

POVERTY IN WISCONSIN CAN BE DRAMATICALLY REDUCED

Pathways to Ending Poverty

*A project of the
Community Advocates
Public Policy Institute*



What would it take to greatly reduce poverty in Wisconsin?

This is the key question that the Community Advocates Public Policy Institute set out to answer four years ago in launching the Pathways to Ending Poverty Project. The project seeks to change the way we think about poverty by creating and testing a specific group of policies that would dramatically reduce poverty in Wisconsin. The four-part policy “package” centers on the following:

1. A tax credit for seniors and adults with disabilities;
2. A Transitional Jobs program for unemployed jobseekers;
3. A higher minimum wage for workers; and
4. A reformed Earned Income Tax Credit for low earners.

To test our model... The Public Policy Institute retained the Urban Institute, an independent policy analysis center, to evaluate the proposed new policies individually and in combination.

The results... The Urban Institute analysis concluded that the overall policy package would bring at least 250,000 Wisconsinites out of poverty, cutting the state’s poverty rate by 58 percent or more.

In Wisconsin, we can no longer say that poverty reduction policies do not work, or that no one yet knows what it takes to greatly reduce poverty.

SEPTEMBER 2012

*The proposed
policies could
reduce Wisconsin
poverty between
58% and 81%.*

– Key finding of the Urban Institute’s evaluation
of the Community Advocates Public Policy
Institute’s Pathways to Ending Poverty Project



COMMUNITY ADVOCATES
Where Meeting Basic Needs Inspires Hope

Public Policy Institute

Our Goal: Driving Down Poverty to Less Than 5%

At the Community Advocates Public Policy Institute, our goal is to greatly reduce poverty in Milwaukee and throughout Wisconsin. Our specific goal is to drive down the poverty rate by more than half, to a rate below five percent. In addition, we aim to shift the debate about poverty to a serious, evidence-based discussion about which combination of policies will work best to greatly reduce poverty.

We launched the Pathways to Ending

Poverty initiative in 2008 to ascertain exactly which changes in public policy would achieve these goals. The project is led by David Riemer, Senior Fellow at the Public Policy Institute, and Conor Williams, Economic Policy Analyst for the Pathways to Ending Poverty Project.

David Riemer, J.D., is one of Wisconsin's leading experts in anti-poverty policy. He is one of the architects of the state's welfare reform initiative, as

well as Wisconsin's Transitional Jobs Demonstration Project, supplemental EITC, and BadgerCare.

Conor Williams is an economist and small business owner who has been active in MICAH's (Milwaukee Inner-City Congregations Allied for Hope) criminal justice reform efforts. In addition to his work on the Pathways to Ending Poverty Project, Mr. Williams leads Community Advocates' efforts on transitional jobs.

The Poverty Plateau

A historical perspective is helpful as a reminder that the United States has a record of enacting anti-poverty policies that produce clear impacts.

For several decades—from the end of the 1950s through the middle of the 1970s—poverty in the United States declined rapidly. A booming economy, coupled with government programs like Social Security, greatly reduced the percentage

