

The Economics of Poverty:

How Investments to Eliminate Poverty
Benefit All Americans

Developed for Entergy by

Jerrold Oppenheim

Theo MacGregor



About the Authors

Jerrold Oppenheim and Theo MacGregor are the co-authors of a comprehensive examination of the benefits of early childhood education. That document has been used extensively to inform policy makers about the needs and values of investments made in Pre-K and other early childhood programs.

For 2006, Entergy again turned to Oppenheim and MacGregor for the answer to another critical question—that of “What is the business case for investing in low-income programs?”

A graduate of Harvard College and Boston College Law School (Juris Doctor), **Jerrold Oppenheim** directed energy and utility litigation for the Attorneys General of New York and Massachusetts. In his 35+ year career, he has played a key role in the development of regulatory policy in US states as legal counsel and advisor for state governments, consumer organizations, low-income advocates, labor unions, environmental interests, industrial customers, and utilities.

Theo MacGregor founded MacGregor Energy Consultancy in 1998, specializing in electric industry restructuring issues in general, consumer, low-income, and energy efficiency issues in particular. Prior to founding her own firm, Ms. MacGregor spent more than ten years with the Electric Power Division of the Massachusetts Department of Telecommunications and Energy (DTE) (the state’s utility regulator), most recently as acting director. Ms. MacGregor holds an MBA from Simmons School of Management in Boston, Massachusetts.

Together, they are co-authors, with Greg Palast, of [Democracy And Regulation](#), winner of the American Civil Liberties Union Upton Sinclair Freedom of Expression Award. Much of their recent work is posted on www.DemocracyAndRegulation.com.

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Contents

INTRODUCTION 1

POVERTY IS EXPENSIVE 2

 Crime 2

 Healthcare 4

 Unemployment and Underemployment 8

 Current Anti-Poverty Investments 11

 Housing and Homelessness 11

 Hunger 13

 Education 14

 Utilities 16

 Other Anti-Poverty Investments 17

CONCLUSION 17

APPENDIX A: INVESTMENT REQUIRED 20

APPENDIX B: AVOIDABLE COSTS OF POVERTY 23

INTRODUCTION

Investing in the eradication of poverty in America would increase the resources of each American household by an average of more than \$18,000 a year, equivalent to a wage increase of more than 30 percent.

Investments in the eradication of poverty would:

- substantially reduce losses due to crime, a large fraction of which is caused by poverty;
- increase incomes to people now unemployed or underemployed, which would result in new expenditures (including income and sales taxes) circulating through the economy and becoming income to others;
- reduce the cost of health care, including the cost we all share of taking care of people who cannot afford health insurance or medicines;
- virtually eliminate the need for societal supports to ameliorate the most extreme manifestations of poverty.¹

The savings from eradication of poverty are so substantial that it would actually be cost-effective to close the poverty gap with cash grants. Making cash grants to every low-income household to bring all incomes to a minimum middle-income level would take a lot of money—\$397 billion a year—but such grants would save almost four times what they would cost (a benefit:cost ratio of 3.75). This study does not advocate a dramatic increase in cash grants, however; in reality, careful investments in the eradication of poverty are considerably more cost-effective than that.

This study finds that in the wealthiest country on Earth, more than 30 million households live on less than \$26,640 (60 percent of the median American household income of \$44,400), and many on much less than that. By contrast, the median income for the other three-quarters of American households is more than \$60,000. The discrepancy in incomes, as well as poverty itself, leads to real and growing costs. Eliminating poverty, or greatly reducing the number of families living in poverty, would increase the amount all American families have to spend on necessities such as food and housing, and would raise education levels, reduce crime, and greatly increase the health of the nation.

Earlier studies have shown, for example, that increased investments in pre-school education for low-

¹ Societal supports such as welfare assistance, public housing, and shelters for the homeless, are the smallest of the costs of poverty that we examined, costing only six percent of the income of the median non-low-income household. By contrast, middle-income supports—social security benefits, Medicare, middle class tax breaks such as home mortgage tax deductions—amount to 24 percent of median income.

income families have a benefit:cost ratio of about 9² and that increased investments in energy efficiency for low-income families have a benefit:cost ratio of about 7.³ It would be worthwhile to study the cost-effectiveness of similar anti-poverty measures, such as education at higher levels, including job training; preventive health care; budget and financial counseling; increasing the minimum wage; and providing health and retirement benefits to workers, whether full- or part-time. Grants of cash, food, and medicine may be needed to fill the gap, especially in a transition period.⁴ Nevertheless, the evidence shows that adding cost-effective measures to cash grants will only increase the cost-effectiveness of a campaign to eradicate poverty.

POVERTY IS EXPENSIVE

Discrepancy in incomes between the wealthy and the poor of a country, as well as poverty itself, leads

The Costs of Poverty



44%

Poverty-related crime and crime prevention

15%

Unemployment and Underemployment

23%

Healthcare

18%

Social Services

Direct government costs and hidden economic costs bring an incredible burden to American taxpayers and wage-earners.

to real and growing costs. Among the direct costs to society are those for healthcare for the uninsured and under-insured; shelters for the homeless; public housing and support for private housing; food for the hungry; direct costs to victims of higher crime rates; and utility bad debt. Indirect costs are much higher still. These include increased costs for police, the judicial system, correction facilities and security systems to deal with

the higher crime rates; reduced income and other taxes that could support infrastructure and flow back to the community; loss of the multiplier effect of having people fully employed at living wages; and the many contributions to society that are lost because of an undereducated public. Details of some of these costs follow.

Crime

In societies where inequality of income prevails, violence is more prevalent than in more equal societies, and the poor are more likely to commit crimes than the wealthy. The inequality itself, leading to feelings of

² J. Oppenheim and T. MacGregor, "The Economics of Education: Public Benefits of High-Quality Preschool Education for Low-Income Children" (Entergy Corp., n.d. [2002]).

³ J. Oppenheim and T. MacGregor, "The Economics of Low-Income Electricity Efficiency Investment," (Entergy Corp., 2001, rev. 2002).

⁴ S. Levitan *et al.*, *Programs in aid of the Poor* at pp. 32, 43, 283 (Johns Hopkins Press, 8th ed., 2003).

being disrespected and offering few options for moving up in status, contributes to the level of violence seen in poor neighborhoods of even wealthy countries like the United States.⁵ With more money from full employment at decent wages, people are less likely to commit crimes, saving society costs of the judicial system, police, corrections facilities, and security systems. Added to these costs are the enormous costs to victims, both persons and businesses.

During the past 25 years, the population of people convicted of criminal activity in the U.S. rose from 1.8 million to 6.3 million—with over two million in prison and another four million on probation, the highest per capita incarceration rate in the world.⁶

The total net burden of crime in the United States is estimated to be \$1 trillion annually, or \$4,118 for every U.S. resident.⁷ According to The National Center for Victims of Crime, in 2002, crime was estimated to create \$105 billion in medical expenses, lost earnings, and costs for victim services. Including intangible costs, such as pain and suffering and a reduced quality of life, brought the estimated cost of crime to victims to \$450 billion annually.⁸ In 2003, reported burglaries and larceny resulted in an estimated total loss of \$4.9 billion. The value of stolen motor vehicles was another \$8.6 billion.⁹ According to the National Center for Policy Analysis, the typical arson costs an average of \$54,000 per victim and an assault costs \$31,000.¹⁰

The costs to society of incarcerating criminals are almost as staggering. Recent estimates put the cost at \$38 billion annually.¹¹ The costs of police and the judicial system at the federal, state and local levels add another \$110 billion.¹²

Poverty contributes a substantial portion of the criminal population, and an increase in income inequality has been shown to increase the crime rate by nearly 60 percent.¹³ In states where income inequality is

⁵ Richard Wilkinson, *The Impact of Inequality: How to Make Sick Societies Healthier*, pp. 146-148, (The New Press, New York, NY, 2005).

