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Rethinking the Scope and Impact of Poverty in the United States

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I. INTRODUCTION

In considering various aspects of tax policies for the working poor, a helpful place to begin is through understanding the scope of American poverty. For many Americans, the image of poverty is that of people on the fringes of society—single mothers with four or five children, inner city black males, high school dropouts, the homeless, and so on down the list. The visual portrait is of someone quite alien to mainstream America, and often undeserving of help.[1] In short, poverty, economic insecurity, and welfare use are frequently perceived as something that happens to someone else, and quite atypical of the American experience.

Yet how accurate is this assumption? In this article, several bodies of research are examined to give us a better sense of the prevalence of poverty in America. This work illustrates that the likelihood of experiencing poverty in America, and in particular the life course risk of poverty, is surprisingly widespread. I then turn to several reasons why poverty across the life course is so prevalent. Next, a discussion follows of the Earned Income Tax Credit (EITC) and its importance relative to the far reaching nature of American poverty. Finally, I conclude by noting several ways in

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[1] *See* MARTIN GILENS, WHY AMERICANS HATE WELFARE: RACE, MEDIA, AND THE POLITICS OF ANTIPOVERTY POLICY 60-79 (2000); Gordon Hannah & Thomas P. Cafferty, *Attribute and Responsibility Framing Effects in Television News Coverage of Poverty*, 36 J. APPLIED SOC. PSYCHOL. 2993, 2994-96 (2006). *See generally* MICHAEL B. KATZ, THE UNDESERVING POOR: FROM THE WAR ON POVERTY TO THE WAR ON WELFARE (1989).

which the research discussed in this article might cause us to rethink the issue of American poverty.

II. CURRENT KNOWLEDGE ABOUT POVERTY DYNAMICS

It was not until 1965 that the United States adopted an official measure of poverty.[2] The task of devising such a standard fell to Molly Orshansky, an economist in the Social Security Administration.[3] Orshansky's basic approach and methodology have remained largely intact to this day and represent the most common measure of poverty found in governmental reporting and academic research. Poverty is operationalized as the lack of a specific level of income necessary to purchase a basic basket of goods and services allowing for a minimally decent level of existence.[4]

Total household income is therefore the measuring stick to determine whether individuals and families have the resources necessary to purchase this basket of goods, and consequently, whether they will fall below the poverty line or not. Household income is based on annual gross income prior to taxes or Social Security payments taken out. In addition, household income for poverty determination purposes does not include in-kind program benefits such as Medicaid or Food Stamps, or tax refunds such as the EITC.

Households earning below specific income levels are therefore considered poor. In order to account for the factor of inflation, the poverty thresholds are adjusted each year in accord with consumer price index changes.[5] The level itself also varies depending on household size.[6] For example, in 2005, a household of one was considered poor if their income fell below $9,973; a household of two was counted as poor if their income was under $12,755; for a household of three the level was $15,577; a household of four was considered poor if their income fell below $19,971; and so on.[7] This measure of poverty (or a variation of it that raises the poverty level by 25 or 50 percent) is the most common measure used throughout the research discussed below.

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[2] ALICE O'CONNOR, POVERTY KNOWLEDGE: SOCIAL SCIENCE, SOCIAL POLICY, AND THE POOR IN TWENTIETH-CENTURY U.S. HISTORY 183 (2001).

[3] *See* Mollie Orshansky, *Counting the Poor: Another Look at the Poverty Profile*. 28 SOC. SEC. BULL. 3 (1965).

[4] U.S. BUREAU OF THE CENSUS, INCOME, POVERTY, AND HEALTH INSURANCE COVERAGE IN THE UNITED STATES: 2005 45 (2006), *available at* http://www.census.gov/hhes/www/income/reports.html [hereinafter *Census 2006*].

[5] BRADLEY R. SCHILLER, THE ECONOMICS OF POVERTY AND DISCRIMINATION 47 (2003).

[6] *Id.* at 46.

[7] *Census 2006, supra* note 4, at 45.

A. Cross-Sectional Rates

Each year a representative sample of approximately 50,000 to 60,000 U.S. households are included in the Census Bureau's Current Population Survey. One of its purposes is to gather information regarding individual and household income. From these data, government analysts estimate the annual official poverty figures in the United States, as well as the yearly changes in the poverty rate across the decades.[8]

In 1959 the U.S. poverty rate stood at 22.4 percent.[9] During the 1960's the rate fell sharply, such that by 1973 it had reached a low of 11.1 percent.[10] Since 1973, the overall rate of poverty has fluctuated between 11 percent and 15 percent.[11] It has tended to rise during periods of economic recession (early 1980's, early 1990's, early 2000's), and has fallen during periods of economic expansion (middle to later 1980's, middle to later 1990's).[12]

The poverty rate in 2005 stood at 12.6 percent, which represented 37 million Americans.[13] The percentage of the population falling into poverty or near poverty (125 percent of the poverty line) was 16.8 percent (or 49.3 million Americans), whereas 5.4 percent of the population (or 15.9 million Americans) experienced extreme poverty (falling below 50 percent of the poverty line).[14]

In addition, data from the Census Bureau indicates that certain characteristics tend to put individuals at a greater risk of experiencing cross-sectional poverty. These include those having less education, the young or old, single parent families, non-whites, those living in economically depressed inner cities or rural areas, and individuals with a disability.[15] In combination, these characteristics can substantially raise the risk of poverty. For example, black children who were under the age of five and residing in a female-headed household had an overall poverty rate of 57.3 percent.[16]

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[8] SCHILLER, *supra* note 5, at 51.