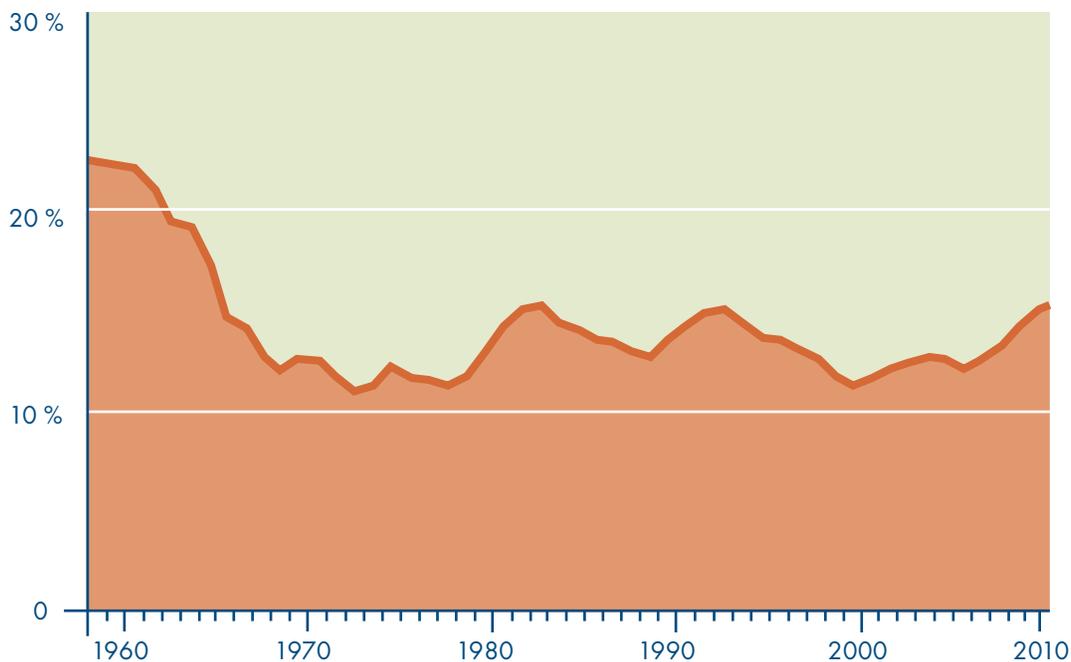
of poor Americans from approximately 25 percent to nearly 10 percent.

And then, in the mid-1970s, the U.S. poverty rate stopped falling. From 1973 until now, the proportion of Americans below the poverty line remained stuck on a plateau between 10 percent and 15 percent. Though earlier government programs and policies had effectively lowered poverty, the new programs

no longer seemed to make a dent in measured poverty (Figure 1).

Wisconsin's poverty rate has followed the same pattern at somewhat lower levels. In Wisconsin, by 2008, the official poverty rate had plateaued at 10.4 percent. The Pathways to Ending Poverty Project was developed to get us off the plateau and return to the earlier pattern of steady, measurable reductions in poverty.

FIGURE 1. Percent of U.S. Population in Poverty: 1959-2010



Source: U.S. Census Bureau

The Three Types of Poverty

When considering poverty solutions, it is important to recognize that there are three major groups of poor adults.

A big reduction in poverty requires dealing with all three groups—the poor outside the labor market, the poor who are unemployed, and the working poor.

Those Not in the Labor Market

A significant number of poor adults no longer participate in the labor market. Many have reached age 65 or older. They are no longer expected to work, and most collect Social Security. Others have disabilities that prevent them from working in the regular economy. Because of their disabilities, they typically collect Social Security Disability Insurance (SSDI) or Supplemental Security Income (SSI). In Wisconsin, this group includes at least 120,000 adults.