⁶ David Mericle, “Profiting from Poverty: The U.S. Prison-Industrial Complex,” <http://www.impactpress.com/articles/febm01/prisonind020301/html>.

⁷ <http://www.ncpa.org/pi/crime/pd041100e.html>, citing David A. Anderson, “The Aggregate Burden of Crime,” *Journal of Law and Economics* (October 1999).

⁸ <http://www.ncvc.org/ncvc/main.aspx?dbName=DocumentViewer&DocumentID=38710>, citing Miller *et al.* (1996). Victim Costs and Consequences: A New Look. Washington, DC: National Institute of Justice, U.S. Department of Justice. Online: <http://www.ncjrs.org/pdffiles/victcost.pdf>.

⁹ <http://www.ncvc.org/ncvc/main.aspx?dbName=DocumentViewer&DocumentID=38710>, citing the Federal Bureau of Investigation. (2004). Crime in the United States, 2003. Washington, DC: FBI, U.S. Department of Justice. Online: http://www.fbi.gov/ucr/cius_03/pdf/03sec2.pdf.

¹⁰ <http://www.ncpa.org/pi/crime/pdcrm/pdcrm11.html>.

¹¹ <http://www.ncvc.org/ncvc/main.aspx?dbName=DocumentViewer&DocumentID=38710>.

¹² www.ojp.usdoj.gov/bjs/glance/tables/exptyptab.htm.

¹³ Antonio Merlo, “The Research Agenda: Dynamic Models of Crime and Punishment”, *Economic Dynamics Newsletter*, vol. 2, Issue 2 (April 2001) <http://www.economicdynamics.org/N41p.htm>.

greater, homicide and other violent crime rates are higher. Studies have shown that differences in income equality may account for as much as half of the very large differences in homicide rates from one state to another.¹⁴

Men comprise roughly 93 percent of prisoners in the U.S., and research shows that roughly half of male prisoners are unemployed when they're arrested, and up to 70 percent are functionally illiterate.¹⁵ One-fourth of male inmates were convicted of property offenses, one-fourth of drug offenses, and the rest for violent crimes.¹⁶ While women make up just a small fraction of inmates, more than 60 percent have not graduated from high school; about half were unemployed when arrested; and more than three-quarters are mothers. Two-thirds of women inmates were imprisoned for drug offenses or violent crimes, and the rest for property crimes.¹⁷

After being released from prison, ex-offenders are often stigmatized and unable to find well-paying jobs; they face lower wages than they would had they never been incarcerated. While the decrease in earnings can vary by the type of crime (*e.g.*, “street” crime versus white collar crime), studies show that the effect can be as large as a 12 percent reduction in wages lasting longer than eight years following conviction.¹⁸ Thus, the cycle continues—low wages, low self-esteem, more crime.

The vast majority of prisoners are poor, but even attributing only 50 percent of crime to poverty and its effects results in a cost to society from crime committed by poor people of nearly \$661 billion a year. As shown in the education study referenced above, saving one child from a life of crime can save society around \$2 million. Providing full employment at a living wage, with health and other benefits, can reduce crime and save society an estimated \$661 billion annually.

Healthcare

Poor people are less healthy than are others in America. People lower down the income scale in rich, developed countries have death rates two to four times higher than those nearer the top of the scale; and the greater the extremes between wealth and poverty, the greater the health differences.¹⁹ Thus it follows, and

¹⁴ Richard G. Wilkinson, *Unhealthy Societies: The Afflictions of Inequality*, p. 156, (Routledge, London and New York, 1996).

¹⁵ David Mericle, “Profiting from Poverty: The U.S. Prison-Industrial Complex,” <http://www.impactpress.com/articles/febmar01/prisonind020301/html>.

¹⁶ “The Prison Population,” http://encarta.msn.com/encyclopedia_761573083_2/Prison.html.

¹⁷ “The Prison Population,” http://encarta.msn.com/encyclopedia_761573083_2/Prison.html.

¹⁸ Antonio Merlo, “The Research Agenda: Dynamic Models of Crime and Punishment”, *Economic Dynamics Newsletter*, vol. 2, Issue 2 (April 2001) <http://www.economicdynamics.org/N41p.htm>.

¹⁹ Richard G. Wilkinson, *Unhealthy Societies: The Afflictions of Inequality*, p. 54-56, Routledge, London and New York (1996).

research shows, that overall health declines as economic inequality among populations increases. For example, Swedes and Norwegians, in whose countries incomes are more evenly distributed, enjoy longer average life spans than Americans.²⁰ Japan, which has the longest life expectancy in the world, also has among the narrowest of income distributions.²¹ Economic equality is thus more important to health than wealth is.

Poverty carries with it a much higher risk of illness. According to a report by The Robert Wood Johnson Foundation, based on the U.S. Census Bureau's 2002 Current Population Survey and Survey of Income and Program Participation, an estimated 74.7 million people under age 65 in America, or almost one in every three (30.1 percent), had no health insurance for at least part of the year 2001-2002. Two-thirds had no insurance for longer than six months of that year.²² More than half (56.1 percent) of people living below 100 percent of the federal poverty level (FPL) were uninsured, as were just under half (48.9 percent) of those between 100 percent and 200 percent FPL. Yet most (70.7 percent) were employed during that time, while 20.8 million were children under 18 (27.9 percent of all children in the U.S.).²³ The total uninsured had risen to 85 million by 2003-2004, according to the same source.²⁴

Poor uninsured individuals often defer seeking out care when they are ill. As a result, their illness progresses and can become needlessly severe. They then require more expensive care, often through the emergency room or hospitalization, for conditions such as diabetes, hypertension, pneumonia and ulcers. Uninsured adults are often diagnosed with cancer in later stages and suffer lower survival rates as a consequence. Uninsured children are less likely to be treated in a timely manner—or at all—for typical childhood illnesses such as sore throats, asthma, and earaches, or even for more serious illnesses or injuries like broken bones.²⁵ An estimate from the National Academy of Sciences puts the number who die each year because they lack health insurance at 18,000.²⁶

Uninsured people also experience much higher mortality and morbidity rates once they are hospitalized (that is case adjusted; in other words, among patients with identical medical conditions, the uninsured have

²⁰ Richard G. Wilkinson, *Unhealthy Societies: The Afflictions of Inequality*, p. 76, Routledge, London and New York (1996).

²¹ Blane, Brunner and Wilkinson, *Health and Social Organization*, pp. 60-61, Routledge, London and New York (1996).

²² "Going without Health Insurance: Nearly One in Three Non-Elderly Americans," Families USA Publication No. 03-103 (2003), www.familiesusa.org.

²³ "Going without Health Insurance: Nearly One in Three Non-Elderly Americans," Families USA Publication No. 03-103 (2003), www.familiesusa.org.

²⁴ "PHC4 FYI – Uninsured Stats Continue to Climb," Pennsylvania Healthcare Cost Containment Council (April 2005), <http://www.phc4.org/reports/fyi29.htm>.

²⁵ Whitney W. Addington, "No Health Insurance? It's Enough to Make You Sick - Scientific Research Linking the Lack of Health Coverage to Poor Health," ACP Online, <http://www.acponline.org/uninsured/lack-fore.htm>.