[9] *See Census 2006, supra* note 4, at 46 (although the measure was created in 1964, it was backdated to 1959).

[10] *Census 2006, supra* note 4, at 46.

[11] *Census 2006, supra* note 4, at 46.

[12] *Id.* at 13.

[13] *Id.* at 46.

[14] *Id.* at 17.

[15] *Id.* at 15-17.

[16] *See* BUREAU OF LABOR STATISTICS & BUREAU OF THE CENSUS, TABLE POV02: PEOPLE IN FAMILIES BY FAMILY STRUCTURE, AGE, AND SEX, ITERATED BY INCOME-TO-POVERTY RATIO AND RACE (2006), *available at* http://pubdb3.census.gov/macro/032006/pov/new02_000.htm.

B. Longitudinal Dynamics

Beginning in the 1970's, researchers have increasingly sought to uncover the longitudinal dynamics of poverty.[17] The focus has been on understanding the extent of turnover in the poverty population from year to year and determining the length of poverty spells. These studies have relied on several nationally representative panel data sets including the Panel Study of Income Dynamics (PSID), the National Longitudinal Survey of Youth (NLSY), and the Survey of Income and Program Participation (SIPP).[18] Results from these longitudinal analyses have shed considerable light on understanding the patterns of U.S. poverty. Several broad conclusions can be drawn from this body of work.

First, most spells of poverty are fairly short. The typical pattern is that households are impoverished for one or two years and then manage to get out of poverty.[19] They may stay there for a period of time, only to experience an additional fall into poverty at some point.[20] Since their economic distance above the poverty line is often not that far, a detrimental economic event such as the loss of a job, the breakup of a family, and/or a medical problem can easily throw a family back below the poverty line.[21]

Analysts that have looked at monthly levels of poverty have found even more fluctuation in poverty spell dynamics. For example, John Iceland examined the monthly fluctuations in and out of poverty from 1996 to 1999 and found that 34 percent of Americans experienced poverty for at least two months during this time period, but that half of all poverty spells were over within four months, and four-fifths were completed at the end of one year.[22]

On the other hand, this body of work has also shown that there is a small number of households that do indeed experience chronic poverty for years at a time.[23] Typically they have characteristics that put them at a

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[17] MARK R. RANK, ONE NATION, UNDERPRIVILEGED: WHY AMERICAN POVERTY AFFECTS US ALL 28-30 (2004).

[18] *Id.* at 28-30.

[19] Mary J. Bane & David T. Ellwood, *Slipping Into and Out of Poverty: The Dynamics of Spells*, 21 J. HUM. RESOURCES 1, 9-20 (1986); REBECCA BLANK, IT TAKES A NATION: A NEW AGENDA FOR FIGHTING POVERTY 22-27 (1997); GREG J. DUNCAN, YEARS OF POVERTY, YEARS OF PLENTY: THE CHANGING ECONOMIC FORTUNES OF AMERICAN WORKERS AND FAMILIES 33-70 (1984); ROBERT WALKER, POVERTY DYNAMICS: ISSUES AND EXAMPLES 117-40 (1994).

[20] Ann Huff Stevens, *Climbing Out of Poverty, Falling Back In: Measuring the Persistence of Poverty over Multiple Spells*, 34 J. HUM. RESOURCES 557, 567-72 (1999).

[21] Greg J. Duncan et al., *Poverty and Social-Assistance Dynamics in the United States, Canada, and Europe, in* POVERTY, INEQUALITY AND THE FUTURE OF SOCIAL POLICY: WESTERN STATES IN THE NEW WORLD ORDER 67, 73 (Katherine McFate, Roger Lawson, & William Julius Wilson eds., 1995); Signe-Mary McKernan & Caroline Ratcliffe, *Events that Trigger Poverty Entries and Exits*, 86 SOC. SCI. Q. 1146, 1156-66 (2005).

[22] JOHN ICELAND, POVERTY IN AMERICA: A HANDBOOK 4, 6 (2006).

