disregarding half of the lower-earning spouse's wages if doing so would result in an increased EITC for the family, and expanding help to larger working families. We recommend making the Child Tax Credit available to all low- and moderate-income families. Doing so would move 2 million children and 1 million parents out of poverty.

3. Promote unionization by enacting the Employee Free Choice Act. The Employee Free Choice Act would require employers to recognize a union after a majority of workers signs cards authorizing union representation and establish stronger penalties for violations of employee rights. The increased union representation made possible by the Act would lead to better jobs and less poverty for American workers.

4. Guarantee child care assistance to low-income families and promote early education for all. We propose that the federal and state governments guarantee child care help to families with incomes below about \$40,000 a year, with expanded tax help to higher-earning families. At the same time, states should be encouraged to improve the quality of early education and broaden access to early education for all children. Our child care expansion would raise employment among low-income parents and help nearly 3 million parents and children escape poverty.

5. Create 2 million new “opportunity” housing vouchers and promote equitable development in and around central cities. Nearly 8 million Americans live in neighborhoods of concentrated poverty where at least 40 percent of residents are poor.

Our nation should seek to end concentrated poverty and economic segregation, and promote regional equity and inner-city revitalization. We propose that over the next 10 years the federal government fund 2 million new “opportunity vouchers,” designed to help people live in opportunity-rich areas. Any new affordable housing should be in communities with employment opportunities and high-quality public services or in gentrifying communities. These housing policies should be part of a broader effort to pursue equitable development strategies in regional and local planning efforts, including efforts to improve schools, create affordable housing, assure physical security, and enhance neighborhood amenities.

6. Connect disadvantaged and disconnected youth with school and work. About 1.7 million poor youth ages 16 to 24 were both out of school and out of work in 2005. We recommend that the federal government restore Youth Opportunity Grants to help the most disadvantaged communities and expand funding for effective and promising youth programs—with the goal of reaching 600,000 poor disadvantaged youth through these efforts. We propose a new Upward Pathway program to offer low-income youth opportunities to participate in service and training in fields that are in high demand and provide needed public services.

7. Simplify and expand Pell Grants and make higher education accessible to residents of each state. Low-income youth are much less likely to attend college than their higher-income peers, even among those of comparable abilities. Pell Grants play a crucial role for lower-income students. We propose to simplify the Pell Grant application process, gradually raise Pell Grants to reach 70 percent of the average costs of attending a four-year public institution, and encourage institutions to do more to raise student completion rates. As the federal government does its part, states should develop strategies to make post-secondary education affordable for all residents, following promising models already underway in a number of states.

8. Help former prisoners find stable employment and reintegrate into their communities. The United States has the highest incarceration rate in the world. We urge Congress to pass the Second Chance Act, which will support successful models for reintegrating ex-offenders into their communities through job training and education opportunities, drug and mental health treatment, housing and other necessary services. Every state should establish an Office of Reentry Policy, which will oversee statewide reentry efforts and partner with local reentry commissions.

9. Ensure equity for low-wage workers in the Unemployment Insurance system. Only about 35 percent of the unemployed, and a smaller share of unemployed low-wage workers, receive unemployment insurance benefits. We recommend that states (with federal help) reform “monetary eligibility” rules that screen out low-wage workers, broaden eligibility for part-time workers and workers who have lost employment as a

result of compelling family circumstances, and allow unemployed workers to use periods of unemployment as a time to upgrade their skills and qualifications.

10. Modernize means-tested benefits programs to develop a coordinated system that helps workers and families. A well-functioning safety net should help people get into or return to work and ensure a decent level of living for those who cannot work or are temporarily between jobs. Our current system fails to do so. We recommend that governments at all levels simplify and improve benefits access for working families and improve services to individuals with disabilities. The Food Stamp Program should be strengthened to improve benefits, eligibility, and access, and the Temporary Assistance for Needy Families Program should be reformed to strengthen its focus on helping needy families find sustainable employment.

