

Reducing Poverty: The Progress We Have Made and the Path Forward

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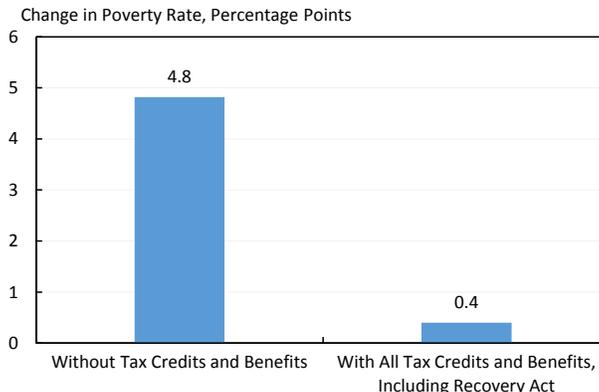
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This is an expanded version of these remarks as prepared for delivery.

Good morning. I want to thank Bob Greenstein and the Center on Budget and Policy Priorities for hosting me for my final speech as Chairman of the Council of Economic Advisers. I can think of no more knowledgeable, dedicated and effective group of people working on this topic than the team that works here—and I have always learned an enormous amount from all of you, including during my time working here in 2005 and 2006.

In 2008, the financial crisis dealt a severe blow to American families, wiping out more than \$13 trillion in household wealth and costing eight million jobs. By a number of measures, the initial phase of the recent crisis was as bad as or worse than the initial phase of the Great Depression (Furman 2015). Yet even as most of our economic indicators told a frightening story, for example the unemployment rate going up from 4.7 percent to 10.0 percent, one important measure barely budged: the poverty rate. As measured using modern methods, the poverty rate rose only 0.4 percentage point between 2007 and 2010 (Wimer et al. 2013, updated November 2016). It was not that low- and middle-income households were spared from the recession—they lost jobs and income like everyone else, and the pain was often significant. Instead, many poor and near-poor families were insulated from many of the worst effects of the recession thanks to the crucial safety net we have built up over decades—including tax credits for working families, nutrition assistance, and unemployment insurance—along with important temporary measures enacted as part of the American Recovery and Reinvestment Act. Without the safety net, the increase in the poverty rate from 2007 to 2010 would have been twelve times as large, as shown in Figure 1. The social safety net plays a critical role in cushioning the blow of recessions—though it cannot, by itself, perfectly insulate low- and moderate-income families against the effects of the business cycle.

Figure 1
Change in Poverty Rate from 2007 to 2010, Without and With
Tax Credits and Benefits



¹ I want to thank Diane Schanzenbach, Andrea Taverna and the team at the Center on Budget and Policy Priorities—including Stacey Dean, Robert Greenstein, Donna Pavetti, Isaac Shapiro and Arloc Sherman—for helpful comments. I also want to thank David Boddy and Harris Eppsteiner for excellent research assistance.

The experience in the Great Recession is an extreme illustration of the way in which the scope and severity of poverty is shaped both by market forces in the economy and by government policies and programs. As I will discuss in my remarks today, over the past fifty years, we have made great strides in reducing poverty—cutting the poverty rate by 41 percent since 1967. *However, this progress has come almost entirely as a result of government programs, and not due to changes in pre-tax market incomes for those at the bottom of the distribution; in fact, “market-income poverty” is roughly the same today as it was in 1967.*

One question I want to address today is why have we made so little progress on market-income poverty and what can be done to reduce it. Some have argued that market-income poverty has persisted precisely because of the expanded safety net. But, as I will argue at length in my remarks today, precisely the opposite is likely to be the case. The evidence that the safety net results in a large reduction of work is relatively weak, especially as we have increasingly transformed our safety net to be conditioned on work. In contrast, there is growing evidence based on rigorous research using randomized trials, natural experiments and large datasets that track outcomes for extended periods of time, that finds that safety net programs that are focused on families with children have large and long-lasting effects on upward mobility, including higher future employment, earnings, educational outcomes and healthcare. So absent the expansion of the safety net over the last half century it is plausible that the trend in market-income poverty would have been even worse.

So why has market-income poverty persisted relatively unchanged for so long? As we at the Council of Economic Advisers (CEA) discussed in detail in a number of reports and speeches, including the 2015 *Economic Report of the President*, rising incomes depend critically on productivity growth, income inequality, and labor force participation (CEA 2015a). Labor productivity is a measure of how much output a worker produces in a single hour, and its growth rate has slowed in recent decades—putting downward pressure on overall wage growth. Since the 1970s, the United States has seen both faster growth and higher levels of income inequality than other advanced economies, with income gains tilted towards those at the top of the distribution. And the labor force participation rate—the share of the adult population that is working or actively looking for work—has also declined since 2000, even among those in their prime working years (ages 25 to 54). This means that fewer people in each household are working, further slowing household income growth.

In my remarks today I will first discuss the recent progress we have made raising incomes and reducing poverty in the United States. I will then step back to look more broadly at trends in poverty over the last 50 years, focusing on the large and growing antipoverty effects of the social safety net. Next, I will highlight several important structural changes in the safety net, including a growing emphasis on work, but also the ways in which parts of the safety net have weakened as a result of block-granting. Finally, I will discuss policies that the Administration has supported to raise incomes and lift more families out of poverty.

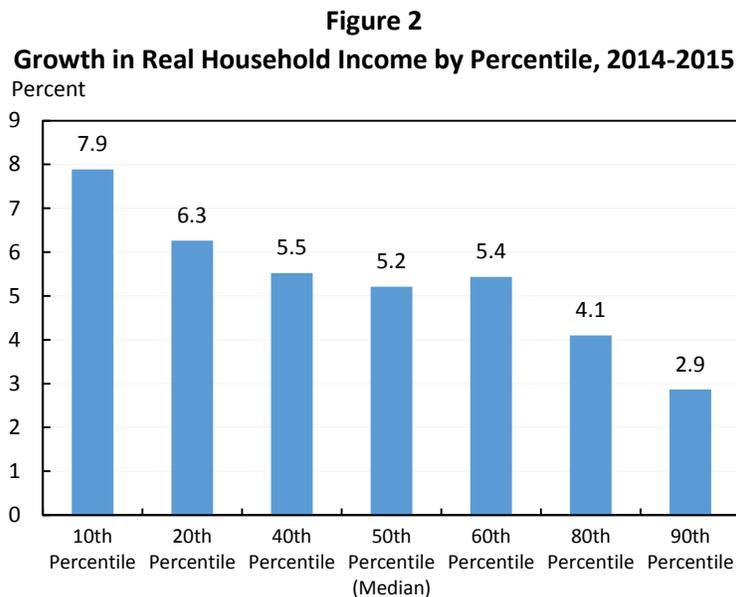
I will conclude by outlining a policy agenda going forward. The most important agenda item is to do no harm to the programs that are already functioning very effectively. In terms of an affirmative agenda, a strong economy is critical—including with rising market incomes for lower-income workers which depend not just on supply and demand but also on institutional choices like where we set the minimum wage, how strong labor unions are, and what we do to help people train for and search for jobs. In addition, there are important ways the safety net could be strengthened—

including expanding the Earned Income Tax Credit (EITC) for the workers without qualifying children who we are currently taxed deeper into poverty, and ensuring that Temporary Assistance for Needy Families (TANF) can serve the population that needs it, including by making sure its funding keeps up with inflation and population growth. At the same time, improving the countercyclicality of the safety net would not only help families in hard times, but would also help the overall economy. Finally, we need to think harder about what we can do for the very poor who slip through the cracks in the existing social safety net.

Recent Developments in Poverty and Policy

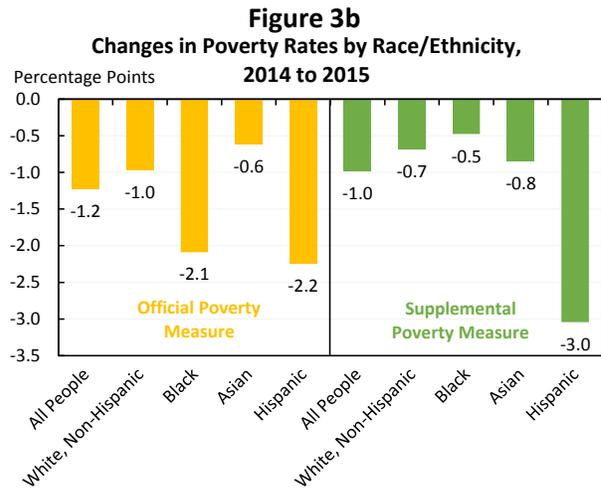
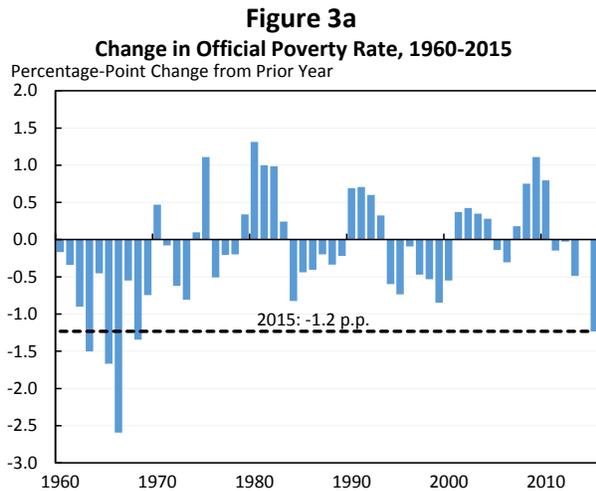
I will start by briefly touching on some encouraging recent developments in poverty because not only is this important in its own right but also because it is an argument for the type of approach that we should be taking going forward.