The Unemployed

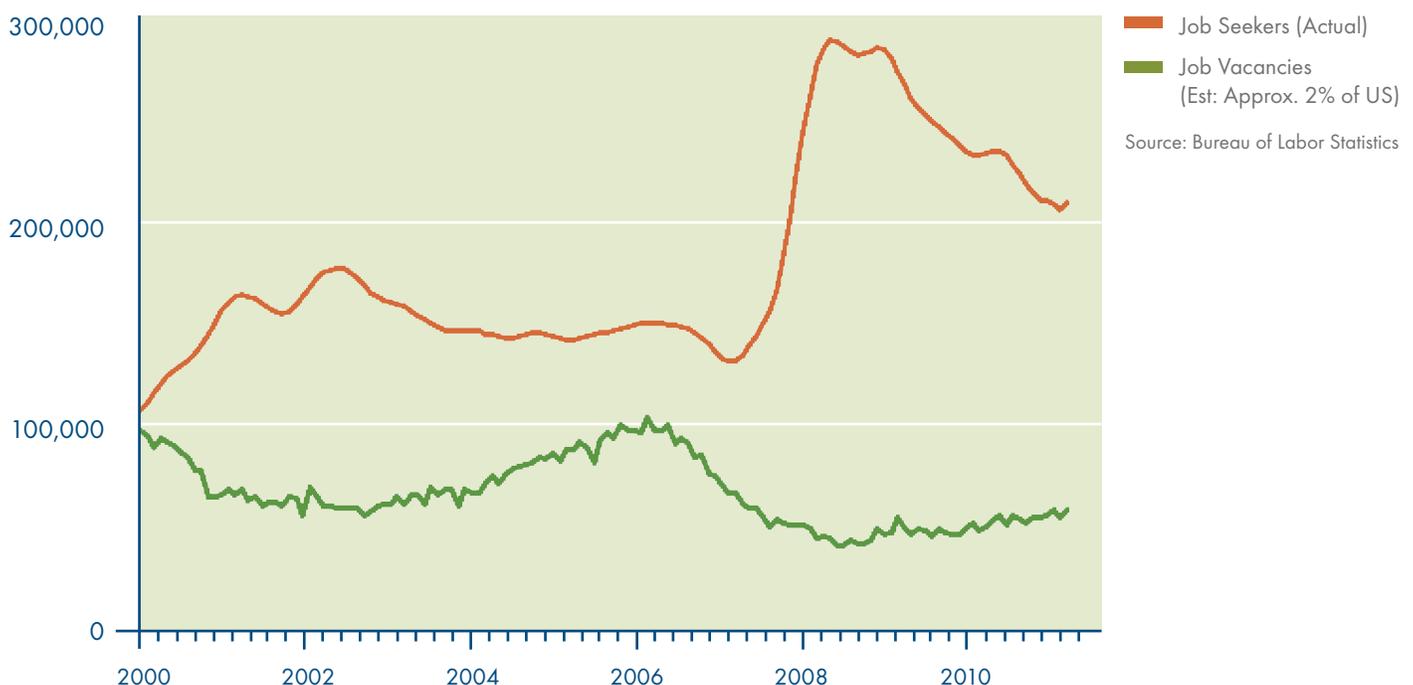
Poor adults who are unemployed still remain in the labor market. They are seeking work, but cannot find jobs. Today, there are roughly 150,000 more unemployed Wisconsinites than there are job openings in the state (see Figure 2).

The Working Poor

Despite being in the labor market, members of the working poor earn wages too low to get out of poverty. In Wisconsin, the working poor are the largest group of poor adults.

A big reduction in poverty requires dealing with all three groups – the poor outside the labor market, the poor who are unemployed, and the working poor.

FIGURE 2. Wisconsin Job Shortage: December 2000–May 2012



The Pathways to Ending Poverty Approach

To help us, the Pathways to Ending Poverty Project assembled a diverse group of advisors (listed on the back page). Our advisors are national experts on effective poverty policies. Local experts also infused the project with their knowledge of how policies would impact people in the Wisconsin context.

With the help of our advisors, the Pathways to Ending Poverty Project identified nearly 25 policy changes that might reduce poverty. We then winnowed down that list to **four specific and fairly simple changes in policy**, based on the following criteria:

- Was there solid evidence the policy was likely to have a big impact?
- Was the policy likely to be consistent with the values of Americans as a whole, and the values of Wisconsinites in particular?
- Was it a policy that the Urban Institute was capable of testing and evaluating?

The details of the policy package were then refined as the Urban Institute's modeling showed that different formulas would produce bigger anti-poverty results at relatively lower cost.

The Policy Package

Policy 1: Senior and Disability Tax Credit

This new credit would provide a fully refundable tax credit to adults receiving Social Security or Supplemental Security Income (SSI). The credit would make up the difference between an individual's or couple's resources and a poverty-level income.