[23] BLANK, *supra* note 19, at 22-25.

severe disadvantage vis-a-vis the labor market (e.g. individuals with serious work disabilities, female-headed families with large numbers of children, racial minorities living in inner city areas). Their prospects for getting out of poverty for any significant period of time are severely diminished.[24]

Of course, some individuals and households fall in between these two ends of the spectrum. For example, Blank (1997) used the PSID data to calculate the occurrence of poverty over a 13 year period. During the period of 1979 to 1991 she found that one third of Americans experienced a spell of poverty.[25] However, of those who fell below the poverty line, one-half were poor for three years or less, one-third were in poverty between 4 and 9 years, and 14.6 percent fell below the poverty line for 10 of the 13 years (4.5 percent of the poor fell below the poverty line for each of the 13 years).[26]

Finally, research into the dynamics of poverty has also shown that many households encountering poverty will re-experience poverty at some point in their future. Using annual estimates of poverty from the PSID data, Stevens calculated that of all persons who had managed to get themselves above the poverty line, over half would return to poverty within five years.[27]

The picture of poverty that is drawn from this body of research is thus characterized by fluidity. Individuals and households tend to weave their way in and out of poverty, depending upon the occurrence or nonoccurrence of particular detrimental events (e.g., job loss, family disruption, ill health). Similar findings have been found with respect to the longitudinal patterns of welfare use.[28]

Both the cross-sectional and longitudinal studies of poverty dynamics have contributed much to our understanding into the scope and dimension of American poverty. However, there is an alternative way of thinking about the prevalence of poverty; one that asks us to consider the risk that an American will face in terms of experiencing poverty at some point during his or her adulthood. Just as we have acquired increasing knowledge regarding the likelihood that an individual, for example, may develop heart disease during their lifetime, so too can we ask what is the life course risk of encountering an economic event such as poverty?

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[24] *See* JOEL A. DEVINE & JAMES D. WRIGHT, THE GREATEST OF EVILS: URBAN POVERTY AND THE AMERICAN UNDERCLASS 95-121 (1993).

[25] BLANK, *supra* note 19, at 23.

[26] *Id.*

[27] Ann Huff Stevens, *The Dynamics of Poverty Spells: Updating Bane and Ellwood*, 84 AM. ECON. REV. 34, 36 (1994).

[28] MARY J. BANE & DAVID T. ELLWOOD, WELFARE REALITIES: FROM RHETORIC TO REFORM 67-123 (1994); DUNCAN, *supra* note 19, at 71-94; Mark R. Rank, *Exiting from Welfare: A Life Table Analysis*, 59 SOC. SERV. REV. 358, 365-73 (1985).

The answer to this question is both eye-opening and I believe critically important with respect to shifting how we understand the issue of poverty in the United States.

III. THE LIFE COURSE RISK OF POVERTY

For the past several years, my colleague Thomas Hirschl and I have conducted a series of analyses that have estimated the life course risk of poverty in America. These analyses have been based upon 25 or more years of longitudinal data taken from the Panel Study of Income Dynamics data set.[29] Since 1968, the PSID has gathered yearly economic and demographic information on a nationally representative sample of American households, and constitutes the longest running panel study in the world.

Our approach has been to transform this data into a series of life tables. The life table is a technique that demographers and medical researchers often use to estimate the likelihood that particular events will occur across the life course (e.g., serious illness, marriage, divorce, etc.). Although most commonly found in mortality and life expectancy analyses, it can be applied to other areas of interest as well. In our case, we have constructed a series of life tables that estimate the timing and likelihood that the event of poverty will occur at some point during the American life course.[30] In addition, we have estimated the probability that an American will use a social safety net program during their adulthood.[31] Several of the major findings from this body of work are discussed below.

A. The Risk of Experiencing Poverty

Our estimates indicate that beginning at age 20, 31 percent of Americans will have experienced at least one year of poverty by the time

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[29] RANK, *supra* note 17, at 258-64.

[30] For further details regarding this work by Prof. Rank see: Mark R. Rank, *As American as Apple Pie: Poverty and Welfare,* 2 CONTEXTS 41 (2003); RANK, *supra* note 17; Mark R. Rank, *Toward a New Understanding of American Poverty*, 20 WASH. U. J.L. & POL'Y 17 (2006); Mark R. Rank & Thomas A. Hirschl, *The Likelihood of Poverty Across the American Lifespan*, 44 SOC. WORK 201 (1999); Mark R. Rank & Thomas A. Hirschl, *Estimating the Proportion of Americans Ever Experiencing Poverty During their Elderly Years* 54 J. GERONTOLOGY: SOC. SCI. 184 (1999); Mark R. Rank & Thomas A. Hirschl, *The Economic Risk of Childhood in America: Estimating the Probability of Poverty Across the Formative Years*, 61 J. MARRIAGE & FAM. 1058 (1999); Mark R. Rank & Thomas A. Hirschl, *The Occurrence of Poverty Across the Life Cycle: Evidence from the PSID*, 20 J. POL'Y ANALYSIS & MGMT. 737 (2001); Mark R. Rank & Thomas A. Hirschl, *Rags or Riches? Estimating the Probabilities of Poverty and Affluence Across the Adult American Life Span*, 82 SOC. SCI. Q., 651 (2001); Mark R. Rank & Thomas A. Hirschl, *The Measurement of Long-Term Risk over the Life Course*, 82 SOC. SCI. Q., 680 (2001); Mark R. Rank & Thomas A. Hirschl, *Welfare Use as a Life Course Event: Toward a New Understanding of the U.S. Safety Net*, 47 SOC. WORK 237 (2002); Mark R. Rank & Thomas A. Hirschl, *Likelihood of Using Food Stamps During the Adulthood Years*, 37 J. NUTRITION EDUC. & BEHAV. 137 (2005) [hereinafter *Likelihood*].