In recent years, rising real wages, combined with continued strong employment growth, have translated into increased incomes for American families. Last September, the Census Bureau reported that real median household income increased by \$2,800, or 5.2 percent, between 2014 and 2015, the largest annual increase on record. While households across the income distribution saw increases in real incomes in 2015, most notably the largest gains went to households at the bottom of the distribution, as shown in Figure 2.



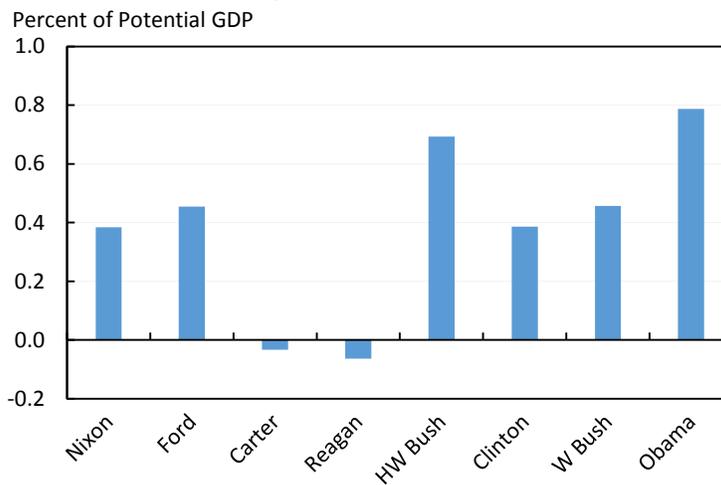
Meanwhile, the total number of Americans below the official poverty measure fell by 3.5 million from 2014 to 2015, and the official poverty rate fell to 13.5 percent due to the largest one-year drop since 1968, as shown in Figure 3a. The poverty rate for children under age 18 fell by 1.4 percentage point from 2014 to 2015, equivalent to more than 1 million children lifted out of poverty.

Meanwhile, the Supplemental Poverty Measure (SPM), which includes the effects of a number of important antipoverty programs (and which I will discuss in more detail shortly), decreased 1.0 percentage point to 14.3 percent. As shown in Figure 3b, all racial and ethnic groups saw increases in household incomes and decreases in poverty in 2015.



Policy has also contributed in important ways to reducing poverty after counting taxes and transfers (more discussion of this below). Under President Obama, the Federal investment in inequality-reducing transfers has increased by about 0.8 percent of potential GDP—more than any previous President since the Great Society, as shown in Figure 4.² This increase during the Obama Administration—more than \$100 billion each year—largely reflects new programmatic investments in the form of the coverage provisions of the Affordable Care Act and expanded tax credits for working families.

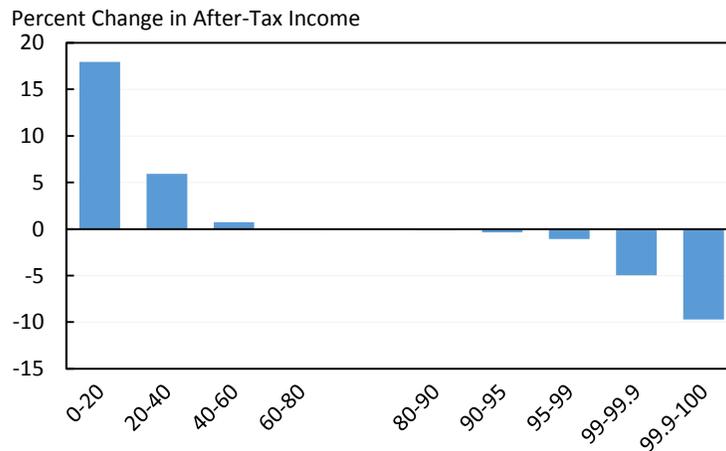
Figure 4
Change in Spending on Major Anti-Inequality Programs by Term, 1968-2016
 Percent of Potential GDP



² These include Medicaid and the Children’s Health Insurance Program, the Supplemental Nutrition Assistance Program, the refundable portion of the Earned Income Tax Credit and Child Tax Credit, Supplemental Security Income, Temporary Assistance for Needy Families and other family support, educational assistance, Pell grants, housing assistance, and the Affordable Care Act’s Marketplace financial assistance. Social Security and Medicare are excluded due to their universal nature and because, in the case of Social Security, benefit increases in the last 50 years have often been accompanied by payroll tax increases. In addition, most of the change in Medicare spending over this period reflects changes in demographics, health care costs, and other factors, not changes in policy. Unemployment Insurance is also excluded as most variation reflects cyclical factors, not changes in underlying policy. Potential GDP represents the maximum sustainable output level of the economy. It is used here to put spending levels on a more equal footing by netting out the effects of the business cycle (recessions and recoveries) on the size of the economy.

As shown in Figure 5, in concert with the effects of the Affordable Care Act coverage provisions, changes in tax policy since 2009 will by 2017 boost incomes for families in the bottom quintile (the bottom 20 percent) by 18 percent, or \$2,200—the equivalent of about a decade of income gains—relative to what they would have been under the continuation of 2008 policies.³ These policy changes primarily include the expansion of the Child Tax Credit (CTC) for low-income working families and the expansion of the EITC for families with three or more children that were first enacted as part of the Recovery Act.⁴

Figure 5
Change in After-Tax Income by Income Percentile:
Changes in Tax Policy Since 2009
and ACA Coverage Provisions, 2017



Poverty Over the Last Fifty Years

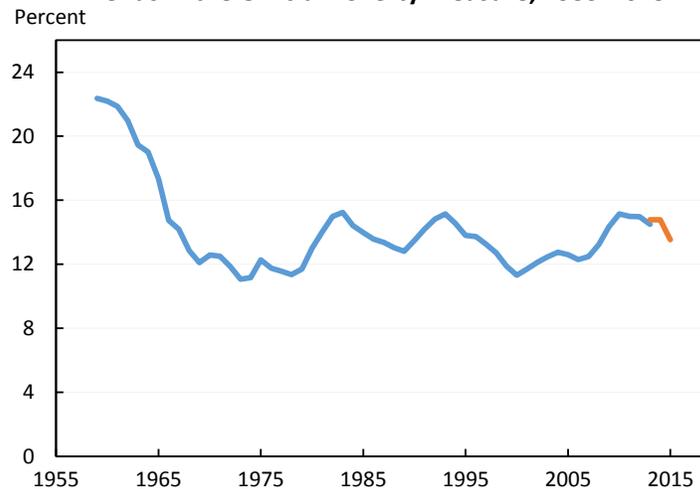
In measuring poverty, we can distinguish between “market-income” poverty—that is, poverty based on pre-tax, pre-transfer resources (such as wages, nonwage compensation, and investment income)—and “post-tax-and-transfer” poverty—that is, poverty based on income after taking into account subtractions (as a result of tax payments) and additions (as a result of government assistance or refundable tax credits) due to policy decisions.

The poverty rate according to the official poverty measure fell steeply from 1959 to 1969 but then progress halted, and the poverty rate was higher in 2015 than it was in 1968, as shown in Figure 6.

³ The impact of these changes in tax policy is measured relative to a policy counterfactual in which 2008 tax policy remains in place. This policy counterfactual assumes the extension of the major individual and estate tax cuts scheduled to expire at the end of 2010; a set of individual, business, and energy tax provisions that have been regularly extended by Congress in the past (referred to as “extenders”); a set of provisions limiting the scope of the individual Alternative Minimum Tax; and the Federal Unemployment Tax Act surtax.

⁴ These estimates do not take into account the additional, temporary income boosts these families saw due to the temporary tax cuts enacted earlier in the Administration, including the Making Work Pay credit and the payroll tax holiday that have now expired.

Figure 6
Trends in the Official Poverty Measure, 1959-2015



Until recently, the official poverty measure was the only available government measure tracking poverty in the United States that was consistently available over long periods of time. But the official poverty measure has several critical flaws that distort our understanding of both the level of poverty at any given point in time and how poverty has changed over the past five decades.

