

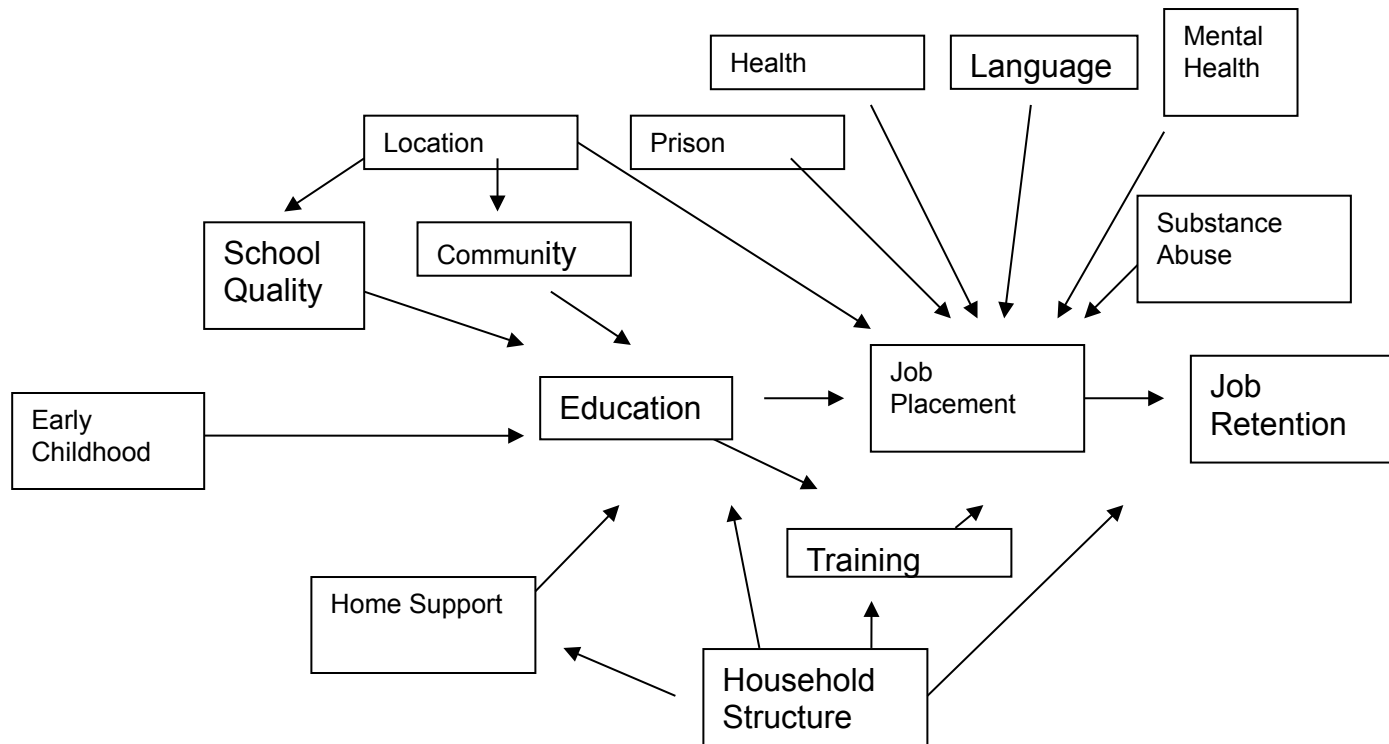


**A Foundation Strategy for  
Poverty Reduction**  
James Lewis Ph.D.

**April 6, 2009**



# How to decide?



## What do we mean by reducing poverty?

- a) Reduce the number of persons below a poverty line
- b) Move people below the poverty line, and people above it
- c) Raise incomes of low-income people in general without regard for “lines”  
**These three lead to human capital, job creation and benefit options**
- d) Increase low-income people’s disposable income net of expenses, could include asset building  
**Above options, cash and in-kind benefits**
- e) Improve the quality of life of poor people whether or not income is raised  
**Emphasis on health care, reducing crime and violence, and community development**

# Focusing on the Poverty Line

Family of 3 = \$16,600

In the Chicago area, about 1,000,000 are in poverty

## Different types of poor people require different interventions

	<i>LT 100% Poverty</i>
Single parents	200,000
Two-parent families	135,000
Grandparents raising children	12,000
Seniors	90,000
Work disabled	100,000
Low-educated – HS or less	300,000
Homeless	24,000
Poor English speakers	96,000
Working poor	140,000
Formerly incarcerated	Est. 150,000

What increases or reduces number of poor in the Chicago area?  
Change from Time 1 to Time 2