[31] RANK, *supra* note 17, at 93.

they reach age 35, 45 percent will have done so by age 55, and 59 percent will encounter a year or more of poverty by age 75. In addition, 68 percent of Americans will experience a year below 125 percent of the poverty line between the ages of 20 and 75, and 76 percent of Americans will face a year below 150 percent of the poverty line.[32] What these percentages strikingly reveal is that rather than being an event that affects a small minority of the U.S. population, poverty is a mainstream experience that touches a clear majority of Americans at some point during their adult lifetimes.

Although all Americans face a significant risk of falling into poverty, the factors of race and education further affect the odds. While a majority (52.6 percent) of white Americans will experience a year below the poverty line by the time they reach age 75, the percentage of African Americans encountering at least one year of poverty is a staggering 91 percent.[33] Similarly, the percentage of high school graduates experiencing poverty is 48 percent compared to 75.3 percent for those who have failed to graduate from high school.[34]

Our results also show that the typical life course pattern of encountering poverty is that individuals may experience a year or two of poverty, get above the poverty line for a period of time, and then perhaps experience another year or two of poverty further on in their life course.[35] Thus, while 58.5 percent of Americans will encounter a year below the official poverty line between the ages of 20 and 75, only 9.2 percent of Americans will experience five or more consecutive years of living below the poverty line. On the other hand, the risk of periodically experiencing a spell of poverty across the life course is much higher. Consequently, 30 percent of Americans will experience a total of five or more years of poverty, but at various points throughout their adulthood.

B. The Likelihood of Using a Social Safety Net Program

A second way of thinking about economic vulnerability and impoverishment is to examine the likelihood that an American will use a social safety net program during his or her adulthood (including Food Stamps, SSI, Medicaid, AFDC, and/or other cash assistance). The results here are perhaps even more surprising than the above poverty analysis.[36] Sixty-five percent of all Americans between the ages of 20 and 65 will at some point reside in a household that receives a means-tested welfare

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[32] *Id.*
[33] *Id.* at 95.
[34] *Id.* at 96.
[35] *Id.* at 94.
[36] *See id.* at 105.

program.[37] Furthermore, 40 percent of the American population will wind up using a welfare program in five or more years (although spaced out at different points across the life course).[38] As with the life course patterns of poverty, the typical pattern of welfare use is that of short spells. Consequently, only 15.9 percent of Americans will reside in a household that receives a welfare program in five or more consecutive years.[39]

One program that has a particularly wide reach is the Food Stamp Program. Slightly over half (50.8 percent) of all Americans between the ages of 20 and 65 years will at some point reside in a household that receives food stamps, and it is further estimated that 42 percent of all American households will suffer from food insecurity.[40]

C. Changes in the Life Course Risk Over the Past Three Decades

A third set of analyses has focused on the manner in which the life course risk of poverty has shifted over the last three decades.[41] Much has been written about the growing economic insecurity facing Americans in recent years. Analysts point to a number of indicators and patterns over the last three decades to support this claim—job security has weakened,[42] more Americans are without health care,[43] income volatility and downward mobility has increased,[44] the social safety net has been seriously eroded,[45] men's earnings have stagnated,[46] income and wealth inequality have widened,[47] and so on. Yet in spite of this, the cross-sectional rates of poverty as reported by the Census Bureau (discussed earlier) have remained fairly constant over the last 30 years. However, a life course analysis reveals that the risk of poverty has indeed risen dramatically during the 1990's.

A series of life tables were constructed that estimated the risk of poverty for individuals during their 20's, 30's, 40's, 50's, 60's, and 70's, and

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[37] *Id.* at 105.

[38] *Id.*

[39] *Id.*

[40] *Likelihood*, *supra* note 30, at 404-10.

[41] *See Likelihood*, *supra* note 30; Daniel A. Sandoval, Mark R. Rank, & Thomas A. Hirschl, The Increasing Risk of Poverty Across the American Life Course (2007) (Unpublished comment, currently under review with DEMOGRAPHY) (on file with with author).

[42] *See generally* NEIL FLIGSTEIN & TAEKJIN SHIN, THE SHAREHOLDER VALUE SOCIETY: A REVIEW OF THE CHANGES IN WORKING CONDITIONS AND INEQUALITY IN THE UNITED STATES 401-32 (Kathryn M. Neckerman ed., Russell Sage Foundation 2004).

[43] *Census 2006, supra* note 4, at 20-21.

[44] JACOB S. HACKER, THE GREAT RISK SHIFT: THE ASSAULT ON AMERICAN JOBS, FAMILIES, HEALTH CARE, AND RETIREMENT AND HOW YOU CAN FIGHT BACK 27-33 (2006).