The most significant problem with the official poverty measure is how it measures family resources. The official poverty measure is based on pre-tax income plus cash transfers (like cash welfare or payments from unemployment insurance or Social Security) but not tax payments, tax credits, or non-cash transfers (such as food stamps). As such, it exists in a sort of measurement limbo—lying somewhere between market-income poverty and post-tax-and-transfer poverty—and captures some, but not most, of the effects of government antipoverty policies and programs. Today, for example, the value of the two largest non-health programs directing aid to the poor—the EITC and Supplemental Nutrition Assistance Program (SNAP)—are ignored by the official measure, making it impossible to assess the success of these tools in reducing poverty.

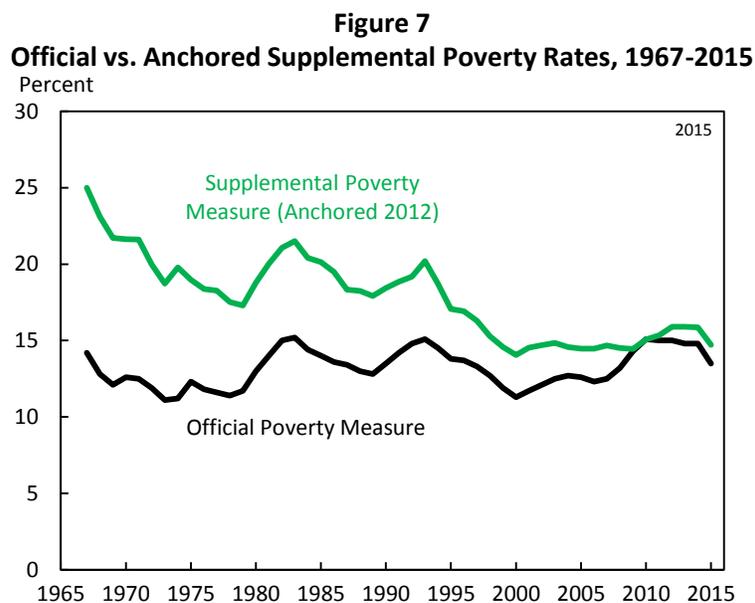
To address these issues, the Census Bureau has created a Supplemental Poverty Measure (SPM), which it first released in 2011. The SPM differs from the official poverty measure in a number of crucial aspects. Most importantly for the purposes of these remarks, the SPM uses a post-tax-and-transfer concept of disposable income that adds to family earnings all cash transfers and the cash-equivalent of in-kind transfers such as food assistance (for example, SNAP or the free lunch program) minus net tax liabilities, which can be negative for families receiving refundable tax credits like the EITC. The SPM also indirectly incorporates health benefits, subtracting from income out-of-pocket health costs—which could be lower relative to family income for those with health insurance.⁵

The SPM has greatly improved our understanding both of contemporary trends in poverty and of the critical role that government programs play in keeping millions of Americans above the poverty

⁵ The SPM also differs from the official poverty measure in how it sets the poverty threshold. The official poverty measure sets the poverty threshold at three times the cost of a minimum food diet in 1963, adjusted for inflation, family size, composition, and age of the head of household. The SPM, in contrast, uses recent data on expenditures by families at the 33rd percentile of the distribution on food, shelter, clothing, and utilities, adjusted for family size and structure and (unlike in the official measure) geographic variation in the cost of living.

line. Going forward, the continued publication of the SPM will be critical for policymakers in the development, implementation, and evaluation of efforts aimed at reducing poverty in the United States.

Because the Census Bureau only began publishing its SPM in 2011, however, we must also rely on researchers to understand how the official poverty measure’s limitations may distort our understanding of historical trends in poverty. Recent research on alternate measures of poverty all find that the official poverty rate displayed in Figure 6 dramatically understates the decline in poverty since the 1960s (Fox et al. 2015; Meyer and Sullivan 2013; Sherman 2013). Figure 7 shows an alternative poverty measure from Wimer et al. (2013) using an SPM measure anchored in 2012.⁶ The figure shows a striking fact: poverty has declined by 41 percent since 1967 according to the anchored SPM measure. Using this more-accurate measure of family resources significantly changes the historical account of poverty in the United States: between 1967 and 2015, poverty rates fell by 10.3 percentage points—from 25.0 to 14.7 percent.



An important benefit of the approach of Wimer et al. (2013) is that it allows us to estimate the effects that government policies—including both transfer programs and tax credits—have had on poverty over the past fifty years. Figure 8 plots the SPM shown in Figure 7, along with a new line showing the fraction of Americans who would have incomes below the poverty line if the value of all cash, in-kind, and tax transfers they received (or paid if the family owed taxes on net) were not counted. The difference between this measure of “market-income poverty” and the SPM poverty rate—represented by the gray bars in Figure 8—provides a measure of the reduction in poverty accounted for by government programs. Figure 9 shows a similar exercise for “deep poverty,” the fraction of households at or below 50 percent of the poverty threshold.

⁶ One important feature of the Census SPM design is that the definition of minimum needs is adjusted each year based on recent data on family expenditures on necessities, rather than adjusting a fixed bundle only for inflation. Alternatively, it is possible to create an “anchored” version of the SPM, which uses the same expansive definition of family resources as the Census SPM but which, like the official poverty measure, fixes poverty thresholds in a given year and then adjusts only for inflation. This is the approach taken by Wimer et al. (2013) in the analysis shown here.

Figure 8
Trends in Market-Income and Post-Tax-and-Transfer Poverty, 1967-2015

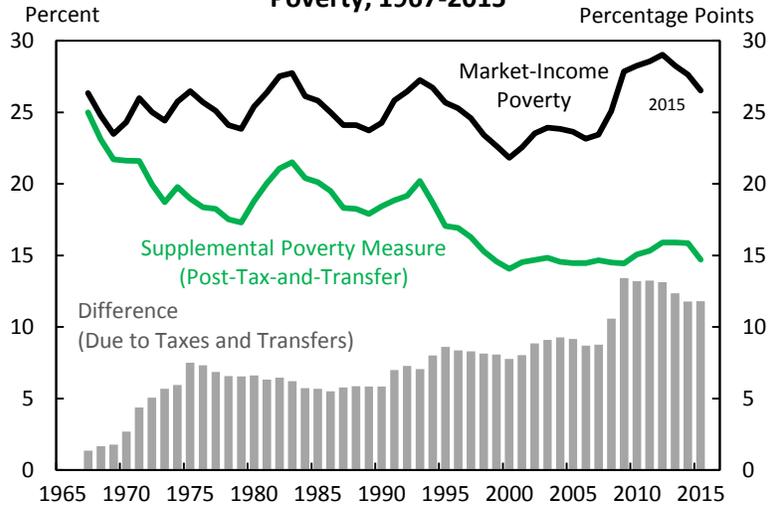
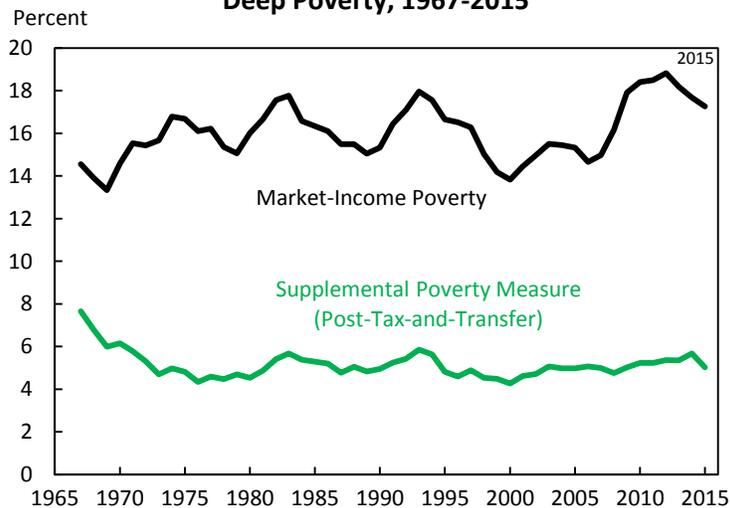


Figure 9
Trends in Market-Income and Post-Tax-and-Transfer Deep Poverty, 1967-2015



Some of the key facts on trends in poverty based on this analysis are:

1. Market-income poverty has remained essentially flat over the past fifty years. Market-income poverty was 26.4 percent in 1967, nearly identical to the 26.5 percent rate in 2015. Meanwhile market-income *deep* poverty increased from 14.6 percent in 1967 to 17.3 percent in 2015.
2. The antipoverty impact of government safety net programs (taken as a whole) has grown dramatically over time. In 1967, the safety net lifted 5 percent of Americans above the poverty line who would otherwise have been below it, compared to 45 percent in 2015. This is in part because in 1967, while programs like Social Security lifted people above the poverty line, the tax system actually taxed people into poverty—something it no longer does for households with children.