²⁶ Joan Gralla, "U.S. Uninsured Health Care Cost Put at \$125 Billion," Common Dreams News Center, (Reuters, May 11, 2004).

much higher rates of complications and die at a much higher rate than the insured). And once the poor and uninsured leave the hospital, they are often financially ruined (because the uninsured do not have an insurance company representing them, they can pay the highest hospital rates in their community).²⁷ Thus, poverty not only contributes to poor health, but poor health also contributes to poverty. More than half of the bankruptcies in the U.S. are now due to medical expenses, even though a large majority (75.7 percent) had insurance at the onset of the illness that contributed to the bankruptcy.²⁸

“In the past six years, the national percentage of individuals insured through employer-sponsored health insurance has dropped from 69 percent of the country to 60 percent. Those employees that remain uninsured are less likely to seek needed medical care and more likely to be absent from work and less effective when they are there. Their family members are more likely to experience untreated medical conditions and create an enormous distraction for the worker. So one aspect of poverty is reduced productivity among the working poor.”²⁹

Medicaid is the most comprehensive public health program in the U.S., serving 38 million people in 2005, and jointly funded by the federal and state governments, with most states requiring co-payments from recipients of Medicaid services.³⁰ And while the assumption may be that most poor Americans are covered by Medicaid, in fact, “more than eight in ten low-income, uninsured adults do not qualify for Medicaid or other public health coverage because their incomes are too high. In 42 states, unless they are severely disabled, they are ineligible for Medicaid regardless of their income.”³¹ In addition, most of the care provided through the Medicaid program goes to low-income elderly or seriously disabled people who are also covered under Medicare. Only 30 percent of Medicaid costs go to cover low-income children and pregnant women.³²

In addition to all of the uninsured Americans, many more are “underinsured.” Nearly two million people under 65 spent more than 10 percent of their pre-tax income on health care, including premiums, deductibles, co-payments, coinsurance and uncovered services. Of these, 1.69 million had some health insurance.³³

²⁷ Personal correspondence from Bruce Spitz, president, Spitz Consulting Group, formerly Management Professor at Brandeis University’s Institute for Health Policy (Feb. 2006).

²⁸ Himmelstein, *et al.*, “MarketWatch: Illness and Injury As Contributors to Bankruptcy,” *Health Affairs* (Feb. 2, 2005).

²⁹ Personal correspondence from Bruce Spitz, president, Spitz Consulting Group, formerly Management Professor at Brandeis University’s Institute for Health Policy (Feb. 2006).

³⁰ Michelle Chen, “Poor ‘Share’ More Costs Under Medicaid ‘Cost Sharing’ Initiatives,” *The New Standard*, (June 3, 2005).

³¹ “Working without a Net: The Health Care Safety Net Still Leaves Millions of Low-Income Workers Uninsured,” (Families USA, April 2004). Other public health services include the State Children’s Health Assistance Program and local health clinics.

³² “Future Medicaid Growth is not Due to Flaws in the Program’s Design, but to Demographic Trends and General Increases in Health Care Costs,” (Center on Budget and Policy Priorities, Feb. 4, 2005).

³³ “PHC4 FYI – Uninsured Stats Continue to Climb,” citing Kathleen Stoll, Director of Health Policy Analysis for Families USA, (Pennsylvania Healthcare Cost Containment Council, April 2005), <http://www.phc4.org/reports/fyi29.htm>

What do all these uninsured and underinsured Americans cost the rest of us? The American Hospital Association estimates that, in registered community hospitals in 2004, uncompensated care (the total of bad debt and charity care) cost \$26.9 billion. Other estimates are even higher. A Kaiser Commission study from May 2004 found that uninsured hospital services alone would cost \$41 billion in 2005.³⁴ The same study estimated total costs to be spent on healthcare for the uninsured came to \$125 billion.³⁵ That translates to an extra \$922 for family health insurance premiums to those insured by private employers, \$341 for individual coverage.³⁶ This study used \$125 billion times the fraction of the population that is low-income (28.67 percent) for a total cost of uninsured care of \$35.8 billion, then added the amount paid for Medicaid by the federal government (\$180 billion) and that paid by the states (\$120 billion).

Despite all of the evidence presented here, reducing poverty will not necessarily change some rather startling and disturbing features of our health care system. Thirty percent of the medical services provided in the U.S. are unnecessary, and unnecessary services add costs and can lead to complications that undermine the health of patients. For example, half of all patients diagnosed with a common cold are incorrectly prescribed antibiotics, which has been shown to lead to resistance to antibiotics and to as much as \$7.5 billion a year in excess costs. One study found that 16 percent of hysterectomies performed in the United States were unnecessary.³⁷ Quality of care also varies greatly by state, locale, size and experience of hospitals, and resource availability. It is possible that reducing poverty will increase preventive care and thereby reduce total medical costs in the country. But without further study, it is difficult to determine whether the increased access to medical care will also increase waste sufficiently to erase the financial benefit. For this reason, this study simply counted the actual cost of medical care for low-income people that was not paid for by others.

Despite these shortcomings, progress toward remedying the abysmal healthcare situation in the U.S. is possible. “Larger and sustained investment in the infrastructure for a healthy society is key to the health and well-being of the entire population, not just one segment. These investments should be in education, transport, communication, job creation and training, improved conditions of work, environmental cleanliness, and health care.”³⁸

³⁴ “PHC4 FYI – Uninsured Stats Continue to Climb,” (Pennsylvania Healthcare Cost Containment Council, April 2005), <http://www.phc4.org/reports/fyi29.htm>.

³⁵ Joan Gralla, “U.S. Uninsured Health Care Cost Put at \$125 Billion,” Common Dreams News Center, (Reuters, May 11, 2004).

³⁶ “Paying a Premium: The Increased Care for the Uninsured,” (Families USA, rev. July 13, 2005), <http://www.familiesusa.org/resources/publications/reports/paying-a-premium.html>.

³⁷ “The Challenge and Potential for Assuring Quality Health Care for the 21st Century,” U.S. Dept. of Health and Human Services citing numerous studies (1998), <http://www.ahrq.gov/QUAL/21stcena.htm>

³⁸ Blane, Brunner and Wilkinson, *Health and Social Organization*, p. 88, (Routledge, London and New York, 1996).

Unemployment and Underemployment

Unemployment is devastating for the family depending on a breadwinner to pay the rent and put food on the table. Underemployment is also difficult for families in today's economy, where two full-time salaries at one-and-a-half times the minimum wage³⁹ just make it to the poverty cut-off of 60 percent of median income.⁴⁰ The average service worker in the US is paid about two times the minimum wage,⁴¹ so there is a substantial population of service workers paid less. When they are unable to find a full week's work, they quickly fall into poverty and are thus unable to afford the basics of food, shelter, and medicine. The personal costs of underemployment are severe for those already living on the edge.

“What is particularly distinctive about joblessness as an economic problem, however, is the focused harm it visits on particular individuals. Joblessness is a primary cause of both absolute and relative poverty in otherwise wealthy societies. Low average earnings can cause mass poverty in poor societies, but joblessness can cause concentrated poverty even in rich societies. This poverty hurts because it involves real material deprivation, but it hurts even more because it is experienced in the midst of plenty. For this reason, poverty caused by joblessness may be especially damaging to the persons who suffer it. This effect is even more pronounced in a society, such as ours, in which both social status and self-esteem depend heavily on the kind of work one does and how it is rewarded. In fact, being involuntarily unemployed is a deeply corrosive experience, even when it is not associated with significant material deprivation. Among other problems, unemployment appears to cause increased rates of suicide and attempted suicide, substantial adverse mental and physical health effects, adverse social psychological effects, adverse effects on family life and personal relationships, and increased criminal activity and rates of incarceration. In recognition of the importance of employment in securing individual welfare, access to work (and not just income) has been recognized as a fundamental right in international human rights proclamations and agreements.”⁴²

³⁹ Minimum wage is \$5.15 per hour. The average number of hours worked for a service worker is 32.4 hours a week or 1684.8 hours per year. Bureau of Labor Statistics. The total income would be \$26,030.

⁴⁰ \$26,640 in 2004. US Census.

⁴¹ \$10.65 in 2004 according to the Bureau of Labor Statistics. The *median* hourly wage for the primary worker in low-income families is even less, about \$9. The Urban Institute, “Low-Income Working Families: Facts and Figures” (Aug. 25, 2005), www.urban.org/url.cfm?ID=900832.

