

Center for American Progress



# From Poverty to Prosperity

*A National Strategy to Cut Poverty in Half*

Report and Recommendations of the  
Center for American Progress Task Force on Poverty

April 2007

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Cut Poverty in Half*

# From Poverty *to* Prosperity

## EXECUTIVE SUMMARY

**T**hirty-seven million Americans live below the official poverty line. Millions more struggle each month to pay for basic necessities, or run out of savings when they lose their jobs or face health emergencies. Poverty imposes enormous costs on society. The lost potential of children raised in poor households, the lower productivity and earnings of poor adults, the poor health, increased crime, and broken neighborhoods all hurt our nation. Persistent childhood poverty is estimated to cost our nation \$500 billion each year, or about 4 percent of the nation's Gross Domestic Product. In a world of increasing global competition, we cannot afford to squander these human resources.

The Center for American Progress last year convened a diverse group of national experts and leaders to examine the causes and consequences of poverty in America and make recommendations for national action. In this report, our Task Force on Poverty calls for a national goal of cutting poverty in half in the next 10 years and proposes a strategy to reach the goal.

Our nation has seen periods of dramatic poverty reduction at times when near-full employment was combined with sound federal and state policies, motivated individual initiative, supportive civic involvement, and sustained national commitment. In the last six years, however, our nation has moved in the opposite direction. The number of poor Americans has grown by five million, while inequality has reached historic high levels.

Consider the following facts:

- **One in eight Americans now lives in poverty.** A family of four is considered poor if the family's income is below \$19,971—a bar far below what most people believe a family needs to get by. Still, using this measure, 12.6 percent of all Americans were poor in 2005, and more than 90 million people (31 percent of all Americans) had incomes below 200 percent of federal poverty thresholds.
- **Millions of Americans will spend at least one year in poverty at some point in their lives.** One third of all Americans will experience poverty within a 13-year period. In that period, one in 10 Americans are poor for most of the time, and one in 20 are poor for 10 or more years.
- **Poverty in the United States is far higher than in many other developed nations.** At the turn of the 21st century, the United States ranked 24th among 25 countries when measuring the share of the population below 50 percent of median income.
- **Inequality has reached record highs.** The richest one percent of Americans in 2005 had the largest share of the nation's income (19 percent) since 1929. At the same time, the poorest 20 percent of Americans had only 3.4 percent of the nation's income.

It does not have to be this way. Our nation need not tolerate persistent poverty alongside great wealth.

**The United States should set a national goal of cutting poverty in half over the next 10 years. A strategy to cut poverty in half should be guided by four principles:**

- **Promote Decent Work.** People should work and work should pay enough to ensure that workers and their families can avoid poverty, meet basic needs, and save for the future.
- **Provide 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 when they cannot work or work is unavailable, unstable, or pays so little that they cannot make ends meet.
- **Help People Build Wealth.** All Americans should have the opportunity to build assets that allow them to weather periods of flux and volatility, and to have the resources that may be essential to advancement and upward mobility.

**We recommend 12 key steps to cut poverty in half:**

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 nine million other low-income workers.
2. **Expand the Earned Income Tax Credit and Child Tax Credit.** As an earnings supplement for low- in-



come working families, the EITC raises incomes and helps families build assets. EITC expansions during the 1990s helped increase employment and reduced poverty. But the current EITC does little to help workers without children. We recommend tripling the EITC for childless workers, and expanding help to larger working families. Doing so would cut the number of people in poverty by over two million. 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 making it available to all low- and moderate-income families. Doing so would move two million children and one 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 violation 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, and also expand the child care tax credit. At the same time, states should be encouraged to improve the quality of early education and broaden access for all children. Our child care expansion would raise employment among low-income parents and help nearly three million parents and children escape poverty.

**5. Create two 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 two million new “opportunity vouchers” designed to help people live in opportunity-rich areas. 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 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 all states to develop comprehensive reentry services aimed at reintegrating former prisoners into their communities with full-time, consistent employment.

**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 shift its focus from cutting caseloads to 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 should address the 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 pro-

pose 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 our recommendations will cut poverty in half.** The Urban Institute, which modeled the implementation of one set of our recommendations, 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 nine 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 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 two million.
- **Millions of low- and moderate-income families would benefit.** Almost half of the benefits would help low- and moderate-income families.

That these recommendations would reduce poverty by more than one quarter is powerful evidence that a 50 percent reduction can be reached within a decade.

**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.

## THE NEXT STEPS

In 2009, we will have a new president and a new Congress. Across the nation, there is a yearning for a shared national commitment to build a better, fairer, more prosperous country, with opportunity for all. In communities across the nation, policymakers, business people, people of faith, and concerned citizens are coming together. Our commitment to the common good compels us to move forward.

## POVERTY TASK FORCE MEMBERS

**Angela Glover Blackwell**, Founder and CEO, PolicyLink (co-chair)

**Peter B. Edelman**, Professor of Law, Georgetown University (co-chair)

**Rebecca Blank**, Dean, Gerald R. Ford School of Public Policy, Henry Carter Adams Collegiate Professor of Public Policy, University of Michigan

**Linda Chavez-Thompson**, Executive Vice President, AFL-CIO

**Reverend Dr. Floyd H. Flake**, President, Wilberforce University

**Wizipan Garriott**, Law Student and Board President of the He Sapa Leadership Academy

**Maude Hurd**, National President, ACORN

**Charles E. M. Kolb**, President, Committee for Economic Development

**Meizhu Lui**, Executive Director, United for a Fair Economy

**Alice M. Rivlin**, Senior Fellow and Director, Greater Washington Research Program, Brookings Institution

**Barbara J. Robles**, Associate Professor, Arizona State University

**Robert Solow**, Professor Emeritus, Massachusetts Institute of Technology

**Dorothy Stoneman**, Founder and President, YouthBuild USA

**Wellington E. Webb**, Former Mayor of Denver

## FROM POVERTY TO PROSPERITY *A National Strategy to Cut Poverty in Half*

*Prepared By*

**Mark Greenberg**, Task Force Executive Director

**Indivar Dutta-Gupta**

**Elisa Minoff**

Task Force Report Design and Layout: **Shannon Ryan**

# Center for American Progress



## **ABOUT THE CENTER FOR AMERICAN PROGRESS**

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**Center for American Progress**  
**1333 H Street, NW, 10<sup>th</sup> Floor**  
**Washington, DC 20005**  
**Tel: 202.682.1611 • Fax: 202.682.1867**  
**[www.americanprogress.org](http://www.americanprogress.org)**