3. Government safety net programs are particularly important for reducing deep poverty. In 2015, one in twenty Americans lived in deep poverty (5.0 percent); without government policies that number would be closer to one in six (17.3 percent).⁷
4. Taxes and transfers directly reduce cyclical swings in poverty. Between 2007 and 2010, the market-income poverty rate increased 4.8 percentage points and the market-income deep poverty rate increased 3.4 percentage points due to the impact of the Great Recession. However, the actual SPM poverty rate rose only 0.4 percentage point, and the actual SPM deep poverty rate rose just 0.2 percentage point, in no small part due to expansions of the safety net in the Recovery Act.

With this context, I will now discuss the steep reduction in post-tax-and-transfer poverty as a result of government policies and then talk about the role these programs have or have not played in the near-unchanged level of market-income poverty.

The Role of Tax and Transfer Programs in the Short Run

The Direct Impact of Government Programs on Poverty

As Figure 8 shows, post-tax-and-transfer poverty has declined dramatically over the past five decades. This shift is largely due to changes in Federal antipoverty policies over this period, particularly those inaugurated as part of the “War on Poverty” in the 1960s.

In 1964, President Johnson’s declaration of an “unconditional war on poverty in America” ushered in a new era of Federal Government leadership in antipoverty policy. During President Johnson’s term, Congress passed more than a dozen major pieces of legislation that created the foundational elements of our current social welfare system, providing income and nutrition support, access to education, skills training, health insurance and a myriad of other services to low-income Americans.

Which of these programs have the largest impact on poverty today? One way to answer this question is to examine what the poverty rate would be in the absence of various programs—the same way Figures 8 and 9 “zero out” the social safety net. Though this “static” approach ignores the behavioral effects of these policies—for example how they change incentives to work and save—the highest-quality studies suggest that these behavioral responses are relatively small, as I will discuss in a moment.

Using this “zeroing out” approach, the program with the largest antipoverty impact is Social Security, which provides income to the elderly, people with disabilities, and surviving spouses and children: in 2015 Social Security reduced the overall poverty rate by 8.3 percentage points. As shown in Figure 10, among the elderly, the program’s effects are profound: without Social Security

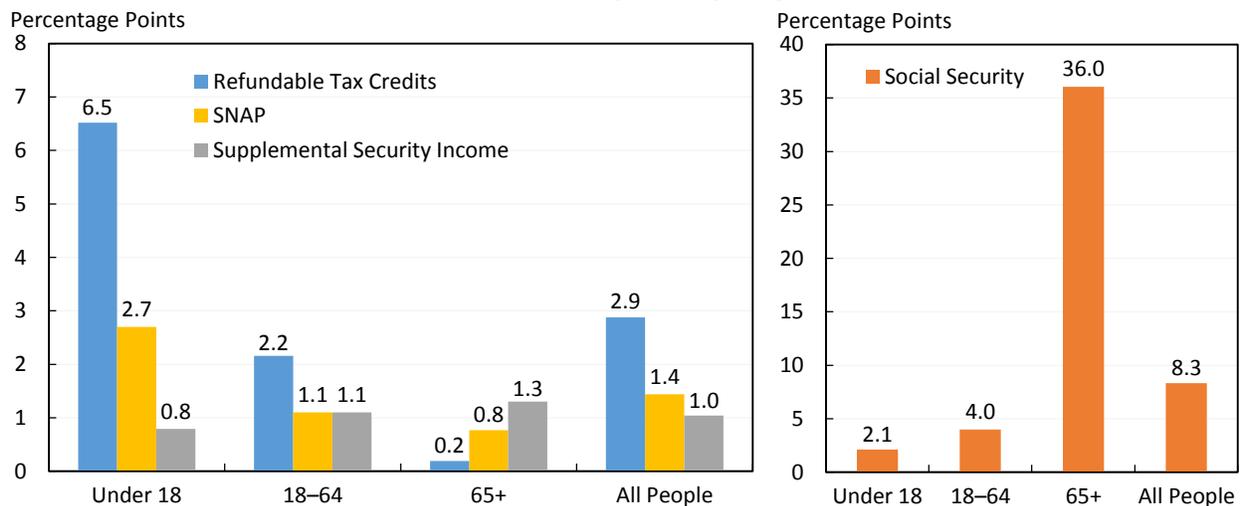
⁷ While Figure 9 shows that post-tax-and-transfer deep poverty has not increased substantially in recent decades for all Americans, particular populations have, in fact, seen an increase in deep poverty after accounting for taxes and transfers. Sherman and Trisi (2015a), for example, find that deep poverty among single-parent families increased in the decade after welfare reform in 1996, in part as a result of the conversion of central pieces of the safety net into block grants. Moreover, the distribution of income *among* those in deep poverty has shifted, with an increasing number of households living at near-zero levels of cash income (Edin and Shaefer 2015).

income, the elderly poverty rate would be 36 percentage points higher, at almost 50 percent, rather than 14 percent.

On the other end of the age spectrum, refundable tax credits like the EITC and CTC have large impacts on child poverty—reducing the fraction of children in poverty by 6.5 percentage points, as shown in Figure 10. Tax credits also reduce poverty among nonelderly adults, whose poverty rate would be 2.2 percentage points higher without these tax credits. This is particularly notable because prior to the creation of the EITC in the mid-1970s, Americans with children were actually taxed *further into* poverty by the Federal tax code. In 1967, for example, the average effective tax rate for a married couple with two children and with income just at the poverty line was 10 percent; by 2012, it had dropped to -16 percent (that is, for each additional dollar earned, tax credits and benefits on balance increase by 16 cents).

SNAP also has a dramatic effect on poverty, not only reducing child poverty by 2.7 percentage points and overall poverty rates by 1.4 percentage points, but also bringing the very-poor closer to the poverty threshold, thereby helping to reduce extreme hardship.⁸ For example, in 2014, SNAP lifted 2.8 million people, including 1.3 million children, out of deep poverty (CEA 2015b).

Figure 10
Reduction in Poverty Rate by Program, 2015



Even programs with a small impact on overall poverty rates may nonetheless substantially reduce poverty for specific populations, or alleviate hardship without necessarily lifting individuals out of poverty. For example, Supplemental Security Income (SSI) reduces poverty rates by just over 1 percentage point overall, but this masks its concentrated impact among a relatively small number of low-income recipients who are elderly or have a disability. TANF is too small to have a substantial impact on the overall poverty rate, but by raising incomes it reduces deep poverty and hardship among the small group of families that receive benefits.

Moreover, the antipoverty effects of the safety net are generally larger in recessions. For example, in 2015 Unemployment Insurance reduced overall poverty by 0.2 percentage point, but this reduction was as large as 1.5 percentage points in 2010—in part because more people were eligible

⁸ Due to the underreporting of SNAP benefits, these estimates understate SNAP’s antipoverty effect, which Sherman and Trisi (2015b) estimate to be equal to the antipoverty impact of the EITC and CTC combined, correcting for underreporting.

in the Great Recession when unemployment was higher, and in part because of important temporary expansions enacted during the recession.

It is worth noting that both the official poverty measure and the SPM suffer from large underreporting of both incomes and benefits. Underreporting will tend to increase measured poverty, and since underreporting has increased over time (Meyer, Mok, and Sullivan 2009), the official poverty measure and SPM both understate the decline in the poverty rate—and the estimated effects of government programs on poverty are likely to be conservative lower-bound estimates of the true effects.

Do Direct Estimates Ignore Important Indirect Effects in the Short Run?

This zeroing out methodology explicitly ignores any possible behavioral responses. In some cases this method could overstate the poverty reduction associated with a given program. For example, if a program discouraged work, it might appear to reduce poverty through the zeroing approach (because it assumes no change in the market income that we observe) when it actually is increasing poverty (because the program in fact reduces the market income we observe). Conversely, the zeroing out methodology could understate the poverty reduction associated with a program if the program also encouraged people to work or helped them find better jobs.