Policy 2: Transitional Jobs Program

This new program would allow unemployed or underemployed Wisconsin adults who are not receiving Social Security or SSI to work at a transitional job paying the minimum wage. See the next page for a detailed explanation of the history of Wisconsin's small-scale Transitional Jobs Demonstration Project.

Policy 3: Increase in the Minimum Wage

The policy package increases the minimum wage to \$8 per hour (a 23 percent increase from the \$6.50 wage in place during the year of the input data, 2008).

Policy 4: Reformed Earned Income Tax Credit

The policy package replaces the current Earned Income Tax Credit (EITC) with two refundable credits—a Working Americans Tax Credit providing up to \$3,500 per worker, regardless of whether children are present; and a Working Parents Tax Credit providing up to \$5,000 for families with children.

Credits would increase with earnings up to a maximum, and then phase down. In addition, the current Child Tax credits would be permanently modified to provide up to \$1,000 per child per household on a refundable basis.

The project aims to shift the poverty debate to a serious, evidence-based discussion about which combination of policies will work to greatly reduce poverty.

Wisconsin's Innovative Transitional Jobs Project Works

Transitional jobs are short-term, subsidized jobs aimed at getting unemployed workers into the productive workforce. The Wisconsin Department of Children and Families runs the largest program in the state at present, called the Transitional Jobs Demonstration Project. More than 3,600 individuals have participated over the past two years in this program, which pays the minimum wage for up to six months. Social service agencies are the employers of record, but participants work in private sector enterprises, the majority of which are for-profit small businesses. The program is effective in helping participants secure unsubsidized employment, and more than 1,200 individuals have made this transition.

Many of the participants have substantial barriers to employment, such as long-term joblessness or criminal justice records. There is also evidence the program "seeds" new job creation by small businesses, thus promoting economic development. The program could be scaled up to the large-scale transitional jobs program that is modeled in the Urban Institute's analysis. Figure 3 shows the number of participants in Wisconsin's Transitional Jobs Demonstration Project, as well as former participants who have moved on to unsubsidized jobs.

FIGURE 3. Wisconsin's Transitional Jobs Demonstration Project



The Urban Institute's Analysis

To gauge the impact of our four-part policy package, we engaged the Urban Institute, a nationally recognized, independent research firm. Specifically, we asked the Urban Institute to answer the following question: **If, in 2008, Wisconsin had our four-part policy package in place, how much would poverty have fallen?**