Starting Number of Poor	Plus	
<i>Add to Poverty</i>		Decrease Poverty
Poor entering region	Less	Poor leaving the region
Non-poor losing income to below poverty <i>(job loss, wage decrease, net wage to pension, investment income loss)</i>	Less	Poor gaining income above poverty <i>(new job, raise, pension, investment income)</i>
Non-poor losing benefits to below poverty <i>(e.g. TANF cut-off)</i>	Less	Poor gaining benefits to above poverty <i>(e.g. TANF, Food Stamps)</i>
Persons born into poverty	Less	Poor people who de cease
Persons in non-poor families who move into poor families <i>(divorce, leave home)</i>	Less	Persons who move from poor families into non-poor families <i>(marriage, child returns home)</i>
Persons who become poor because of family addition or expenses <i>(births)</i>	Less	Persons who become non-poor when household member leaves or expenses decrease <i>(child grows up)</i>
<i>Poverty as lack of disposable resources</i>		
<i>Poor net of income above plus savings &amp; debt</i>		
<i>Persons who increase expenses (Mtg, interest, hsnng cost, health, excessive purchases, transp, child care)</i>	Less	Persons who decrease expenses <i>(affordable housing, reduced health costs, hshld mgmt, transp, child care)</i>
Ending Number of Poor		

## To succeed, a number of principles and parameters must be considered:

1. Interventions must affect NET poverty
2. Present value must be considered against future
3. Many poor present multiple barriers – these cause “chains”
4. Business cycles affect outcomes
5. Demographic effects matter
6. Many poor people are already working

# 1. Interventions must impact net regional poverty, not just the individual served

## Displacement & Substitution Effects

When someone is “placed” in a job, what happens to whoever was next in line?

# Minority presence in low-skilled occupations

Occupation	Percent non-white 1990	Percent non-white 2009	Increase non-white
Duplicating, mail and other office machine operators	45%	28%	17%
Communications equipment operators	64%	50%	(14%)
Mail and message distributing	58%	56%	(2%)
Private household occupations	65%	63%	(2%)
Protective service	51%	46%	(5%)
Guards	44%	54%	10%
Food preparation and service	43%	49%	6%
Health service	53%	59%	6%
Cleaning and building service	42%	52%	10%
Precision textile, apparel and furnishing machine	44%	61%	17%
Precision food production	43%	67%	24%
Metal or plastic working machine	52%	61%	9%
Woodworking machine	29%	60%	31%
Textile, apparel and furnishing machine	67%	72%	5%
Machine operators	61%	72%	11%
Fabricators, assemblers and hand working	57%	67%	10%
Production inspectors, testers, samplers, weighers	48%	50%	2%
Motor vehicle operators	45%	47%	2%
Helpers, construction and extractive	37%	48%	11%
Freight, stock, material handlers	45%	61%	16%
Total Chicago region	28%	33%	



## Net poverty is reduced when at least one of eight things happens:

1. Money or a benefit is distributed from non-poor to poor: TANF, food stamps, etc.
2. A non-wage income source increases
3. A new job is created
4. Labor market “friction” is reduced
5. Worker(s) are sufficiently productive for a firm to add new jobs
6. Worker(s) are sufficiently productive to be paid higher wages
7. A new worker who was poor replaces one who will not be (a secondary wage earner)
8. Change in family composition

## **2. The present must be valued against the future**

The future must be discounted for:

1. Uncertainty of outcomes
2. Value of alternative uses of the resource
3. Preference for the present over the future

### **3. People are poor for very different reasons.**

1. Multiple barriers require that people with different combinations of barriers be treated in different ways.
2. Probability of success declines as barriers multiply. Shorter chains = Higher ROI

# Summary Table on Barriers

## Household heads 18-64 in Poverty by Types of Barriers and Possible Strategies

Num Probs	Education	Family	English	Wages	Persons
4	HS or Less	Single parent	Poor	No	13,408
3	HS or Less	Other family	Poor	No	24,732
3	HS or Less	Single parent	Poor	Wages	12,427
<i>Most are foreign-born. With little or no wages, minimal return expected from better English, but would be a place to begin. May not be eligible for all benefits.</i>					
3	HS or Less	Single parent	OK	No	79,502
<i>Mostly single mothers with little education or skills.</i>					
2	HS or Less	Other family	Poor	Wages	20,497
2	HS or Less	Other family	OK	No	74,042
<i>Has little education, but has either 2 parents or no children. Good candidates for community college. 25% are already working.</i>					
2	HS or Less	Single parent	OK	Wages	48,376
<i>Hard to go to school as single parent w/job. Focus on daycare (children) and maximizing benefits.</i>					
2	HS Plus	Other family	Poor	No	4,080
2	HS Plus	Single parent	Poor	No	4,208
2	HS Plus	Single parent	Poor	Wages	1,060
<i>Has some education. Improving English would help take better advantage of it. Daycare might help unemployed single parents.</i>					
2	HS Plus	Single parent	OK	No	27,701
<i>May need daycare and help finding a job.</i>					