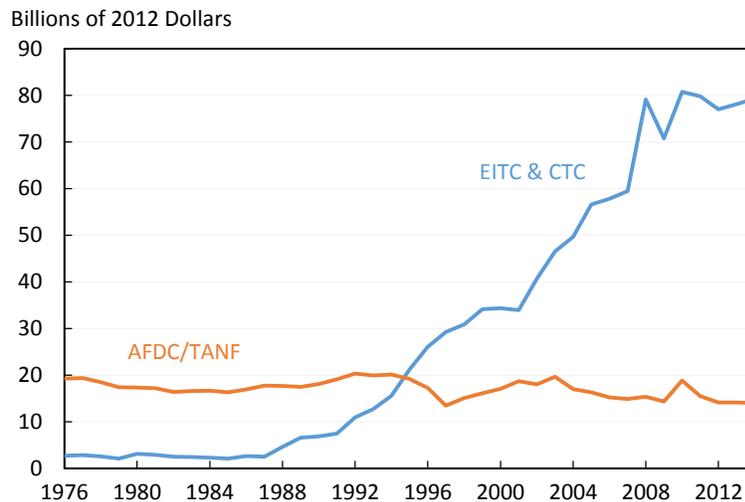
Examining a wide range of studies, Ben-Shalom, Moffitt, and Sholz (2011) conclude that the labor supply incentives of antipoverty programs have “basically, zero” effect on overall poverty rates—at least in the short run. Going program by program, they conclude that TANF does not meaningfully alter incentives to work, and that the work disincentives induced by disability insurance, Medicare, and unemployment insurance might reduce the estimated static antipoverty effects of those programs by one-eighth or less. Although housing assistance provides significant benefits to some of the poorest households—including the homeless—its effects on labor supply among those free of disabilities and of working-age are relatively modest.

This is consistent with a range of other research on specific programs. For example, researchers who examined the labor supply behavior of individuals in the Oregon Health Insurance Experiment found that Medicaid recipients were not less likely to be employed or earn less (Baicker et al. 2013). Similarly, in studying the initial rollout of SNAP (then food stamps), researchers found only modest effects on labor supply (Hoynes and Schanzenbach 2012). Additionally, studies of the Negative Income Tax experiments of the 1970s suggest only moderate disincentive effects (Burtless 1986). And with regard to the EITC, Chetty, Friedman, and Saez (2013) find that, as intended by the program’s architects, behavioral responses actually strengthen the program’s reduction of deep poverty, so that the overall impact of the EITC might be somewhat greater than implied by the static estimates.

In fact, the safety net itself is increasingly oriented towards supporting work. The biggest source of this shift is the EITC—available only to those with earnings—which was created in 1975 and expanded multiple times in the 1980s, 1990s, 2000s, and most recently in 2009 through the Recovery Act, with those improvements extended in 2010 and 2013. Reflecting this growing emphasis on work, since 1996 the EITC has accounted for more support for low-income households than traditional cash welfare. In fiscal year 2014, the EITC and the partially refundable CTC (also available only to those with earnings) totaled roughly \$80 billion, nearly six times Federal expenditures on TANF, as shown in Figure 11 (see Box 1 for a discussion of the role of block granting in the changes in TANF since 1996). The safety net’s evolving orientation towards work is

also evident in SNAP, which has seen a steady rise over the last two decades in the share of participating households that earn income—resulting in part from Federal and State efforts to simplify enrollment procedures and reporting requirements for working households (CEA 2015b).

Figure 11
Federal AFDC/TANF v. EITC & CTC Expenditures, 1976–2014



All of this evidence is on the short-run effects of antipoverty programs; in the next section of my remarks I will discuss some of the important benefits these programs have for increasing economic mobility over the long run.

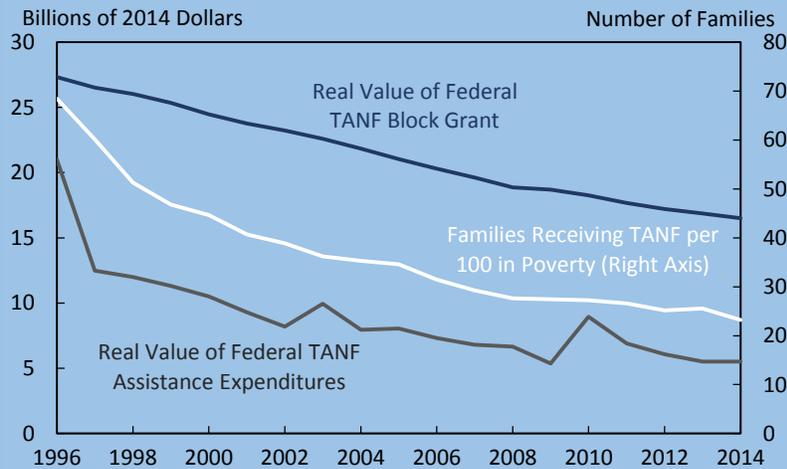
Box 1: The TANF Block Grant

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 replaced Aid to Families with Dependent Children (AFDC) with Temporary Assistance for Needy Families (TANF), ending the entitlement nature of the program, requiring States to meet benchmarks for engaging recipients in work activities, and giving States broad new authority that, over time, has resulted in a large decline in the share of TANF funds spent on cash assistance and a decline in the share of eligible families receiving that aid.

AFDC had provided cash assistance to low-income and primarily single-parent families with children since 1935 and was structured as an entitlement that anyone who met the State-based income and other eligibility criteria would automatically qualify for. The 1996 welfare reform law was motivated by the stated desire to reduce dependence on cash benefits and facilitate the transition from welfare to work. It included work requirements for recipients, limits on the duration of benefits, and financial penalties for individuals and States failing to meet work requirement targets or other rules. Importantly, Congress made TANF a fixed block grant and gave States broad flexibility to determine how funds would be used—ending the automatic entitlement benefits for everyone that met the specified Federal criteria, allowing States to make it harder to access cash assistance, and permitting States to divert resources from cash assistance to other areas.

Analysts continue to debate the effects of additional work requirements and flexibility built into TANF (Pavetti 2016; Schott 2016). But a major impact of the 1996 reform has been to dramatically erode funding over time. The size of the block grant has remained unchanged at \$16.5 billion annually in nominal terms since its creation, allowing two decades of price inflation and population growth to erode its real value by 40 percent. Meanwhile, the real value of Federal TANF expenditures on assistance, as defined by the Department of Health and Human Services, has declined by 74 percent adjusted for inflation and population growth, as shown in Figure i. (Assistance expenditures include benefits directed at basic needs like food, clothing, shelter, and utilities, as well as for child care, transportation, and supportive services for families that are not working.)

Figure i
Value of Federal TANF Block Grant and Assistance Expenditures, Adjusted for Inflation and Population Growth, 1996-2014



The even steeper decline in funding for basic needs has occurred because with wide latitude in how to spend the TANF block grant, many States have directed funds away from cash assistance, diverting TANF dollars toward services that are less targeted to the lowest-income recipients and also to offset the cost of other State programs. The average State spent just under one-quarter of its TANF dollars on cash assistance in 2015. Another quarter went to child care and work-related support activities, but fully half of TANF funds were spent on “non-core” areas, including refundable earned income tax credits, prevention of non-marital pregnancies, and formation of two-parent families. Although States are not required to track the income levels of those who receive these non-core services, much of this spending likely misses the least well-off. Moreover, the lowest-income recipients may value the non-core services less than cash assistance; work-related support, for example, is of limited value when unemployment is high and recipients are unable to find jobs.

As a result, TANF is now much less effective in reaching poor families. In 1996, 68 families received TANF per 100 families in poverty; by 2014 this number had fallen to 23, primarily reflecting a sharp reduction in the TANF cash caseload, rather than an increase in poverty (Floyd, Pavetti, and Schott 2015). Using data that corrects for underreporting of benefits, Sherman and Trisi (2015a) find that AFDC lifted 2.4 million children out of deep poverty on the eve of welfare reform in 1995—but TANF lifted only 600,000 from deep poverty by 2010. In contrast, the number of children lifted from deep poverty by other safety net programs—

such as the Supplemental Nutrition Assistance Program (SNAP), the Earned Income Tax Credit (EITC), the Child Tax Credit (CTC), and Supplemental Security Income (SSI)—held steady between 1995 and 2010, each lifting more children from deep poverty in 2010 than TANF. Overall, the antipoverty effects of TANF have been weakened significantly since the creation of the block grant, as its real value has eroded and its reach has diminished.

Although research suggests that the early changes stemming from the 1996 welfare reform law increased employment among single mothers, the high access barriers to the program have increased hardship among families that are eligible for TANF but do not receive benefits (Floyd, Pavetti, and Schott 2015).

The Role of the Safety Net as an Automatic Stabilizer

The safety net plays an important role at the individual level but also plays a critical role for the overall economy. Entitlement programs like SNAP and unemployment insurance automatically provide benefits to people when their incomes go down or their circumstances change in certain ways, for example when they become unemployed. These programs automatically scale up in a timely manner whenever the economy goes into a downturn. This does not just provide relief to the affected households by helping them smooth their consumption, it also helps the overall economy because these households are likely to spend a large fraction of their benefits—expanding aggregate demand and strengthening the overall economy. These co-called “automatic stabilizers” are more important than ever because with conventional monetary policy increasingly constrained by low interest rates fiscal policy will have to play an even larger role going forward (Furman 2016).