[45] *See generally* JANET M. CURRIE, THE INVISIBLE SAFETY NET: PROTECTING THE NATION'S POOR CHILDREN AND FAMILIES (2006).

[46] *Census 2006, supra* note 4, at 11.

[47] Timothy M. Smeeding, *Public Policy, Economic Inequality, and Poverty: The United States in Comparative Perspective*, 86 SOC. SCI. Q. 955, 961-69 (2005).

we compared how these estimates differed for Americans in the 1970's, 1980's, and 1990's. The findings indicate that the life course risk of poverty increased substantially in the 1990's, with the risk becoming exceedingly high.[48] Adult Americans in their 20's, 30's, 40's, 50's, and 60's all faced a statistically significant greater likelihood of experiencing poverty in the 1990's than they did in the 1970's or 1980's. In many cases their risk doubled or even tripled. As an example, for individuals in their 30's, the results indicate that during the 1970's, 18 percent experienced at least one year of poverty between the ages of 30 and 39. During the 1980's, the risk increased slightly to 22 percent. However, during the 1990's, the percent of individuals in their 30's who experienced a year of poverty rose steeply to 43 percent.

The overall increase in the life course risk of poverty was predominately the result of a rise in short-term temporary poverty rather than extended chronic poverty. That is, more individuals were at risk of encountering a year of poverty as opposed to multiple years of poverty. There was also a significant rise in the 1990's in the risk of experiencing near poverty (below 150 percent of the poverty line) and extreme poverty (below 50 percent of the poverty line). Finally, the rise in the likelihood of encountering poverty occurred across all racial and gender divisions as well.

IV. WHY IS THE U.S. LIFE COURSE RISK OF POVERTY SO HIGH?

Given that the life course risk of experiencing poverty in America is widespread, and given that the risk appears to be on the rise, what factors might account for these patterns? Although there are several potential factors, three of the more critical reasons are discussed below.

A. The Factor of Time

First, the concept of time that is used in the above life course analyses is quite different than the manner in which social scientists and policy analysts have traditionally measured it. Rather than looking at a one, five, or even ten year stretch of time, the life table techniques employed in the above statistics are based upon assessing the risk of poverty across 40 or 50 plus years.

Over such an expanse of time, a number of unanticipated events can and do occur to individuals—families split up, workers lose their jobs, individuals become sick, and so on down the list. The result is that such events often lead to economic vulnerability and poverty.[49] The familiar

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[48] Sandoval, Rank, & Hirschl, *supra* note 41, at 13-17.

[49] Duncan et al., *supra* note 21, at 73; McKernan & Ratcliffe, *supra* note 21, at 1156.

saying of being "one paycheck away from poverty" is particularly apt when considering the impact that these unanticipated events may have in terms of a household's economic stability. For example, approximately one-third of American families are lacking the liquid assets that would enable them to support their household at a poverty level for three months.[50]

Consequently, one reason that the risk of poverty across the life course is so high is that the time period itself is particularly long, leaving more individuals at risk of detrimental events occurring, which in turn can throw such households and families into poverty.

B. The Safety Net

Second, when these unanticipated events do occur, there is very little in the way of governmental help that enables American families to escape from falling into poverty. Although the use of the safety net is surprisingly widespread (as discussed above), its impact on reducing poverty is weak and has been getting weaker over time. Compared to other Western industrialized countries, the United States devotes far fewer resources to programs aimed at assisting the economically vulnerable.[51] As a result, U.S. rates of poverty are among the highest in the industrialized world.[52]

Most Western industrialized countries provide a far wider range of social and insurance programs that largely prevent families from falling into poverty.[53] The result of these social policy differences is that they substantially reduce the risk of poverty in Europe and Canada, while U.S. social policy has had a much smaller impact upon poverty reduction. As Blank notes,

> the national choice in the United States to provide relatively less generous transfers to low-income families has meant higher relative poverty rates in the country. While low-income families in the United States work more than in many other countries, they are not able to make up for lower governmental income support relative to their European counterparts.[54]

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[50] Robert Haveman & Edward N. Wolff, *The Concept and Measurement of Asset Poverty: Levels, Trends and Composition for the U.S., 1983-2001,* 2 J. ECON. INEQUALITY 145, 152-53 (2004).

[51] ALBERTO ALESINA & EDWARD L. GLAESER, FIGHTING POVERTY IN THE US AND EUROPE: A WORLD OF DIFFERENCE 15-54 (2004).

[52] Smeeding, *supra* note 47, at 958.

[53] ALESINA & GLASER, *supra* note 51, at 1-2.

[54] BLANK, *supra* note 19, at 141-42.

Analysts that have used the Luxembourg Income Study (LIS) have documented the ineffectiveness of the U.S. safety net to reduce the risk of poverty compared to many other developed nations.[55] As a result, the current rates of U.S. poverty are among the highest in the industrialized world, contributing to an exceedingly high lifetime incidence of impoverishment.