⁴² Philip Harvey (Associate Professor of Law, Rutgers School of Law–Camden), “Designing Policies to Combat Joblessness,” University of Missouri—Kansas City Department of Economics, Center for Full Employment and Price Stability, Seminar Paper No. 3 (2000).

Underemployment is usually defined for statistics-gathering purposes as not being able to find work for as many hours as a worker is willing to work.⁴³ Other forms of underemployment are prevalent but more difficult to quantify. For example, global economic factors have turned a large fraction of a generation of highly-trained and well-paid industrial workers into much-less-well-paid workers in jobs requiring considerably less training, such as retailing.

Thus unemployment and underemployment push families into poverty. “After a period of unemployment, however it is caused, the risk of downward social mobility from high to lower status occupations appears to be increased.”⁴⁴ As explained elsewhere in this report, families falling into poverty are costly to the nation because of the increased costs they cause of crime, healthcare, and social services.

Nobel laureate William S. Vickrey put it this way:

“It is totally unacceptable when it means 10 percent, 20 percent and 40 percent unemployment among disadvantaged groups, with serious consequences for poverty, homelessness, family breakups, drug addiction and crime. The malaise that pervades our cities may be attributable in no small measure to the fact that for the first time in our history, an entire generation and more has grown up without experiencing reasonably full employment, even briefly.”⁴⁵

As another scholar summarizes:⁴⁶

“Unemployment has tremendous social and economic costs. Unemployment causes permanent losses of output of goods and services. The unemployed are faced with financial insecurity, resulting in poverty and indebtedness. Certain kinds of criminal activity are directly related to health (physical and mental), drug addiction, homelessness, malnutrition, poor prenatal care, school dropouts, racial and ethnic antagonism, and other social problems. Unemployment also differentially affects certain sectors of the population, so that disadvantaged minorities, those with little education, and youth, *e.g.*, can suffer from rates of unemployment two to ten times the overall rate.

⁴³ Bureau of Labor Statistics; C. Cobb *et al.*, “Why Bigger Isn’t Better: The Genuine Progress Indicator – 1999 Update” (Redefining Progress, 1999), www.rprogress.org/newpubs/1999/gpi1999.html.

⁴⁴ “M. Bartley *et al.*,” Health and work insecurity in young men,” *in* D. Blane *et al.*, *Health and Social Organization*, at p. 255 (Routledge, 1996), citations omitted.

⁴⁵ William S. Vickrey, “Fifteen Fallacies of Financial Fundamentalism: A Disquisition on Demand Side Economics” in Aaron Warner, Mathew Forstater and Sumner Rosen (eds.), *Commitment to Full Employment: the Macroeconomics of Public Policy of William S. Vickrey*, (Armonk, NY: M. E. Sharpe Publishing, 2000), <http://www.cfeps.org/pubs/wp/wp1.html>.

⁴⁶ Mathew Forstater (Associate Professor of Economics and Black Studies and Director, Center for Full Employment and Price Stability, Department of Economics, University of Missouri — Kansas City), “Unemployment” *in* John King (ed.), *Elgar Companion to Post Keynesian Economics* (Edward Elgar Publishing, 2002), <http://www.cfeps.org/pubs/wp/wp20.html>. Citations omitted.

“Unemployment also can destabilize business expectations, as fears of low demand cool private investment. Related to this, unemployment can also lead to technological stagnation.

“Unemployment is the direct and indirect cause of many social and economic problems. It can also lead to political instability.”

Thus, as difficult as unemployment and underemployment are for the families that experience them, unemployment and underemployment are costly drags on the economy that affect everyone. This study quantified some, but by no means all, of the costs that could be avoided by reducing unemployment and underemployment.

Most obviously, there are taxpayer-financed social supports such as unemployment compensation, job training, and retraining. In addition, unemployed and underemployed persons pay less in taxes than if they were fully employed. They also spend less on job-producing goods and services—the so-called multiplier effect.

The total costs of unemployment and underemployment are calculated in a conservative manner. The starting point is the number of unemployed workers reported by the US Department of Labor Bureau of Labor Statistics, including discouraged workers “wanting and available for work,” conservatively adjusted by subtracting a “full employment rate” of four percent.⁴⁷ As a further conservatism, lost wages were assumed to be at the minimum wage per hour (for 2000 hours per year). As noted above, this is about half the average service worker wage. A spending multiplier of 2.0 assumes that at this low level of income, all income would be spent.⁴⁸

A published estimate of the costs of underemployment, including multiplier effects,⁴⁹ was inflated to \$2005. However, the estimate was reduced here to restate lost wages as at the minimum wage instead of the \$11.20 per hour used. Also, underemployment is defined to reflect only lost hours of work and not lost wages due to inability to find a job at an appropriate skill level—another conservatism.

Finally, transfer payments to or on behalf of the unemployed and underemployed were estimated,

⁴⁷ There is considerable disagreement over a “natural” or “full employment” unemployment rate. *E.g.*, William S. Vickrey, “Fifteen Fallacies of Financial Fundamentalism: A Disquisition on Demand Side Economics” in Aaron Warner, Mathew Forstater and Sumner Rosen (eds.), *Commitment to Full Employment: the Macroeconomics of Public Policy of William S. Vickrey*, (Armonk, NY: M. E. Sharpe Publishing, 2000),

<http://www.cfeps.org/pubs/wp/wp1.html>. Our subtraction is thus a considerable conservatism.

⁴⁸ P. R. Tcherneva, Missouri’s Cost of Unemployment (University of Missouri —Kansas City Department of Economics, Center for Full Employment and Price Stability, Special Report 05-02 2002.

⁴⁹ C. Cobb *et al.*, “Why Bigger Isn’t Better: The Genuine Progress Indicator – 1999 Update” (Redefining Progress, 1999), www.rprogress.org/newpubs/1999/gpi1999.html.

including unemployment insurance⁵⁰ and job training.⁵¹ As with lost economic benefits, the cost of unemployment insurance was limited to those in excess of a “natural” unemployment rate of four percent. The average weekly benefit of \$263.25 was capped at 26 weeks, conservatively ignoring extended payment periods.

Some of the indirect societal costs of unemployment and underemployment, such as costs of crime and for healthcare⁵² are subsumed under the aggregate estimates for those categories described elsewhere in this report. Other indirect costs are not counted.

In this way, the avoidable costs of low-income unemployment and underemployment have been conservatively estimated.

Current Anti-Poverty Investments

There are many other areas that contribute to the high cost of poverty in the U.S. For some of these, current anti-poverty investments – that is, investments made by the rest of us, through taxes or other social service supports, to mitigate or alleviate the high costs – make but a small dent in the overall cost to society. Following are descriptions and conservative cost estimates for such conditions as homelessness and inadequate housing, lack of appropriate high-quality education, hunger, and inability to pay utility bills. The amount society has allocated to mitigating these conditions does not come close to meeting the true needs.

Housing and Homelessness

Homelessness exploded in the 1980s, as federal funds for low-income housing and social assistance programs for low-income families fell dramatically. Current federal spending on housing assistance programs

⁵⁰ Bureau of Labor Statistics.

⁵¹ US Department of Labor FY 2006 Budget Overview; Tax Policy Center (Joint Venture of the Urban Institute and Brookings Institution), “Estimates of Total Income Tax Expenditures,” www.taxpolicycenter.org/TaxFacts/TFDB/TFTemplate.cfm?Docid=375; National Community Action Foundation, “CAA Core Appropriations,” www.ncaf.org, *see e.g.*, www.ncaf.org/fy07bud2.pdf.