Num Probs	Education	Family	English	Wages	Persons
1	HS or Less	Other family	OK	Wages	51,909
<i>Is working, and either 2 parents or no kids, but poor education. Best candidate for community college.</i>					
1	HS Plus	Single parent	OK	Wages	38,536
<i>Single parent working. Needs to focus on benefits. Possibly could do training to build on education.</i>					
1	HS Plus	Other family	Poor	Wages	4,208
1	HS Plus	Other family	OK	No	53,209
<i>Should have minimal family encumbrance, and some education, but isn't working. Needs placement, possibly training.</i>					
0	HS Plus	Other family	OK	Wages	57,391
<i>Has basis of education and work experience, either 2 parents or no kids. Best candidate for training.</i>					

## 4. Programming aimed at employment in any sense must account for effects of business cycles

### Chicago Area Fluctuations in Unemployment, 1976 to 2006

Period	Number of Years	Unemployment Rate	Approximate Net Jobs Gained (+) Lost (-)
1976 - 1979	3	Fell from 6.6 to 5.5	+ 32,049
1979 - 1983	4	Rose from 5.5 to 11.7	- 215,574
1983 - 1989	6	Fell from 11.7 to 6.1	+ 194,712
1989 - 1992	3	Rose from 6.1 to 7.8	-65,677
1992 - 2000	8	Fell from 7.8 to 4.5	+ 127,492
2001 - 2003	2	Rose from 4.5 to 6.7	-93,462
2003 - 2006	3	Fell from 6.7 to 4.6	+ 91,439

Source: Illinois Department of Employment Security, U.S. Census Bureau, Northern Illinois University

## 5. Demographic effects must be considered if poverty is to be reduced substantially

Throughout history standard of living of populations has varied with family size because resources for the poor are always low

- Additional family or household members move low-income persons toward poverty
- Small amounts of money can make many poor families non-poor if properly targeted

# Impact of Family Size & Income on Poverty

Number of families for whom 1 additional child moves it from above to below the poverty line  
Head aged 18 to 40

	Number of Families
Chicago	66,447
Cook Suburbs	23,715
Collar Counties	33,583
<b>Total</b>	<b>123,745</b>

Number of families for whom \$4,000 would move it from below the poverty line to above  
Head aged 18 to 40

	Number of Families
Chicago	45,029
Cook Suburbs	26,834
Collar Counties	30,990
<b>Total</b>	<b>102,853</b>

## 6. Income supports are essential for low-wage jobs to raise workers to above poverty

### Monthly Working Poor Budget, One Parent, Family of Three

Basic Expenses	Pre-Income Supports Budget	Benefit Programs Available	Income Supports Budget
Housing (including utilities)	\$656		\$656
Childcare	\$830	\$750	\$80
Food	\$445	\$255	\$190
Transportation	\$232		\$232
Healthcare	\$231	\$231	0
Miscellaneous	\$239		\$239
Taxes	\$140		\$140
<b>Total Needed</b>	<b>\$2,773</b>		<b>\$1,537</b>
<b>Monthly earnings - \$8.00/ hour</b>	<b>\$1,383</b>		<b>\$1,383</b>
Balance	<b>(\$1,390)</b>		<b>(\$154)</b>
Earned Income Tax Credit		\$375	\$375
Child Tax Credit		\$59	\$59
End Balance			<b>\$280</b>

Adapted from 2007  
Report on Illinois  
Poverty, p.19



# Return on Investment

- Academic literature must be used to understand the true return on investment of different anti-poverty interventions. (Over 250 studies were reviewed).
- Randomized design experiments produce lower ROI than most provider evaluations and reports because they isolate actual effects more clearly, and have less “selection bias”
- As many types of programs move to scale, average ROI will likely fall as harder clients and less effective programs increase.