C. The Labor Market

A third factor leading to an elevated risk of American poverty across the life course is the increasing failure of the labor market to provide enough decent paying jobs for all families to avoid poverty or near poverty. During the past 30 years the U.S. economy has produced greater numbers of low paying jobs, jobs that are part-time, and jobs that are lacking in benefits.[56] In addition, job security has eroded over time.[57] Taken together, an increasing number of jobs will not support a family above poverty or near poverty.

Furthermore, there are simply not enough jobs to go around. Bartik used several different approaches and assumptions to estimate the number of jobs that would be needed to significantly address the issue of poverty in the United States.[58] Data were analyzed from the 1998 Current Population Survey. His conclusion was that even in the booming economy of the late 1990's, between five- and nine-million more jobs were needed in order to meet the needs of the poor and disadvantaged.[59]

To use an analogy, the supply of jobs versus the demand for labor might be thought of as an ongoing game of musical chairs. That is, there is a finite number of jobs available in the labor market that pay enough to support a family above the threshold of poverty (which might be thought of as the chairs in this analogy). On the hand, the amount of labor, as represented by the number of household earners in the labor market (and hence the players in the game), is greater than the number of adequately paying jobs. In an analysis using national data for 1999, I have estimated this imbalance as ranging between 9.4 percent and 32.7 percent, depending upon how poverty and labor market participation are defined.[60]

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[55] LEE RAINWATER & TIMOTHY M. SMEEDING, POOR KIDS IN A RICH COUNTRY: AMERICA'S CHILDREN IN COMPARATIVE PERSPECTIVE 17-31 (2003); Veli-Matti Ritakallio, *Trends of Poverty and Income Inequality in Cross-national Comparison* 20 (Luxembourg Income Study Working Paper Series, Paper No. 272, 2001) (on file with author).

[56] FLIGSTEIN & SHIN, *supra* note 42, at 402-14.

[57] FLIGSTEIN & SHIN, *supra* note 42, at 404-08; LOUIS UCHITELLE, THE DISPOSABLE AMERICAN: LAYOFFS AND THEIR CONSEQUENCES 124-50 (Alfred A. Knopf ed., 2006).

[58] *See generally* TIMOTHY H. BARTIK, JOBS FOR THE POOR: CAN LABOR DEMAND POLICIES HELP? 1 (2001).

[59] *Id.* at 35-37.

[60] RANK, *supra* note 17, at 56-57.

Consequently, the structure of the labor market ensures that some families will lose out at this musical chairs game of finding a decent paying job. The result is that a sizeable number of individuals across the life course will be affected by the failure of the labor market to provide enough jobs for all Americans. This represents a third contributing factor to the elevated lifetime risk of poverty.

VI. THE IMPORTANCE OF THE EARNED INCOME TAX CREDIT IN ADDRESSING POVERTY ACROSS THE LIFE COURSE

Given the influence of a weak labor market and social safety net in exacerbating the life course risk of poverty, one important approach for addressing poverty across the adult working years is through supplementing and raising the earnings of low income workers through the tax structure, and specifically through the use of tax credits. The primary example of such a credit is the Earned Income Tax Credit (EITC). The EITC was enacted in 1975 and underwent a significant expansion during the 1990s. In fact, it currently represents the largest cash antipoverty program in the United States and is often considered one of our more innovative economic policy ideas.[61]

The program is designed to provide a refundable tax credit to low-income workers, with the vast majority going to households with children. In 2006, a family with one child could qualify for the EITC if their earned income fell below $32,001 (or $34,001 if married filing jointly), while a family with two or more children could qualify if their household income was under $36,348 (or $38,348 if married filing jointly).[62] The maximum credit for a one child family was $2,747, while for a family with two or more children it was $4,536.[63] The credit is normally received in a lump sum payment as part of an overall tax refund for the previous year. Since it is a refundable credit, families receive the payment even if they do not owe any taxes.

If we take the example of a family headed by a mother with two children, for the first $11,300 earned in 2006, she would receive an additional 40 cents for each dollar made.[64] For example, if she earned $8,000, she would receive $3,210 from the EITC; if she earned $10,000 she would receive a $4,010 EITC refund.[65] Between $11,300 to $14,850

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[61] *See generally* Dennis J. Ventry, *The Collision of Tax and Welfare Politics: The Political History of the Earned Income Tax Credits*, *in* MAKING WORK PAY: THE EARNED INCOME TAX CREDIT AND ITS IMPACT ON AMERICAN FAMILIES 15, 15-66 (Bruce D. Meyer & Douglas Holtz-Eakin eds., 2002) (examining the historical and political background of the EITC).

[62] INTERNAL REVENUE SERVICE PUB. 596, EARNED INCOME TAX CREDIT 44-50 (2006), *available at* www.irs.gov/pub/irs-pdf/p596.pdf.