11. Reduce the high costs of being poor and increase access to financial services.

Despite having less income, lower-income families often pay more than middle- and high-income families for the same consumer products. We recommend that the federal and state governments address the home mortgage foreclosure crisis through expanded mortgage assistance programs and by new federal legislation to curb unscrupulous practices. And we propose that the federal government establish a \$50 million Financial Fairness Innovation Fund to support state efforts to broaden access to mainstream goods and financial services in predominantly low-income communities.

12. Expand and simplify the Saver’s Credit to encourage saving for education, homeownership, and retirement. For many families, saving for purposes such as education, a home, or a small business is key to making economic progress. We propose that the federal “Saver’s Credit” be reformed to make it fully refundable. This credit should also be broadened to apply to other appropriate savings vehicles intended to foster asset accumulation, with consideration given to including individual development accounts, children’s saving accounts, and college savings plans.

We believe these recommendations will cut poverty in half. The Urban Institute, which modeled the implementation of one set of our recommendations (using a methodology drawn from recommendations of a National Academy of Sciences expert panel), estimates that four of our steps would reduce poverty by 26 percent, bringing us more than halfway toward our goal. Among their findings:

- **Taken together, our minimum wage, EITC, child credit, and child care recommendations would reduce poverty by 26 percent.** This would mean over 9 million fewer people in poverty and a national poverty rate of 9.1 percent—the lowest in recorded U.S. history.
- **The racial poverty gap would be narrowed.** White poverty would fall from 8.7 percent to 7.0 percent. Poverty among African Americans would fall from 21.4 percent to 15.6 percent. Hispanic poverty would fall from 21.4 percent to 12.9 percent and poverty for all others would fall from 12.7 percent to 10.3 percent.

- **Child poverty and extreme poverty would both fall.** Child poverty would drop by 41 percent. The number of people in extreme poverty would fall by over 2 million.
- **Millions of low- and moderate-income families would benefit.** Almost half of the benefits would help low- and moderate-income families.

The combined cost of our principal recommendations is in the range of \$90 billion a year—a significant cost but one that is necessary and could be readily funded through a fairer tax system. An additional \$90 billion in annual spending would represent about 0.8 percent of the nation's gross domestic product, which is a fraction of the money spent on tax changes that benefited primarily the wealthy in recent years.

Consider that:

- The current annual costs of the tax cuts enacted by Congress in 2001 and 2003 are in the range of \$400 billion a year.
- In 2008 alone the value of the tax cuts to households with incomes exceeding \$200,000 a year is projected to be \$100 billion.

Our recommendations could be fully paid for simply by bringing better balance to the federal tax system and recouping part of what has been lost by the excessive tax cuts of recent years. We recognize that serious action has serious costs, but the challenge before the nation is not whether we can afford to act, but rather that we must decide to act.

What would it mean to accomplish a 50-percent reduction in poverty? In concrete terms, it would mean that nearly 20 million fewer Americans would be living in poverty. It would mean more working Americans, dramatically fewer working people in poverty, stronger, more vibrant communities, and millions of children beginning their lives with vastly more opportunity than they have today. It would mean a healthier population, less crime, more economic growth, a more capable workforce, a more competitive nation, and a major decline in the racial inequities and disparities that have plagued our nation.

I think this is a vision of society worth fighting for. Reducing poverty is the right thing to do and critical for the success of our nation and our people. I urge Congress to consider the ideas presented here as proven, cost-effective ways to strengthen our nation and our people.

In doing so, remember the words of Robert F. Kennedy in challenging all of us to create a better society:

“The future does not belong to those who are content with today, apathetic toward common problems and their fellow man alike. Rather it will belong to those who can blend vision, reason and courage in a personal commitment to the ideals and great enterprises of American society.”

Thank you, Mr. Chairman and members of the Subcommittee for inviting me today. I’d be happy to take any questions you may have.