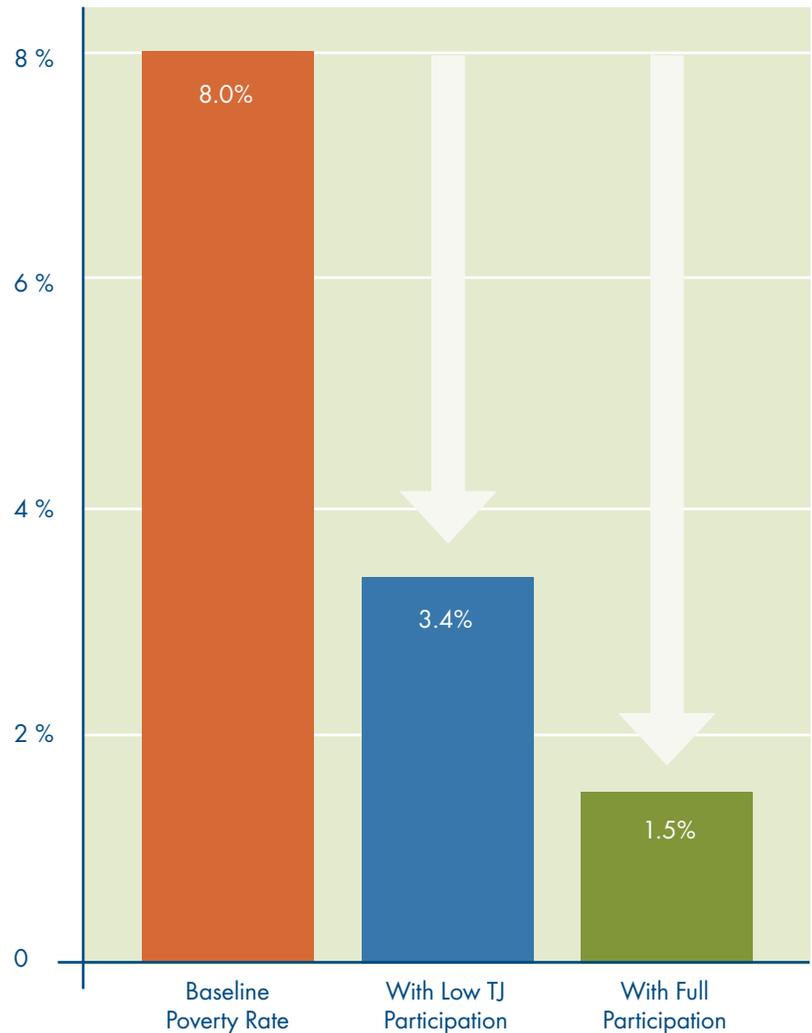
The Urban Institute used the U.S. Census Bureau's American Community Survey (ACS) population and income data, and applied the proposed policies with its highly regarded TRIM3 model, which allows for detailed quantitative simulations. Their analysis included developing a more realistic poverty measure for Wisconsin, supplementing the ACS data by folding in thousands of bits of administrative data, and incorporating the precise formulas for numerous programs including W-2, Food Stamps, WIC, Unemployment Insurance, the Earned Income Tax Credit (EITC), and the Homestead Credit (see text box next page). Only after those preliminary steps could the Urban Institute assess the Pathways to Ending Poverty Project's four-part package of policies and run the numbers.

The Urban Institute analysis, described in their June 2012 report "Reducing Poverty in Wisconsin"* concluded that our package of policies would have reduced poverty in Wisconsin between 58 percent and 81 percent, depending on how many people took advantage of transitional jobs and existing programs. In other words, our four-part policy package would have driven down poverty to below 3.5 percent...and as low as 1.5 percent (see Figure 4).

As the Urban Institute report states, "If the package is combined with full participation in key existing entitlement programs, 351,000 people become nonpoor."

The policies we tested would dramatically reduce poverty across the board—for children, adults under 65, and seniors; for people of all races; for those who can't work, and for workers. See Figure 5 for a breakdown of impact according to age and race.

FIGURE 4. Impact of Policy Package on Poverty Rate



“The analysis finds that the Community Advocates policy package could result in very large reductions to the baseline level of poverty.”