[63] *Id.*

[64] *See id.*

[65] *See id.*

the credit levels off at $4,536.[66] Beyond $14,850, the credit is gradually reduced such that by $36,348, no credit would be received.[67] For example, if she was earning $30,000 for the year, her tax credit would be reduced to $1,332.[68]

The goals of the EITC are to deliver economic relief at the low end of the earnings distribution, and to furnish a strong work incentive.[69] An individual cannot quality for the EITC unless they have earned income, but the impact is particularly strong at the lower levels. In our above example, if the head of a household was earning $7.50 an hour (and her total earnings were under $10,000) the EITC would effectively raise her wage by an additional $3.00 an hour, to $10.50 an hour. The program thus provides a significant supplement to low earners, as well as an incentive to work.

In 2005 it was estimated that 21 million American households benefited from the EITC, receiving 41.5 billion dollars in refunds,[70] and that for 2003, it pulled approximately 4.4 million individuals above the poverty line who otherwise would have fallen into poverty.[71] Without the EITC, the rate of poverty for children would have been approximately 25 percent higher, and in fact, the EITC lifted more children out of poverty than any other single program.[72]

For families remaining in poverty, the EITC has helped to reduce the distance between their household income and the poverty line. It has also enabled families to purchase particular resources that can improve their economic and social mobility (such as being able to pay school tuition, purchase a car, or change residence) as well as help to meet daily expenses.[73]

Given the earlier discussed life course patterns of poverty, and given that one of the reasons behind these patterns is the weakness of the labor market's ability to support all individuals and families above the poverty line, the EITC becomes a particularly important strategy for addressing

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[66] *See id.*

[67] *See id.*

[68] *See id.*

[69] SHELDON DANZIGER & PETER GOTTSCHALK, AMERICA UNEQUAL 158-59 (1995).

[70] TAXPOLICYCENTER.ORG, FEDERAL EITC RECIPIENT AND SPENDING DATA 2004 & 2005, www.taxpolicycenter.org/TaxFacts/ Tfdb/Content/PDF/eitc_state.pdf.

[71] AMI NAGLE & NICHOLAS JOHNSON, CTR. ON BUDGET & POLICY PRIORITIES, A HAND UP: HOW STATE EARNED INCOME TAX CREDITS HELP WORKING FAMILIES ESCAPE POVERTY IN 2006 12 (2006), http://www.cbpp.org/3-8-06sfp.pdf.

[72] *Id.* at 11-12.

[73] *See* Timothy M. Smeeding, Katherine R. Phillips, & Michael A. O'Connor, *The EITC: Expectation, Knowledge, Use, and Economic and Social Mobility*, 53 NAT. TAX J. 1187, 1194-1201 (2000); Jennifer L. Romich, & Thomas S. Weisner, *How Families View and Use the Earned Income Tax Credit: Advanced Payment Versus Lump-Sum Delivery, in* MAKING WORK PAY: THE EARNED INCOME TAX CREDIT AND ITS IMPACT ON AMERICAN FAMILIES, 366-392 (Bruce D. Meyer & Douglas Holtz-Eakin eds., 2000).

some of those weaknesses. In addition, the EITC appeals to both liberals and conservatives. As Danziger and Gottschalk note, "It has retained bipartisan support because . . . it assists only those who work; it helps two-parent as well as single-parent families; it raises the employee's take-home pay without increasing the employer's labor costs."[74]

In order to make the EITC even more effective, its benefits should be expanded such that they provide greater assistance to low income workers without children. As mentioned above, the vast majority of the EITC benefits go to families with children. Yet there is no compelling reason why such benefits should not also be greatly expanded for individuals without children. In addition, further work needs to be done in order to increase the feasibility of receiving the EITC throughout the year, rather than as a lump sum during the tax season (although many families do prefer this way of receiving the EITC). Third, some households that qualify for the EITC fail to claim and take advantage of the tax credit.[75] Greater education among tax filers as to the benefits of the EITC would appear warranted. Fourth, consideration should also be given to modestly increasing the size of the credits currently given to families with children (although as mentioned above, considerable expansion occurred in the early 1990's and the program may currently be close to its optimal size).[76] And finally, the expansion of state EITC programs would provide even greater financial assistance to those at the lower end of the income distribution.[77]

The policies of an expanded EITC program can further help working men and women who in spite of their efforts are unable to get themselves and their families out of poverty or near poverty. In addition, such policies begin to address (although in a very limited way) the increasing inequities and perceived unfairness of the American income distribution and wage structure. The fact that the gap between the highest and lowest paid workers in America has been growing rapidly over the past few decades and is currently the largest in the industrialized world,[78] calls out for simple standards of decency for those at the bottom of that distribution.

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[74] DANZIGER, *supra* note 69, at 158.

[75] Stacy Dickert-Conlin, Katie Fitzpatrick & Andrew Hanson, *Utilization of Income Tax Credits by Low-Income Individuals*, 58 NAT'L TAX J. 743, 746-755 (2005).

[76] *See, e.g.*, Jeffrey B. Liebman, *The Optimal Design of the Earned Income Tax Credit*, *in* MAKING WORK PAY: THE EARNED INCOME TAX CREDIT 196, 196-234 (Bruce D. Meyer & Douglas Holtz-Eakin eds., 2002).