# Return on Investment Summary

## Approximate Effect Sizes of Interventions from Peer-Reviewed Studies

Program Type	Demonstrated Effect Summary	Long Term	Confidence
Early childhood	ROI 4:1 to 9:1 in small studies	High	High
K-12 education	10% return per year or more	High	High
Job creation	Possible ROI of 2 or 3 :1 , but consider types of jobs	Mod	Moderate
Community College	5-10% wage increase 14-30% for technical training	?	Moderate
School to work	Internships for blacks, men in career academies	?	Moderate
Benefits	Strong short-term return	Moderate	High
Re-entry	Erratic wage effects, Post-release models untested	Low	Moderate
ESL	High returns above threshold, Low below threshold	High	High
Financial Training	Best show 10% to 20% in savings or income	?	Moderate
Out-of-School	Return to graduation, poverty return unclear	?	Moderate
Drug treatment	10% to 20% wage/recidivism	Low	Moderate
Health	Hard to measure/few studies/effects hard to isolate	?	Low
Mental health	Small – lack of strong studies	?	Moderate
Pregnancy prevention	Small	?	Low
Job training	Some benefit for older/displaced, little for youth	Low	High
Residential relocation	Moderate benefits but high cost to attain	Moderate	Moderate
Transitional jobs	Small or no benefit – few studies	Low	High
Job search	Little benefit/small friction benefits at mid-level wage	Low	High
IDA	Very small	?	High
GED	Very small	Low	High
Homeless programming	Minimal on poverty	Low	High

# Economic Effects-Equilibrium Impact

Program Type	Sorting/Displacement	Raise Firm Productivity—Wages	Raise Firm Productivity—Expansion	Reduce Firm Friction Costs	Raise Income Without Displacement
Early childhood	None short-term	Long term	Long term	No	For now
K-12 education	None short-term	High	High	No	For now
Job creation	Small	High	High	No	Yes
Community College	Moderate	Low	Low	No	Maybe
School to work	Moderate	Low	Low	Some	Low
Benefits	None	N/A	N/A	Some	High
Re-entry	Moderate	No	No	Maybe	Low
ESL	Some	Moderate	Moderate	Some	No
Financial Training	None	Low	Low	No	Yes
Out-of-School	None	Moderate	Moderate	No	Low
Drug treatment	Some	Low	Low	No	Maybe
Health	Some	Some	Some	High	Maybe
Mental health	Some	Low	Low	Low	No
Pregnancy prevention	None	N/A	N/A	N/A	Yes
Job training	Some	Some	Some	Some	Some
Residential relocation	Moderate – if to suburbs	No	No	No	Some
Transitional jobs	High	No	No	Some	No
Job search	High	No	No	Some	No
IDA	Low	No	No	No	Maybe
GED	High	Low	Low	Low	No
Homeless programming	High	No	No	No	No

# System Gaps

Program Type	Clear areas where system could improve	Size of Service Gap
Early childhood	Yes	Large
K-12 education	Yes	Large
Job creation	Yes	Possibly large
Community College	Yes	Moderate
School to work	Yes	Small
Benefits	Yes	Large
Re-entry	Yes	Large
ESL	No	Moderate
Financial training	No	Large
Out of school	No	Large
Drug treatment	No	Small
Health	Yes	Large
Mental health	No	Small/Moderate
Pregnancy prevention	No	Moderate
Job training	Yes	Moderate
Residential relocation	No	Large
Disabilities	No	Small
Transitional jobs	No	Small
Job search	No	Small
IDA	No	Small
GED	No	Small
Homeless programming	No	Small

# Criteria summary

Program Type	Does not sort	Impact endures	ROI	Doable	Create jobs	Direct money to client	Short chain	Conf in result (+ or -)
Early childhood	Yes	Yes	Yes	Yes	No	No	No	Yes
K-12 education	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Small bus devel	Yes	Yes	Maybe	Maybe	Yes	Yes	Yes	No
Community College	Yes-	Yes	Maybe	Yes	Maybe	No	Maybe	Yes
Bridge programs	Yes-	Yes-	Yes	Yes	Maybe	No	Yes	Yes
School to work	Maybe	Maybe	Maybe	Yes	No	No	Yes	Some
Income supports	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
Offender	Maybe	Maybe	Maybe	Maybe	No	No	No	Some
ESL	Maybe	Yes	Some	Yes	No	No	Yes	Yes
Out-of-School	Yes	Maybe	Some	Yes	No	No	No	Some
Drug treatment	Maybe	Maybe	No	Maybe	No	No	No	Some
Health	Maybe	Maybe	Maybe	No	No	No	No	Some
Mental health	Maybe	Maybe	Maybe	No	No	No	No	Some
Teen Pregnancy	Yes	Yes	No	Maybe	No	No	Yes	No
Job training	No	Maybe	No	Yes	No	No	Yes	Yes
Residential relocation	Yes	Yes	Maybe	Yes	No	Yes	Maybe	Yes
Transitional jobs	No	No	No	Yes	No	Yes	Yes	Yes
Job search	No	No	No	Yes	No	Yes	Yes	Yes
IDA	Yes	Yes	No	Yes	No	Yes	Yes	Yes
Financial training	Yes	Maybe	Maybe	Maybe	No	No	Maybe	No
GED	No	No	No	Yes	No	No	No	Yes
Multiple Case mgmt	Maybe	Maybe	No	Maybe	No	No	No	Yes