– Urban Institute report

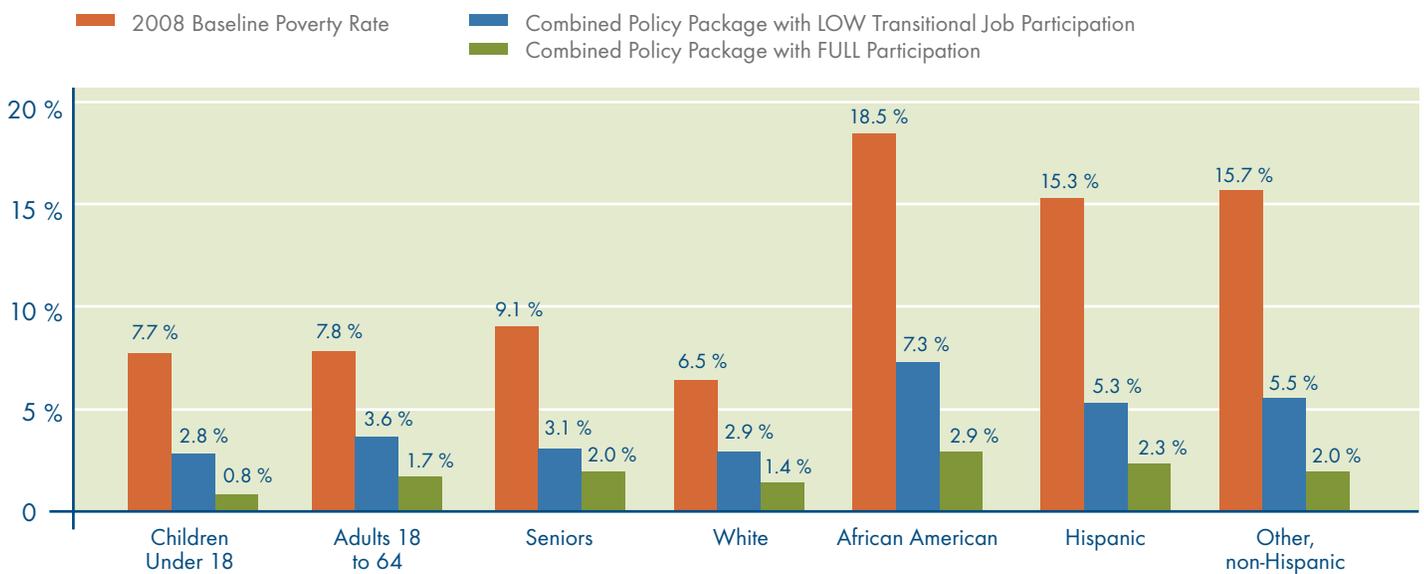
* Giannarelli, L., Lippold, K. and Martinez-Schiferl, M. (June 2012). Reducing Poverty in Wisconsin: Analysis of the Community Advocates Public Policy Institute Policy Package. Urban Institute. Washington, D.C. <http://www.urban.org/publications/412604.html>

Supplemental Poverty Measure allows for more accurate impact and cost estimates

The Urban Institute's analysis measured poverty using a more realistic poverty measure called the Supplemental Poverty Measure (SPM). Unlike the official poverty rate, the SPM takes into account all of an individual's or a family's resources, including non-cash resources like food stamps, the EITC, and the Homestead Credit. It also uses poverty lines that vary by housing and healthcare costs. Calculating the SPM for Wisconsin in 2008 reduced the number of poor people in general but increased the number of seniors who were poor. The Urban Institute version of the SPM is based on the recommendations of the National Academy of Sciences, and is similar to the approach taken by the Institute for Research on Poverty and the U.S. Census Bureau.

The policy package would require federal spending between \$3 billion and \$5 billion, depending on assumptions and participation. At full participation, the \$5 billion expenditure is equivalent to 2.1 percent of Wisconsin's Gross Domestic Product, or 4.4 percent of total government spending in Wisconsin. Further research is needed to identify the likely impact of lower poverty rates on reductions in criminal justice and healthcare costs, as well as on improvements in health and educational outcomes.

FIGURE 5. Impact of Policy Package on Poverty Rate By Age and Race



We Know What To Do

So now we know what to do, to solve one of America's worst problems, end the devastating levels of poverty that disproportionately hurt African-Americans and Hispanics, and revive urban centers like Milwaukee.

The Urban Institute analysis confirms that implementing the four policy changes developed by the Community Advocates Public Policy Institute will dramatically reduce poverty, lowering the number of poor by over 50 percent and driving down the rate of poverty to below 5 percent.

No other proposal to achieve these goals has been offered, much less confirmed.

The choice before us is now clear: accept the status quo, or enact specific, proven policies to end poverty for over 350,000 people in this state.

There is a pathway to ending poverty in our state.

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Community Advocates, a human services nonprofit, established the Public Policy Institute to identify and carry out specific, evidence-based policy changes that will help reduce poverty and improve the quality of life for low-income individuals and families in Milwaukee and throughout Wisconsin.

For more information, please see: <http://communityadvocates.net/ppi/>

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