⁵² “All studies show higher rates of ill health, however measured, both psychological and physical in women and men who are unemployed.” M. Bartley *et al.*, “Health and work insecurity in young men,” *in* D. Blane *et al.*, *Health and Social Organization*, at p. 255 (Routledge, 1996), citations omitted. Health declines “as a consequence of unemployment. A large part of the link between health and unemployment is related to job insecurity and the anticipation of unemployment.” R. G. Wilkinson, *Unhealthy Societies: The Afflictions of Inequality* at p. 178 (Routledge, 1996).

targeted at low-income populations is less than 50 percent of 1976 spending levels.⁵³ On any given day, at least 840,000 people in the United States are homeless — nearly 40 percent of them children. “The homeless population is estimated to be 50 percent African American, 35 percent white, 12 percent Hispanic, 2 percent Native American, and 1 percent Asian. An average of 23 percent suffer from mental illness, 38 percent suffer from substance abuse, 10 percent are veterans, and 22 percent are employed. Over 40 percent of homeless persons are eligible for disability benefits, but only 11 percent actually receive them. Most are eligible for food stamps, but only 37 percent receive them. Most homeless families are eligible for welfare benefits, but only 52 percent receive them.”⁵⁴

More than 3.5 million Americans are affected by homelessness for at least part of the year each year. More than one in eight households pay more than 50 percent of their income for housing, and another 2.5 million live in over-crowded or severely inadequate housing.⁵⁵ These factors contribute to interrupted educations, lack of adequate health care, persistent hunger, and higher crime rates.

Children living with families that are homeless attend school less frequently, score lower on standardized tests, are less likely to graduate from high school and become productive members of society.⁵⁶ As described in MacGregor and Oppenheim’s education study, full-time, year-round workers without a high school diploma earned more than 30 percent less than those with a diploma in 1999.⁵⁷ The gap has only widened since.⁵⁸

Homelessness can both cause and result from serious health care issues. The *New England Journal of Medicine* reported that homeless people spent an average of four days longer per hospital visit than did comparable non-homeless people.⁵⁹ Homelessness can exacerbate drug and alcohol addictions, and treating homeless people for drug and alcohol related illnesses when people are not in stable living conditions is expensive. Physician and health care expert Michael Siegel found that the average cost to cure an alcohol-

⁵³ “Overview of Homelessness In America” National Student Campaign Against Hunger and Homelessness, <http://www.studentsagainsthunger.org/hunger>.

⁵⁴ Jay Shaft, “US Homelessness and Poverty Rates Skyrocket,” (Information Clearing House, July 7, 2003), <http://www.informationclearinghouse.info/article4305.htm>.

⁵⁵ “The State of the Nation’s Housing” (Harvard University Joint Center for Housing, June 13, 2005), http://www.jchs.harvard.edu/media/son2005_fact_sheet.pdf.

⁵⁶ “A Plan, Not a Dream: How to End Homelessness in Ten Years,” citing research by Dr. Yvonne Rafferty of Pace University (National Alliance to End Homelessness, 2000), <http://www.endhomelessness.org/pub/tenyear/cost.htm>.

⁵⁷ J. Oppenheim and T. MacGregor, “The Economics of Education: Public Benefits of High-Quality Preschool Education for Low-Income Children,” p. 27 (Entergy Corp., n.d. [2002]).

⁵⁸ While those with a high school diploma earn \$27,915, those without a high school diploma average \$18,734. (U.S. Census Bureau, March 28, 2005).

⁵⁹ “A Plan, Not a Dream: How to End Homelessness in Ten Years,” citing Salit S.A., Kuhn E.M., Hartz A.J., Vu J.M., Mosso A.L. “Hospitalization costs associated with homelessness in New York City,” *New England Journal of Medicine* 1998; 338: 1734-1740.

related illness is approximately \$10,660. Another study found that the average cost to California Hospitals of treating a substance abuser is about \$8,360 for those in treatment for the abuse, and \$14,740 for those who are not.⁶⁰ It is difficult to keep people in treatment when they are homeless.

Other major causes of homelessness are unemployment or underemployment; high housing costs, including rising utility bills; domestic abuse; mental illness and substance abuse, with lack of treatment services; cuts in public assistance; and the general state of the economy.

The costs of providing healthcare to the homeless are included in the overall costs of healthcare discussed above. This study calculates the costs of homeless shelters, public housing, and public subsidies to private housing (including tax expenditures) at \$69.1 billion.

Hunger

An estimated 14 million American children live in homes where there is not enough food.⁶¹ Bread for the World reported that 35 percent of Americans had to choose between food and rent, while 28 percent had to choose between medical care and food, in the first half of 2004.⁶² Other studies show that money devoted to food by families is typically the first to be sacrificed. Families will often pay their fixed payments first, such as rent and utilities, rather than pay for food.⁶³

The number of people requesting emergency food aid is rising. In a survey conducted in early 2005 of 900 emergency food and shelter providers across the country, volunteers found an increase of 74 percent in the number of requests for food assistance over the year before, although many had to be denied because of budget cuts and lack of agency funding.⁶⁴ Thus, the amount included in this study for food grants from non-governmental food pantries (\$2.3 billion) is a gross understatement of the need.

Including the cost of the federal Women, Infants and Children (WIC) program (\$5.2 billion), Food Stamps (\$27.2 billion in 2004), school and other child nutrition programs (\$11.9 billion), and other food assistance (\$300 million) yields a conservative \$46.9 billion for direct food subsidies to poor people.

⁶⁰ "A Plan, Not a Dream: How to End Homelessness in Ten Years" (National Alliance to End Homelessness, 2000), citing the National Law Center on Homelessness and Poverty, May 8, 2000 <http://www.endhomelessness.org/pub/tenyear/cost.htm>.

⁶¹ "Hunger, Poverty and Nutrition Policy: Childhood Hunger, Childhood Obesity" (Tufts University 1995-2005), http://nutrition.tufts.edu/consumer/hunger/hunger_and_obesity.html.

⁶² "Overview of Hunger In America" National Student Campaign Against Hunger and Homelessness, <http://www.studentsagainsthunger.org/hunger>.

⁶³ "Overview of Hunger In America" National Student Campaign Against Hunger and Homelessness, <http://www.studentsagainsthunger.org/hunger>.

⁶⁴ "Communities in Crisis: Survey of Hunger and Homelessness in America" (National Student Campaign Against Hunger and Homelessness, Feb. 2005).

Education

“Poverty prevention is more dependent on education than on any other factor, as is escape from poverty.”⁶⁵ Education is the primary means by which people can lift themselves out of poverty, yet the amount spent on education targeting low-income children falls far short of the need. “The achievement gap between poor and non-poor children is well-documented. Low-income children consistently fall behind their peers in test scores, graduation rates, college enrollment, and other measures of academic success.”⁶⁶

In research cited in a report by the Center on Budget and Policy Priorities, the following findings were summarized:

- “Student achievement is linked to school funding levels. While some researchers in the 1980s and 1990s suggested that school funding levels and student achievement are largely unrelated, more recent studies have contradicted this claim. A comprehensive review of over 60 statistical analyses that examine the link between school inputs, such as funding levels and student poverty rates, and school outcomes, such as test scores and graduation rates, indicates that school funding and student performance are strongly related.
- “Claims that large increases in school funding already have been made are overstated. ... However, measures of inflation that account for the service-oriented nature of public education show smaller increases in school funding levels because services have risen in cost faster than most common measures of inflation. Moreover, most of the real increases in education spending have been in areas such as special education, where one would not expect the additional expenditures to result in improved performance on standardized tests or similar measures of student performance. ...
- “Claims of stagnant achievement growth are overstated. ... Since 1970, the national child poverty rate has increased, while the dropout rate has declined, meaning that more students are poor and fewer academically-marginal students are dropping out of school.

⁶⁵ S. Levitan *et al.*, *Programs in aid of the Poor*, p. 274 (Johns Hopkins Press, 8th ed., 2003).

⁶⁶ Kevin Carey, “Education Funding and Low-Income Children: A Review of Current Research,” Center on Budget and Policy Priorities (Nov. 5, 2002).