Note that because this stabilizing effect depends on a program’s capacity to expand automatically in response to increased need, turning safety net programs into fixed block grants would substantially undermine their capacity both to provide help to the families that need it and to counter recessions. This was seen in the Great Recession when, despite the fact that the unemployment rate doubled, and with it needs, the base funding for the TANF block grant did not change and Congress failed to continue a \$5 billion Emergency Contingency Fund. As a result the TANF caseload increased only modestly (and with a lag), with no correlation between increases in its caseload and increases in State-level unemployment rates (Bitler and Hoynes 2016). TANF, in other words, failed to play a countercyclical role in the worst recession since the Great Depression, due largely to its block-grant structure. By the end of 2014, when the unemployment rate was 5.6 percent, the TANF caseload was actually lower than at the end of 2007, when the unemployment rate was 5.0 percent. By contrast, SNAP played an important stabilizing role in the Great Recession, expanding automatically in response to increased need, especially in States hit hardest by the recession (Bitler and Hoynes 2010). Although the Recovery Act also increased funding for SNAP, it was the program’s non-block-grant structure and national standards that allowed for this automatic expansion.

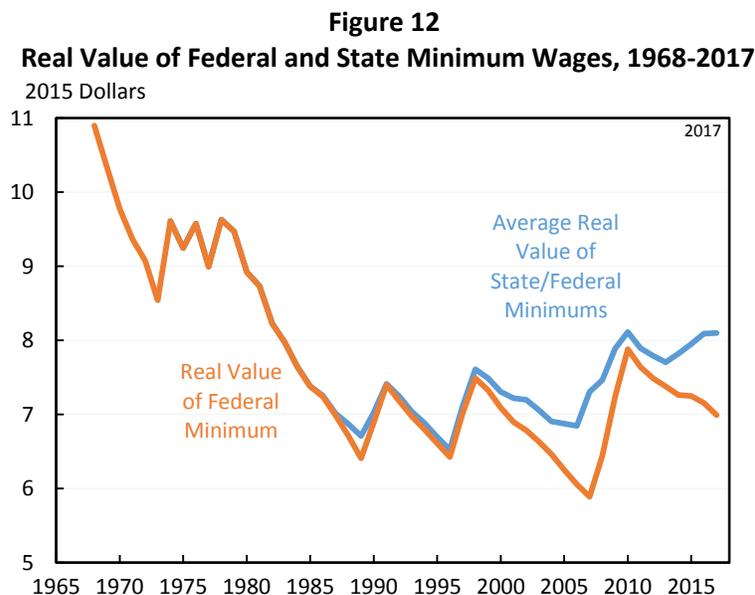
How To Raise Market Incomes

So far I have been talking about the role that the safety net has played in reducing poverty by 41 percent from 1967 through 2015. At the same time, poverty counting just market income has not made any progress. The reason is that overall growth slowed starting in the early 1970s and this slowdown was compounded by increased inequality and, more recently, declining labor force participation rates—the causes of which are discussed elsewhere (e.g., CEA 2015a).

The Role of the Minimum Wage in Inclusive Growth

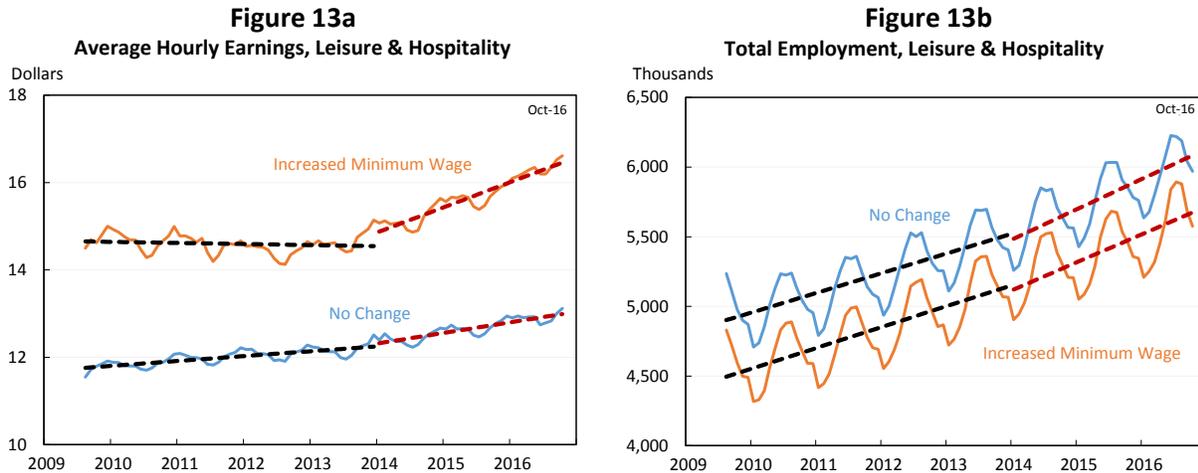
It directly follows from this diagnosis of the problem that a stronger and more-inclusive economy is essential for raising market incomes for households at the bottom. This depends on reducing the severity of recessions through additional aggregate demand (in part, through automatic stabilizers like antipoverty programs) and a broader set of steps to raise long-run growth, reduce inequality, and boost participation in the workforce. I want to highlight one particularly important policy here: the minimum wage.

President Obama called for a minimum wage increase in his State of the Union address in February 2013, and while Congress has not acted, 22 States, the District of Columbia and more than 60 communities have taken action to raise their minimum wages since that time. In part due to these increases, the decline in the average value of the effective minimum wage (the higher of the Federal and State minimum wage in each State weighted by worker hours) has been reversed, and the average effective minimum wage has now reached roughly the same inflation-adjusted value it had in 2009, when the Federal minimum was last increased, as shown in Figure 12.



These increases by States in their minimum wages have led to meaningful growth in earnings, especially among workers in the leisure and hospitality industry, who tend to be lower-paid than workers in other sectors (Black et al. 2016). CEA estimates that in states that took action, the average industry wage grew by 14.2 percent between December 2013 and October 2016—resulting in wages that were 14.8 percent higher than they would have been had the downward trend prior to January 2014 continued, as shown in Figure 13a. Meanwhile, the average wage in the comparison

group of States grew by just 7.2 percent and was only 4.5 percent higher by October 2016 than the counterfactual based on the prior trend. Moreover, during this same period, job growth for leisure and hospitality workers followed virtually identical trends in the two groups of States, as shown in Figure 13b, suggesting that these wage gains have not come at the expense of employment—consistent with a long line of research on earlier minimum wage increases (Doucouliagos and Stanley 2009; Card and Krueger 2016).



Much of the benefit of this is highly progressive. The Congressional Budget Office (CBO) found that about 90 percent of the gross benefits of a higher minimum wage go to families with incomes below three times the federal poverty line (and all of the net benefits would go to such families), about the same as the targeting of the EITC (CBO 2014). And Arindrajit Dube (2014) found that raising the minimum wage by 10 percent would reduce the number of people living in poverty by 2.4 to 3.6 percent.

The (Surprising?) Role of Tax and Transfer Programs in Fostering Mobility and Raising Market Incomes

But tax and transfer programs can also raise market incomes by improving outcomes for children that translate into higher educational attainment and improved employment, earnings and health status in adulthood. In other words, in addition to the direct effects of tax and transfer programs on post-tax-and-transfer poverty in the short run, antipoverty programs—including key income support, education, housing, health care, and nutritional assistance programs—can have *indirect* effects on market-income poverty in the longer run that run exactly counter to the argument that they breed dependency.

Innovative economic research is increasingly finding that these programs have long-run benefits for the children in families that receive them. These studies, summarized in Table 1, often draw upon large administrative data sets that are collected in the process of running government programs. In many cases these data sources allow researchers to track families over long periods of time with limited attrition, offering much larger sample sizes, and suffering from less missing data than household surveys. These improvements in data quality have coincided with a “credibility revolution” in economics that has greatly expanded the use of randomized trials and “quasi-experimental” research designs that exploit natural experiments to estimate the causal impact of the programs.