[77] *See* NAGLE & JOHNSON, *supra* note 71.

[78] Smeeding, *supra* note 47, at 958.

V. RETHINKING THE ISSUE OF AMERICAN POVERTY

Ultimately, understanding poverty from the perspective of the life course patterns discussed in this article should cause us to rethink several of our most enduring myths regarding American poverty. Poverty has frequently been perceived by the American public as something that happens to others. Yet by looking across the adult life span we can see that poverty and the use of the social safety net will touch a clear majority of Americans. For those who believe that poverty is a risk only among the disenfranchised in this country, these patterns clearly contradict such a position. In short, poverty and the use of welfare are common life course events.

Given this, and assuming that most Americans would rather avoid such an experience, it becomes in our self-interest to ensure that we reduce poverty and have effective policies such as the EITC to soften the blow. This has been referred to as a risk-sharing argument, and has been articulated most notably by the philosopher John Rawls.[79] Rather than an issue of charity, poverty is transformed into an issue of self-interest as well. For many, this is the gold standard in terms of motivation. As the former Australian Prime Minister Gough Whitlam once noted, the odds makers "know that the horse named Morality rarely gets past the post, whereas the nag named Self-Interest always runs a good race."[80]

Understanding the issue of poverty from the perspective of enlightened self-interest represents a fundamental shift in how we have traditionally thought about it. We are beginning to recognize that we pay a heavy price for having the high rates of poverty found in this country. Poverty negatively impacts upon the nation's health, the quality of its workforce, the development of its children, and the degree of racial animosity, along with many other areas.[81] Yet a life course analysis also shows us that we are each highly susceptible to encountering poverty first-hand. This understanding provides an impetus in shifting how we choose to act on the issue— from a distant concept of *them*, to an active reality of *us*.

Tax policies such as the Earned Income Tax Credit should be understood within this context as well. Whether it is today, next month, or next year, at some point many of us will be in the situation of needing assistance to get us through particularly rough economic periods. The EITC is one of the most important among a range of policies designed to provide such assistance.[82]

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[79] *See generally* JOHN RAWLS, A THEORY OF JUSTICE (1971).

[80] ROBERT ANDREWS, THE COLUMBIA DICTIONARY OF QUOTATIONS 824 (1993).

[81] RANK, *supra* note 17, at 109-21.

[82] For a detailed description of various strategies to reduce American poverty, *see* RANK, *supra* note 17, at 193-241.

In addition, there would appear to be another important implication of the above life course findings in terms of shifting the manner in which we view this issue. Much of the general public's resistance towards assisting the poor and particularly those on welfare is that they are perceived to be undeserving of such assistance. That is, their poverty is seen as the result of a lack of motivation, questionable morals, and so on. In short, the poor are viewed as fundamentally different than the rest of us, and therefore do not warrant sacrifices on their behalf. Yet the analysis here suggests that given its widespread nature, poverty appears systemic to our economic and social structure. In short, we have met our enemies, and they are us.

Such a realization can cause a profound shift in thinking and understanding with respect to social issues. This is illustrated by C. Wright Mills' example of unemployment,

> When, in a city of 100,000, only one man is unemployed, that is his personal trouble, and for its relief we properly look to the character of the man, his skills, and his immediate opportunities. But when in a nation of 50 million employees, 15 million men are unemployed, that is an issue, and we may not hope to find its solution within the range of opportunities open to any one individual. The very structure of opportunities has collapsed. Both the correct statement of the problem and the range of possible solutions require us to consider the economic and political institutions of the society, and not merely the personal situation and character of a scatter of individuals.[83]

So too with poverty. The fact that America currently has both among one of the highest poverty rates in the Western industrialized world, and that the majority of Americans will experience poverty during their lifetimes, has little to do with individual motivation or attitudes. Rather, it has much to do with a labor market that has failed to produce enough decent paying jobs for all who are in need of them, and a weak and ineffective set of social policies that are unable to pull individuals and families out of poverty when unforeseen events occur. Understanding this dynamic is fundamental for creating a change in how poverty is perceived and acted upon.

Ultimately it allows us to shift the discussion from one of blame, to one of injustice. Our traditional approach towards poverty has largely been predicated upon the concept of blame. Rather than dealing with the more

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[83] C. WRIGHT MILLS, THE SOCIOLOGICAL IMAGINATION 4, 9 (1959).

structural causes of poverty, we continually point our fingers at the poor, telling them to develop a stronger moral character. It is no coincidence that such an approach has produced soaring rates of poverty, never-ending discussions of welfare reform, and an overall continuation of the status quo.

A new conception of poverty must be predicated upon the ethical compass of injustice. Poverty is an economic wrong that can and must be addressed. Given that the U.S. has both the means and resources to substantially alleviate this deprivation, failing to do so is nothing short of unconscionable. What is called for are strong economic and political actions to rectify the moral injustice of poverty. The continuation and further development of the Earned Income Tax Credit is an excellent place to begin.