- “Recent research indicates that schools need significant additional funds to educate low-income students. Both the federal government and most states have adopted funding policies that provide additional money to school districts based on poverty rates. ... [I]n order to reduce significantly the academic achievement gap, school districts need funding for poor students equal to two to two-and-a-half times the cost of educating non-poor students. These amounts are much greater than the supplemental amount provided by any state prior to 2002.
- “Schools can use additional funds for low-income students to implement specific resource-intensive education improvement strategies that have been shown to improve student achievement. ... For example, class-size reduction programs, when properly funded and implemented, have resulted in substantial, lasting improvements in student achievement. Poor and minority students showed greater benefits than non-poor students in prominent class-size reduction programs implemented in Tennessee and Wisconsin and minority students showed greater benefits than non-poor students in prominent class-size reduction programs implemented in Tennessee and Wisconsin. ...”⁶⁷

Title 1 is a federal program designed to raise academic achievement among children who attend either public or private schools with a high percentage of poor children. It reaches about 12.5 million children enrolled in preschool through high school. Total appropriations for Title 1 in 2005 equaled \$12.7 billion, for an average of approximately \$1,000 per student.⁶⁸

In addition to Title 1 funds, at least 38 states provide some education funding on the basis of levels of poverty. These states contributed \$8.7 billion for 75 separate programs specifically targeting categories of learning such as preschool or kindergarten, smaller class sizes, reading in the early grades, and students who are falling behind their peers.⁶⁹

⁶⁷ Kevin Carey, “Education Funding and Low-Income Children: A Review of Current Research,” Center on Budget and Policy Priorities (Nov. 5, 2002).

⁶⁸ Title 1, Part A Program, <http://www.ed.gov/print/programs/title1parta/index.html>.

⁶⁹ Kevin Carey, “State Poverty-Based Education Funding: A Survey of Current Programs and Options for Improvement” (Center on Budget and Policy Priorities, Nov. 7, 2002).

Head Start has enrolled over 20,000,000 low-income children since its inception as a summer program in 1965.⁷⁰ Long-term follow-up studies on a number of these children have shown that Head Start participants achieve greater school success and avoid crime as they grow.⁷¹ The total spent on Head Start and related programs in the states and territories in 2005 was at least \$9.502 billion. Tax expenditures add \$628 million.⁷²

In an earlier study performed for Entergy, Oppenheim and MacGregor found that educating low-income children when they are very young returns about \$9 for every dollar spent. Benefits include children staying in school through high school, developing a work ethic, and getting and keeping better jobs, with the commensurate rise in pay and associated income taxes, along with the multiplier effect of putting more money in the economy.⁷³

Utilities

Poor people cannot pay the full cost of heating and lighting their homes. Utilities, governments, and social service agencies have long assisted low-income ratepayers in paying their bills through such programs as the Low-Income Home Energy Assistance Program (LIHEAP), charitable fuel funds, levelized billing, discounts, home weatherization, energy efficiency, energy usage education, and arrearage forgiveness/debt management.

Utility bad debt costs around \$1 billion annually.⁷⁴ American utilities, through their ratepayers, paid an average of \$3 per customer to collect bad debt, and in some cases, the cost was as high as \$10.⁷⁵ If all Americans lived in weatherized and energy efficient homes, and had the income to pay their full share of utility bills, all other ratepayers would save nearly \$6 billion in poverty costs, including fuel assistance, lifeline and other rate assistance; weatherization and efficiency costs; and the costs of late and unmade payments, such as service disconnections.⁷⁶

⁷⁰ Joan E. Ohl, "Head Start: Building on the Pillars of our Success" presented at the National Head Start Association Conference, May 28, 2003.

⁷¹ Oden, *et al.*, "Into Adulthood: A Study of the Effects of Head Start" (High/Scope Educational Research Foundation, 2005).

⁷² Tax Policy Center (Joint Venture of the Urban Institute and Brookings Institution), "Estimates of Total Income Tax Expenditures," www.taxpolicycenter.org/TaxFacts/TFDB/TFTemplate.cfm?Docid=375

⁷³ J. Oppenheim and T. MacGregor, "The Economics of Education: Public Benefits of High-Quality Preschool Education for Low-Income Children" (Entergy Corp., n.d. [2002]).

⁷⁴ Industry Solutions, The CBE Group, <http://www.cbegroup.com/industry/utilities.aspx>.

⁷⁵ "Utility Collections Best Practice: Theory Into Practice" (Peace Software White Paper, May 2005),

<http://www.peace.com/industry-watch/whitepapers/Peace-Collections-Best-Practice.pdf>. This paper also states that total utility bad debt written off in the U.S. each year is as high as \$1.7 billion. This study used the more conservative \$1 billion.

⁷⁶ LIHEAP Clearinghouse, National Energy Assistance Directors' Association (NEADA), National Center for Appropriate Technology (NCAT), National Community Action Foundation (NCAF).

Other Anti-Poverty Investments

Some additional anti-poverty programs and initiatives for which the average non-low-income household contributes, and which are not detailed above but are included in the total estimate of the cost of poverty, include the following:

- Legal Services and other civil legal aid -- \$573 million;
- Transitional Aid to Needy Families (TANF) -- \$27.5 billion, federal and states combined;
- Supplemental Security Income (SSI) -- \$42.6 billion;
- Earned Income Tax Credit (EITC) -- \$36.7 billion;
- Services to low-income seniors -- \$1.830 billion;
- Other social services -- \$2.673 billion;
- Community Services Block Grants -- \$636.8 million; and
- Community Development Block Grants -- \$4.116 billion.⁷⁷

CONCLUSION

Investments in low-income Americans are among the most cost-effective investments we can make. Simple cash payments to low-income families may be among the least cost-effective investments against poverty in the long-run. Yet, as we show above, even simple cash payments sufficient to lift all Americans out of poverty would immediately be returned nearly fourfold. We have shown elsewhere that there are investment strategies on behalf of low-income families with even greater potential payoffs. For example, investing in weatherization and installing efficient appliances in low-income homes returns seven times the investment.⁷⁸ Investing in the education of three-and-four-year-olds returns nine times the investment.⁷⁹

⁷⁷ Legal Services Corp. fiscal year 2005 appropriation; “Documenting the Justice Gap in America” Legal Services. Corp, Sept. 2005; Tax Policy Center (joint venture of Urban Institute and Brookings Institution), from OMB; <http://www.whitehouse.gov/omb/budget/fy2006/treasury.html>; U.S. Dept. of Health and Human Services – Office of Family Assistance; Center on Budget and Policy Priorities; http://www.ssa.gov/policy/docs/statcomps/ssi_monthly/2005-11/table01.html; National Center for Appropriate Technology (NCAT).

⁷⁸ J. Oppenheim and T. MacGregor, “The Economics Of Low-Income Electricity Efficiency Investment” (Entergy, 2001, rev. 2002).

⁷⁹ J. Oppenheim and T. MacGregor, “The Economics of Education: Public benefits of High-Quality Preschool Education for Low-Income Children” (Entergy, n.d. [2002]).

Others have shown that investments in preventive healthcare earn a positive return.⁸⁰

Additional study should confirm the economic wisdom of other investments in low-income families. Indeed, in many cases, the science is established and the political decision has been made to create a program. All that remains to do in those cases is to adequately fund the existing programs.⁸¹

Weatherization, Head Start, and preventive healthcare are examples of underfunded cost-effective investment opportunities that have already been mentioned. Another example is childhood nutrition. It is well established that a nutritious breakfast and lunch determine a child's ability to learn, with significant implications for later success in life,⁸² just as it is well established that nutrition during the first two years of life, as well as of pregnant mothers, has an enormous impact on later health and intellect.⁸³ That is why there is a successful program to provide adequate nutrition to infants and pregnant mothers.⁸⁴ Similarly, this is the basis for the free and reduced price school meal program.⁸⁵

Later in life, effective vocational training and re-training can turn a marginal worker into an economic success.⁸⁶ Investing in decent housing provides the first prerequisite for a homeless family to even participate in the economy.⁸⁷ All are cost-effective investments in low-income families that could pay huge dividends if expanded.