Table 1
The Long-Run Effects of Social Programs

Program	Study	Outcome
Head Start	Garces, Thomas, and Currie (2002)	Increased high school completion and college attendance
	Deming (2009)	Improved score of summary index including crime, teen parenthood, health status, and idleness
	Ludwig and Miller (2007)	Improved schooling attainment, likelihood of attending college, and mortality rates
	Gibbs, Ludwig, and Miller (2013)	Yielded benefit-cost ratio in excess of seven
Perry Preschool	Heckman et al. (2010)	Increased earnings, reduced crime and use of social programs
Medicare	Almond, Chay, and Greenstone (2006)	Improved infant health and decreased black-white gap in infant mortality
	Chay, Guryan, and Mazumder (2009)	Increased student achievement among black teenagers, decreasing black-white test score gap
Medicaid	Cohodes et al. (2016)	Increased high school graduation and college completion
	Meyer and Wherry (2012)	Reduced likelihood among black children of dying in teenage years
	Wherry et al. (2015)	Reduced likelihood among black children of being hospitalized at age 25
	Brown, Kowalski, Lurie (2015)	Increased earnings among women
Nutrition Assistance (SNAP)	Hoynes, Schanzenbach, and Almond (2016)	Reduced obesity, high blood pressure, and diabetes in adulthood; increased girls' economic self-sufficiency
Nutrition Program for Women, Infants, and Children (WIC)	Hoynes, Page, and Stevens (2011)	Increased birthweights among children born to mothers who participated in WIC from third trimester
	Rossin-Slater (2013)	Increased maternal weight gain in pregnancy and children's birth weights
Earned Income Tax Credit (EITC)	Hoynes, Miller, and Simon (2015)	Among single mothers, lowered prevalence of low-birth weight
	Chetty, Friedman, and Rockoff (2011)	Raised elementary and middle school scores
	Manoli and Turner (2014)	Increased college enrollment
Moving to Opportunity (MTO)	Chetty, Hendren, and Katz (2016)	Among children younger than 13 when families moved, increased earnings in adulthood, college attendance; among children who attended college, increased likelihood of enrollment at a higher-quality school

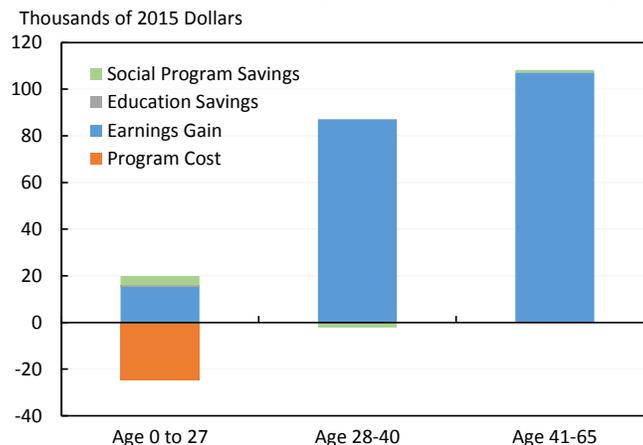
Many studies have documented the lingering negative effects of growing up in poverty. The influence of poverty on future economic prospects stems not just from the economic status of one’s own family, but also from growing up in high-poverty neighborhoods. With lower-quality schools, lower-paying jobs, higher crime rates, and other disadvantages, poor neighborhoods reduce the likelihood that a child will make it out of poverty. Comparing geographic regions in the United States, economic mobility is higher in areas with a larger middle class, less residential segregation between low-income and middle-income individuals, higher social capital, and lower rates of teen birth, crime, divorce, and children raised by single parents (Chetty et al. 2014).

But public policy can help offset these negative effects. A handful of well-crafted studies that track the long-run outcomes of children supported by safety net programs highlight the potential for these investments to generate large long-term benefits (Chay, Guryan, and Mazumder 2009; Cohodes et al. 2016; Hoynes, Schanzenbach, and Almond 2016; Chetty, Friedman, and Rockoff 2011; Heckman et al. 2010). Early childhood education is a prime example. The Head Start program, created early in the War on Poverty, has been shown to have large long-term effects. Studies that followed children over time, and accounted for the influence of family background by comparing siblings, found that Head Start participants were more likely to complete high school and attend college, and scored higher on a summary index of young adult outcomes, including crime, teen parenthood, health status, and idleness. Measured with this index, Head Start closed one-third of the gap between children in families at the median and bottom quartiles of family income. Comparing access to Head Start across counties, another group of researchers found that Head Start improved schooling attainment, the likelihood of attending college, and mortality rates from causes that could be affected by Head Start. Other research suggests that the combination of benefits from Head Start might produce a benefit-cost ratio in excess of seven.

Randomized experiments in other childhood programs, including the Perry Preschool Project shown in Figure 14, the Abecedarian Project, Chicago Child-Parent Centers, Early Training Project, and Project CARE programs, largely confirm these findings. A range of high-quality research finds that children—especially girls—who participated in these programs saw large benefits as adults, including higher educational attainment, employment, and earnings. One study estimated a return on the investment that exceeded the typical return to equities (Heckman et al. 2010). However, among OECD countries, the United States ranks 28th out of 38 in the share of 4-year-olds enrolled in early education programs, indicating that we have substantial ground to make up in these important investments—and the economic mobility that they support.

Figure 14

Net Benefit Per Child of Perry Preschool Rises Over Lifecycle



But it is not just education that has positive long-run effects; a wide range of other programs have long-lasting benefits too. For example, researchers have identified connections between early childhood health interventions, including exposure in-utero, and long-term outcomes. When the Johnson Administration threatened to withhold Federal funds from the newly introduced Medicare program to force hospitals to comply with the Civil Rights Act mandate to desegregate, the result was a dramatic improvement in infant health and large declines in the black-white gap in infant mortality in the 1960s. These improvements in access to health care had echoes in the form of large student achievement gains for black teenagers in the 1980s, contributing to the decline in the black-white test score gap. Access to health care in early childhood improved test scores by between 0.7 and 1 standard deviation—large enough to imply substantial increases in lifetime earnings (Chay, Guryan, and Mazumder 2009). Other research shows that receiving Medicaid in childhood makes it substantially more likely that a child will graduate from high school and complete college (Cohodes et al. 2016), and less likely that a black child will die in his late teens or be hospitalized at 25 (Meyer and Wherry 2012; Wherry et al. 2015). For women, Medicaid participation in childhood is associated with increased earnings.

There is also evidence that tax or near-cash transfers to parents have intergenerational effects on children. Examining the rollout of food stamps (now SNAP) between 1961 and 1975, one group of researchers identified effects decades after children were exposed to the program, reducing adverse health outcomes like obesity, high blood pressure, and diabetes in adulthood; and girls grew up to be more economically self-sufficient. Additionally, children went on to have high school graduation rates 18 percentage points higher than the control group (Hoynes, Schanzenbach, and Almond 2016).

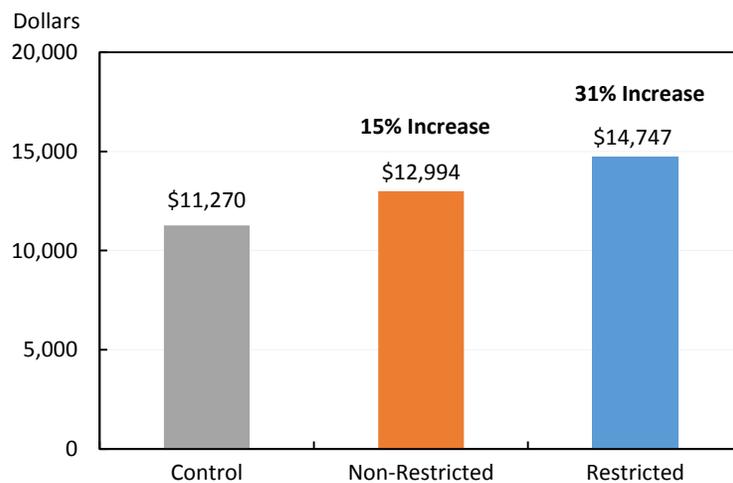
Like SNAP, the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) was rolled out in stages between 1972 and 1979. Using this county variation to compare birth information in counties with and without WIC, a group of researchers found that WIC increased birthweights among children born to mothers who participated in WIC from the third trimester, with the largest effects among mothers with low levels of education (Hoynes, Page, and Stevens 2011). Other work uses more recent data on access to WIC at finer geographies. In most circumstances clients must apply for WIC in person, so distance to a clinic can present a barrier to access. By looking at families in which one sibling was born when a clinic was open nearby but another sibling was born when no clinic was open nearby, one study finds that WIC access increased maternal weight gain during pregnancy, children's birth weights, and the likelihood of initiating breastfeeding after leaving the hospital following birth (Rossin-Slater 2013).

The EITC has similar long-run effects. Taking advantage of differences in the EITC schedule for first, second, and higher-order births, researchers have found that an additional \$1,000 in the EITC among single mothers lowers the prevalence of low-birth weight by 2 to 3 percent (Hoynes, Miller, and Simon 2015). This may reflect more-frequent doctor visits, better prenatal care, and reduced smoking during pregnancy. Exploiting variation over time in program generosity as well as the fact that the size of the credit increases non-linearly with income, another study estimated the EITC's effect on children's academic performance. Linking test score data from a large urban school district with administrative tax records of parental earnings, this research found that a \$1,000 increase in tax credits raises elementary and middle school test scores by 6 to 9 percent of a standard deviation (Chetty, Friedman, and Rockoff 2011). In turn, higher test scores increase students' probability of college attendance, raise earnings, reduce teenage birth rates, and improve the quality of the neighborhood in which students live in adulthood. This research is consistent with studies that use other quasi-experimental designs to estimate the EITC's effect on academic

achievement; for example, using administrative data from income tax returns, one study exploits variation in tax refunds received in the spring of the senior year of high school to show that a \$1,000 increase in the EITC meaningfully increases college enrollment (Manoli and Turner 2014). Examining data from multiple welfare-to-work and antipoverty programs, Morris, Gennetian, and Duncanto (2005) conclude that young children’s school achievement is improved by the income gains that these programs generate, but not by changes in parental employment and welfare receipt occurring at the same time.