⁸⁰ E.g., J. Abramson, M.D., *Overdosed America* at pp. 49, 166 (Harper Perennial 2005).

⁸¹ E.g., "Millions of eligible children do not receive free or reduced price lunches." S. Levitan *et al.*, *Programs in aid of the Poor* at p. 122 (Johns Hopkins Press, 8th ed., 2003). "Whereas [the job training program phased out in 2000] ended with sufficient funds to enroll approximately 1 percent of those who were eligible for its services, [its replacement program] adult ratio approaches the infinitesimal." *Id.* at p. 234. Housing programs are inadequately funded and do not pay enough in many markets to keep housing costs below 40 percent of income. "They simply need more resources to meet the needs of those eligible by cutting interminable waiting lists." *Id.* at p. 272.

⁸² E.g., J. Fraser Mustard, "Health and social capital" in D. Blane *et al.*, *Health and Social Organization*, at p. 306 (Routledge, 1996).

⁸³ E.g., M. Wadsworth, "Family and education as determinants of health," in D. Blane *et al.*, *Health and Social Organization*, at pp. 154-156 (Routledge, 1996); J. Fraser Mustard, "Health and social capital" in *id.* at pp. 304-306; V. Lazariu-Bauer *et al.*, "A Comparative Analysis of Effects of Early Versus Late Prenatal WIC Participation on Birth Weight: NYS, 1995," 8 *Maternal and Child Health Journal* 77 (2004),

[www.springerlink.com/\(baf1qf55lma12mnqjwgv13qi\)/app/home/contribution.asp?referrer=parent&backto=issue,5,8;journal,9,38;linkingpublicationresults,1:105600,1](http://www.springerlink.com/(baf1qf55lma12mnqjwgv13qi)/app/home/contribution.asp?referrer=parent&backto=issue,5,8;journal,9,38;linkingpublicationresults,1:105600,1); USDA, Economic Research Service, *Effects of Food Assistance and Nutrition Programs on Nutrition and Health, Volumes 1-4, and Nutrition and Health Characteristics of Low-Income Populations, volumes 1-4*, www.ers.usda.gov/Publications/fanrr19-1/.

⁸⁴ www.fns.usda.gov/wic/

⁸⁵ E.g., The "School Breakfast Program [p]rovides nutritious breakfasts to promote learning readiness and healthy eating behaviors." www.fns.usda.gov/cnd/Default.htm.

⁸⁶ "Some form of postsecondary career preparation has become essential to earning a family-sustaining income. Skill training can be accomplished through apprenticeship or employment with an employer committed to substantial incumbent training; few will escape poverty or near-poverty in the future without setting foot on a substantial career ladder and following it upward." S. Levitan *et al.*, *Programs in aid of the Poor* at pp. 208-209 (Johns Hopkins Press, 8th ed., 2003). *See generally* chapters 5-6. "Poverty prevention is more dependent on education than on any other factor, as is escape from poverty." *Id.* at p. 274.

⁸⁷ "Marriage is unlikely to occur or last without [affordable housing]." S. Levitan *et al.*, *Programs in aid of the Poor* at p. 271 (Johns Hopkins Press, 8th ed., 2003).

As anti-poverty expert Sar Levitan, late director of the George Washington University Center for Social Policy Studies, summarized:

- “The evidence indicates that social programs that provide cash support, goods, and services substantially reduce the number of poor individuals and significantly raise the incomes of those remaining in poverty.”
- “These calculations leave out entirely the impact on the poverty rate of education and training programs, child care programs, and other programs designed to enhance the employability and earned income of the poor. The impact of such programs is more indirect and more difficult to ascertain.”⁸⁸

Levitan concludes with a call for “a renewed commitment to the goal of expanding earning capacity and work opportunities for all Americans – a pursuit of assisted self-reliance.”⁸⁹

As long ago as 1916, economists recognized that “a universal living wage is the only sound social policy. It will not be denied by any intelligent person who considers seriously the influence of low wages in diminishing the efficiency, physical, mental, and moral, of the workers; in increasing the volume of crime, and the social cost of meeting it; in the immense social outlay for the relief of unnecessary poverty, sickness, and other forms of distress; and in the formation of a large and discontented proletariat.”⁹⁰

It is time for America to invest in eradicating poverty for the benefit of all Americans.

⁸⁸ S. Levitan *et al.*, Programs in aid of the Poor at p. 37, 38 (Johns Hopkins Press, 8th ed., 2003).

⁸⁹ *Id.* at p 291.

⁹⁰ John A. Ryan, Distributive Justice, pp. 376-377, The MacMillan Co., New York, 1916.

Appendix A: Investment Required—to Bridge The Income Gap

The maximum investment needed to eradicate poverty in the United States is an amount that would raise the income of every low-income household to the minimum income required to be a non-low-income household. As explained in the text, there are investments that are more effective, as well as more cost-effective, than cash transfers to eradicate poverty – such as education, job training, nutrition, housing, and health care.⁹¹

Thus this calculation sets out the maximum annual investment needed to eradicate poverty. Notably, costly as the investment is, it is considerably less than the annual benefit that it would achieve by reducing the costs of crime, healthcare, unemployment and underemployment, and transfers and other current investments in low-income families. These avoided costs are described in the text and summarized in Appendix B.

This report accepted the US Department of Health and Human Services (HHS) definition of low-income used by HHS to set the maximum income for eligibility to receive fuel assistance (Low Income Home Energy Assistance Program, or LIHEAP) payments. This income is 60 percent of the median household income (in each state).⁹² Other programs use higher incomes to define poverty – for example, the US Department of Housing and Urban Development (HUD) uses 80 percent of local median income as a standard for its housing programs.⁹³ On the other hand, there are programs that use lower incomes to define poverty – for example, the standard used by the US Department of Agriculture (USDA) for food stamp eligibility is 130 percent of the Federal Poverty Line (FPL).⁹⁴

At the bottom of the low-income standards is the discredited so-called Federal Poverty Line.⁹⁵ This is so broadly recognized as inadequate that it is usually used in the context of a multiple, such as 150 percent or 200 percent of the FPL. For a family of three under 2005 FPL guidelines, 60 percent of median income is roughly equivalent to 150 percent FPL.⁹⁶ When first developed, the poverty line was calculated as three times a minimally adequate food budget since food then represented a third of the average family budget. Food now represents about a sixth of the average family budget, but the poverty line is still calculated as three times a minimally adequate food budget. Thus the poverty line sank from 59 percent

⁹¹ S. Levitan *et al.*, *Programs in aid of the Poor* at pp. 43, 262 *et seq.* (Johns Hopkins Press, 8th ed., 2003).

⁹² “Section 2605(b)(2)(B) of Public Law 97-35 establishes 60 percent of a state’s median income as the maximum income allowed in determining income eligibility for LIHEAP, except in states where 150 percent of the poverty guidelines is higher.” HHS Division of Energy Assistance Office of Community Services memorandum, LIHEAP Information Memorandum Transmittal No. LIHEAP-IM-2005-7, dated 2/28/05, http://www.acf.dhhs.gov/programs/liheap/guidance/information_memoranda/im05-07.html.

⁹³ *E.g.*, housing rehabilitation loans. See <http://brgov.com/dept/ocd/housing/loan.htm>.

⁹⁴ See http://www.fns.usda.gov/fsp/applicant_recipients/fs_Res_Ben_Elig.htm.

⁹⁵ The 2005 HHS Poverty Guidelines (FPL) can be found at Federal Register, Vol. 70, No. 33, February 18, 2005, pp. 8373-8375.

⁹⁶ One reason the two standards are not strictly comparable is that the FPL is calculated to vary by family size while a percentage of median household income simply averages all households.

of median income of married-couple families to 33 percent. Adjusting the poverty line for this one item (fraction of budget devoted to food) would raise the family-of-four poverty line (in 1994) from \$15,100 to \$26,000.⁹⁷ The actual fraction of Americans in poverty, as would have originally been computed, has risen 50% from 1970, from 17% to 25%.⁹⁸

At the other end of the spectrum is the self-sufficiency income standard.⁹⁹ These are very detailed calculations, usually done on a county-by-county, state-by-state basis that take into account actual expenditures necessary to live a basic life in various family configurations. Bare bones budgets for a working family are calculated to include housing, child care, food, transportation, health care, clothing, household items, and taxes – no recreation, entertainment, or savings.¹⁰⁰ In particularly costly locales, such as along the two ocean coasts, self-sufficiency incomes can be as high as a state’s median income, as, for example, in Boston.¹⁰¹ However, even in Atlanta, the self-sufficiency requirement for such a family is 90 percent of the state’s median income.¹⁰³ Before Katrina, in Harrison County (outside Biloxi) and Hinds County, Mississippi, 84 percent of state median income was required for basic self-sufficiency;¹⁰⁴ in Jefferson Parish, Louisiana, 91 percent.¹⁰⁵

The 2000 Census includes detailed reports of 1999 household income. Median income in the United States was \$41,994,¹⁰⁶ 60 percent of which is \$25,196. (By 2004, median income had risen to \$44,000, 60 percent of which is \$26,640.) By analyzing and interpolating from the published data, the median income

⁹⁷ J. Schwarz, “The Hidden Side of the Clinton Economy,” *The Atlantic Monthly* at 18, 20 (October 1998). See also K. Porter, “Proposed Changes in The Official Measure of Poverty” (Center on Budget and Policy Priorities 1999).

⁹⁸ J. Schwarz, *id.*

⁹⁹ See generally <http://www.sixstrategies.org/includes/productlistinclude.cfm?strProductType=resource&searchType=type&strfType=self-sufficiency%20standard>.

¹⁰⁰ E.g., D. Pearce and J. Brooks, “The Self-Sufficiency Standard for Georgia” (Women’s Policy Group, 2002).

¹⁰¹ Self-sufficiency income required for a single parent with two children in Boston is \$51,284. D. Pearce and J. Brooks, “The Self-Sufficiency Standard for Massachusetts” (Women’s Educational and Industrial Union, 2003). Massachusetts state median income in 1999 was \$50,502. <http://quickfacts.census.gov/qfd/states/25000.html>.

¹⁰² Self-sufficiency income required for a single parent with two children in Atlanta is \$37,982. D. Pearce and J. Brooks, “The Self-Sufficiency Standard for Massachusetts” (Women’s Educational and Industrial Union, 2003). Georgia median income in 1999 was \$42,433. <http://quickfacts.census.gov/qfd/states/13000.html>.

¹⁰³ Self-sufficiency income required for a single parent with two children in metropolitan counties of Iowa is \$28,600. J. L. Flora *et al.*, “Iowa Self-Sufficiency Wages” (The Iowa Policy Project, 2004). Iowa median income in 1999 was \$39,469. <http://quickfacts.census.gov/qfd/states/19000.html>.

¹⁰⁴ Self-sufficiency income required for a single parent with two children in Harrison or Hinds County was \$26,472 or \$26,222, respectively. D. Pearce and J. Brooks, “The Self-Sufficiency Standard for Mississippi” (Enterprise Corp. of the Delta, 2003). Mississippi median income in 1999 was \$31,300. <http://quickfacts.census.gov/qfd/states/28000.html>

¹⁰⁵ Self-sufficiency income required for a single parent with two children in Jefferson Parish was \$29,797. D. Pearce and J. Brooks, “The Self-Sufficiency Standard for Louisiana” (Agenda for Children, 2003). Louisiana median income in 1999 was \$32,566. <http://quickfacts.census.gov/qfd/states/22000.html>.

¹⁰⁶ <http://quickfacts.census.gov/qfd/states/00000.html>.

of the 30,262,220 low-income households so defined (28.7 percent of all households) was determined to be \$13,802. Updating yields estimates of 32,974,198 low-income households with a median income of \$14,593. (Similarly, the median income of the 75,235,804 non-low-income households was \$56,997. Updating yields an estimated 82,026,714 non-low-income households with a median income of \$60,262.)

A cash payment to every low-income household to bring all to the brink of escaping poverty would require, on average, a payment to each of the 33 million households an amount equal to the difference between the current low-income median income and the minimum income to escape poverty as here defined, *i.e.*, 60 percent of median household income (\$26,640). This difference is \$12,047 per low-income household, or \$397.2 billion per year.

As shown in Appendix B, this cost, while significant, would avoid costs that are almost four times larger. In other words, an investment of enough to bring every low-income household out of poverty would have a benefit:cost ratio of 3.75.

Appendix B: Avoidable Costs Of Poverty—and Computation of Minimum Benefit: Cost Ratio Of Eradication Of Poverty

Avoidable annual costs of poverty are described in the text and fall into four broad categories. These are costs to the society at large that are caused by the existence of poverty and do not include the substantial costs to low-income households themselves.

- Costs of criminal activity, including property losses, costs of the judicial and correctional system, and security costs;
- Costs of healthcare, including costs that are preventable by improving healthcare and costs of low-income healthcare that are spread through the society;
- Costs of unemployment and underemployment, including unemployment compensation, job training, and the multiplier effect of lost economic activity;
- Costs of current anti-poverty investments, including costs for social services, elderly services, income supports, affordable housing, food, education, energy and utility supports, and block grants for community services and community development.

Avoidable Costs of Poverty	
	\$ 000,000
Crime	\$ 660,791
Health	\$ 335,841
Unemployment/underemployment	\$ 222,492
Current anti-poverty investments	\$ 270,053
T o t a l	\$1,489,178

As substantial as these avoidable costs are, they are significantly understated. For example, this study conservatively did not include:

- many state expenditures;
- most non-governmental expenditures;
- increased risks of damage from fire caused by inadequate housing;
- increased pressure on energy prices caused by energy waste in leaky homes;
- increased property tax receipts caused by needed property improvements;

- increased borrowing costs caused by bad debt and slow payments of low-income consumers; and
- increased vulnerability to disasters such as hurricanes, causing additional requirements for disaster relief.

An additional benefit of eradicating poverty not fully quantified is the increased economic activity caused by the multiplier effect of increased income.¹⁰⁷

It should also be said that this effort undoubtedly missed additional avoidable costs and lost benefits of eradicating poverty. Thus further research would be valuable to refine and expand the estimates contained in this report.

These costs are shared by all non-low-income households, the number and median income of which are derived from the US Census, as described in Appendix A.

From these data, it is possible to compute the annual per-household burden of poverty:

Avoidable Costs of Poverty per Non-Low-Income Household	
Avoidable Cost of Poverty \$000,000	\$ 1,489,178
Non-Low-Income Households	82,026,714
Avoidable Cost per Non-Low-Income Household	\$ 18,155
Median Income of Non-Low-Income Household	\$ 60,262
Avoidable Cost of Poverty as %	30.1%

It is also possible to compute a benefit:cost ratio on the assumption that investments are made to close the income gap described in Appendix A in order to eradicate poverty and thus eliminate the avoidable costs of poverty described above.

Benefit:Cost Ratio of Investment In Poverty Eradication	
Avoidable Cost of Poverty	\$1,489,000,000
Maximum Investment (close income gap)	\$ 397,200,000
Ratio: Avoidable Cost (benefit) / Investment (cost)	3.75

¹⁰⁷ At a multiplier of 2, the impact of an increase in income is doubled through the economy. This is accounted for in the report only with regard to unemployment.



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