Neighborhoods also have substantial long-run implications for poverty and economic mobility. From 1994 to 1998, the Moving to Opportunity (MTO) demonstration project randomly selected low-income families living in public housing in areas of concentrated poverty to receive housing vouchers. For one group of recipients, the vouchers came with a requirement that the destination neighborhood have a poverty rate below 10 percent. For the other group of recipients, there was no location restriction. Randomized control trials, such as MTO, are considered the “gold-standard” in economic research since treatment status is, by definition, random, and not correlated with characteristics that might influence future outcomes. As such, randomized experiments can credibly isolate the causal effect of a program. By linking MTO data with administrative tax records for these children in adulthood, Raj Chetty, Nathaniel Hendren, and Lawrence Katz show that MTO had substantial long-run effects. As shown in Figure 15, among children who were younger than 13 when their families moved, the vouchers with no location restrictions increased earnings in adulthood by 15 percent, and the vouchers requiring relocation to a low-poverty neighborhood increased earnings by 31 percent (Chetty, Hendren, and Katz 2016). In addition, MTO increased college attendance by 32 percent and, among children who attended college, increased the likelihood of enrollment at a higher-quality school. While the program did not affect overall birth rates or teen birth rates, vouchers with location restrictions did increase the fraction of births where a father was present, and both restricted and non-restricted vouchers increased female marriage rates between ages 24 and 30. In contrast to the results for younger children, older children did not see these positive outcomes, suggesting that the amount of time a child spends in a neighborhood matters for later economic success.

Figure 15
Average Annual Earnings in Adulthood Among Children
Younger Than 13 When Their Family Participated in MTO



These results reinforce the conclusion that government expenditures on the safety net have a strong economic justification. Not only do they help propel struggling adults back to their feet, they meaningfully improve opportunity for children. To give a rough sense of the economic cost of failing to address child poverty, Holzer et al. (2008) estimate that childhood poverty costs the United States about \$500 billion (in 2007 dollars) or nearly 4 percent of GDP annually, measured in terms of foregone earnings, increased costs of crime, worse health, and higher health expenditures. While this estimate is correlational, the concern over bias is overwhelmed by its magnitude. Based on Census Bureau estimates, the total poverty gap—the shortfall between family resources and the SPM poverty thresholds—among all families with children was about \$60 billion in 2012, or roughly 0.4 percent of GDP. Even if the Holzer et al. estimate was double the “true” causal effect of eliminating child poverty, the benefit would exceed the added costs five-fold.

Conclusion: The Agenda Going Forward

Economic policymaking can often be a vexing process. For any number of problems, policymakers are not quite sure exactly how to solve them, whether because we do not yet understand the underlying causes of the problem, or because we lack good evidence on what the most effective means of addressing those causes may be. Fortunately, while there is much to learn about addressing poverty in the United States, we know enough that incomplete knowledge should not be an excuse for inaction. Economic research and the policy experience of the last fifty years have provided us with a wealth of knowledge—and this body of evidence has continued to grow as new data and tools become available to researchers.

In light of this evidence, I want to conclude my remarks today by offering four broad conceptual points that I believe must be taken into account in devising policies for addressing poverty in the decades to come.

First, do no harm. While the existing safety net is far from perfect, and there are many ways in which it could be improved, it does work. The steep decline in U.S. poverty in the fifty years since the declaration of the War on Poverty is perhaps the clearest evidence for this. The social safety net is effective in the short run as a cushion against swings in market incomes—witness the small increase in after-tax-and-transfer poverty during the Great Recession—and in the long run as a means for increasing mobility for children from low-income households. While efforts to strengthen the social safety net are welcome, we should avoid policy steps that impede its efficacy, whether deliberately or not—including block grants that would both cut benefits and reduce their ability to respond to business cycles.

Second, going forward, higher market incomes will be critical—which depend on a stronger overall economy and policies to help raise wages, connect workers to jobs, and enhance their skills to succeed in those jobs. An agenda focused on reducing poverty must include a focus on macroeconomic outcomes like economic growth, wage increases, and unemployment, since all affect the extent to which families find themselves in poverty before the social safety net kicks in. In this regard, a focus on maintaining full employment—a state that the United States is currently nearing—will be crucial, since strengthening the economy should not be a policy goal solely during downturns.

But over the longer run the outlook for poverty will depend on our success in fostering sustained and shared economic growth. In part this depends on the full range of policies to enhance

productivity growth and supporting the success of the market economy. But it will also require institutional changes to help low- and moderate-income workers capture more of the gains from growth (e.g., higher minimum wages, expanded unions and other steps to reduce “monopsony” in labor markets), better programs to connect workers to jobs (CEA 2016), and improving education and human capital with everything from pre-school through college and beyond.

Third, further steps are needed to improve the safety net—and to make it even more countercyclical. Many of our existing programs, including TANF and housing vouchers, are underfunded—covering an increasingly small fraction of the people who are eligible for, and proven to benefit from, these programs. In addition, we have done far better at creating incentives to work for people with children via the EITC than we have for people without children. In fact, under the current system we still tax people without children deeper into poverty, creating a direct disincentive to work. In this regard, proposals to expand the (currently small) EITC for childless individuals—which has attracted support from figures across the political spectrum—would be an important first step. Lastly, existing programs, like unemployment insurance, could be better designed to automatically expand in recessions—for example with more weeks of benefits or more generous benefits.

Finally, we also need to think harder about the people who fall through the cracks in the existing social safety net. Kathryn Edin and Luke Shaefer (2015) have documented the plight of Americans who live in extreme poverty with little access to cash assistance. We must understand how policies need to evolve to both help these families succeed in the economy and cushion the blows they have faced.

As I have tried to argue in my remarks today, public programs still have a vital role to play in lifting American families out of poverty. Not only is this true for directly alleviating poverty in the short run; government programs also play an essential role in ensuring greater mobility across generations. We must avoid steps that weaken the existing social safety net, and should take affirmative steps to make it more responsive to swings in the business cycle. At the same time, we should also pursue government policies that directly affect market incomes for the poorest households, including raising the minimum wage. Pursuing policies like these that ensure that every American, regardless of the circumstances of their birth, gets a fair shot in life has been a hallmark of the Obama Administration, and should be part of the policy agenda at all levels of government—Federal, State, and local—in the decades to come.

Notes to Figures

Figure 1

Source: Wimer et al. (2013), updated November 2016.

Figure 2

Source: Census Bureau; CEA calculations.

Figures 3a and 3b

Source: Census Bureau; CEA calculations.

Figure 4

Note: Major anti-inequality programs defined as Medicaid/CHIP, SNAP, the refundable portion of the EITC and CTC, SSI, TANF and other family support, educational assistance, Pell grants, housing assistance, the refundable portion of the Premium Tax Credit, and cost-sharing reductions.
Source: Office of Management and Budget; Congressional Budget Office; CEA calculations.

Figure 5

Source: Department of the Treasury, Office of Tax Analysis.

Figure 6

Source: Census Bureau; CEA calculations.

Figure 7

Source: Wimer et al. (2013), updated November 2016.

Figure 8

Source: Wimer et al. (2013), updated November 2016; CEA calculations.

Figure 9

Source: Wimer et al. (2013), updated November 2016.

Figure 10

Source: Census Bureau.

Figure 11

Note: Adjusted for inflation using the chain price index for personal consumption expenditures (PCE).
Source: Office of Management and Budget; Ziliak (2015).

Figure 12

Note: Average State and Federal minimums (available 1974-2017) are weighted by statewide weekly worker hours as recorded in the CPS and described further in Autor, Manning, and Smith (2016). For the combined trendline, the Federal minimum is recorded in place of State minimums where the former binds. All values inflation-adjusted using the CPI-U.
Source: Autor, Manning, and Smith (2016); Bureau of Labor Statistics; Congressional Budget Office; CEA calculations.

Figures 13a and 13b

Source: Black et al. (2016).

Figure 14

Note: Estimates based on Heckman et al. (2010) using undiscounted 2006 dollars converted to 2015 dollars using CPI-U-RS. Additional costs and benefits, such as education beyond age 27, vocational training, savings from crime reduction, health benefits, and maternal earnings, have not been quantified in this chart.

Source: Heckman et al. (2010); CEA calculations.

Figure 15

Source: Chetty, Hendren, and Katz (2016).

Figure i

Note: Adjusted for inflation using the chain price index for personal consumption expenditures (PCE).

Source: Department of Health and Human Services; Ziliak (2015); Floyd, Pavetti, and Schott (2015).

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