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SUPPORTING AMERICA'S LOWER-MIDDLE CLASS FAMILIES

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Welcome and Introductions:

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MAKING WORK PAY FOR SECONDARY EARNERS:

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Facilitator:

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P R O C E E D I N G S

MR. RUBIN: Good morning. I'm Bob Rubin, and I welcome you on behalf of all my colleagues at the Hamilton Project. Many of you have been at Hamilton Project events before, so I won't dwell on what the Hamilton Project is, but let me just say a couple of words for those of you who have not been.

About seven years ago a group of us who cared a lot about public policy and economic policy got together and we started what now has become the Hamilton Project. And the idea was to support the development of economic policy and support serious discussion of economic policy. We're not an institution; rather we are a partnership of policy experts, academics, business people, and others. We function in the form of an advisory council, and the advisory council because of the wide range of experience and activities of the members, provides I think a distinctive perspective to the policy work of the Hamilton Project itself. We support market-based economics, but we also and equally support the vital role of government to perform the functions that markets by their very nature will not support or not provide.

From the very beginning our view was that a successful economy was an economy that worked for all Americans. In that context we believe that the objectives of economic policy should be growth, widespread distribution of the benefits of growth, and economic security. We also believe that each objective can be best achieved by achieving all three objectives. Growth is strongest when it's widely shared. In that respect the provision of nutrition or access to nutrition to health care to education and much else that's requisite for productivity is greatest when some combination of support for the poor and the near poor is provided in those areas and when people have jobs, good jobs, and can afford to access these requisites for productivity themselves.

And, secondly, when we have a large percentage of our population working, we have more economic demand. Conversely, rising incomes at all levels are more likely to be achieved when we have strong growth, both because there’s a larger pie to split and because of tight labor markets.

We’ve had policy deliberations on many issues that relate to the increasing hardship that’s occurred since the beginning of the Great Recession. But having said that, our primary focus, overarching focus, is on long-term economic policy. We believe strongly in the economic future of this country, the long-run economic future of this country, given the enormous strengths that we have -- our culture, our entrepreneurial spirit, flexible labor and capital markets, vast national resources, rule of law, and so much else. But having said that, we also believe that this potential will only be realized if we have sound and effective economic policy; that is to say, a sound fiscal regime, robust public investment in the areas that are requisite for economic success, and reform again in areas that are necessary to be addressed if we’re going to be successful economically -- energy, K-12 education, immigration, and so much else.

As all of you know, for decades median real wages have been roughly stagnant except for the mid- and late-1990s, and income inequality over the same period has risen starkly. We focused on those issues in many of our policy forums at the Hamilton Project, and now we're going to have two discussions, one today and one in the second quarter of next year, in this same area. Today we'll be focusing on the struggling lower middle income people and in the second quarter of next year, we'll be focusing in a discussion of this sort on poverty.

Let me mention a few numbers to frame this discussion, numbers that to me at least seem to be compelling. The Census Bureau reported in 2012 I believe it was, or at least it was recently, I think it was in 2012 that 15 percent of Americans live in poverty. That's nearly 47 million people and that includes 20 percent of all children. For individuals, just to remind us of what that means, it's $12,000 per person and for families it is $24,000. Additionally, 17.5 million people live within 130 percent of poverty, which means for individuals, incomes of less than $15,000. These are the worst rates of poverty and near poverty in our country in well over two decades.

I first became seriously engaged with these issues when Mario Cuomo was governor of our state and he set up a commission to take a look at the inner cities. He asked me if I would chair it, which I did. My immediate reaction then was the same as my reaction now, which is that morally and socially these conditions are incomprehensible and economically deeply counterproductive. It takes just one point that 20 percent of our children should live in poverty, and this is the richest country in the world, as I said a moment ago, is morally and socially incomprehensible and it certainly is a condition that is inconsistent with the kind of economy we want for all Americans in the years and decades to come. Those views about the social, moral, and economic ramifications of poverty that I had then are it seems to me all the more true today.

Let me make two more observations, if I may, about poverty and the struggling lower middle class. Equipping our people, equipping the poor and the near poor, for productivity is essential to enable people to become part of the mainstream workforce and to succeed in our economy. But there must also be more done to create jobs. Equipping people to be effective in the workplace itself can be job generating by providing an effective workforce. But there's a lot more that needs to be done. In that respect, the current budget stalemate is a very serious problem. Virtually everyone agrees that the sequester is terrible policy, and one of its effects is to prevent having the sort of fiscal policy that could promote growth. If the sequester were to be rescinded and replaced by a sound fiscal program, that obviously would contribute to demand in the short term and a sound fiscal program that had a stimulus upfront in the context of fiscal discipline that would be both our intermediate-term and longer term needs, would increase business confidence and investment in hiring.

But as long as we have the kind of stalemate we have today, that kind of a thoughtful program rather than the sequester we're currently experiencing can't be achieved.

It's also worth pointing out that the poor and the near poor are particularly vulnerable to the effects of the sequester because so many programs that are designed to help the poor and the near poor are also subject to sequester -- Head Start; LIHEAP, which is energy assistance, low income energy assistance; and so much else.

And that takes us to today's program. We have a terrific, terrific group of panelists, and we are deeply grateful to them for being with us. In accordance with the practice of the Hamilton Project, I'm not going to -- I will introduce them, but I'm not going to recite from their résumés. You have them with you, and they're all highly distinguished.

Our first panel is "Making Work Pay for Secondary Earners." We'll start the panel with a paper by Melissa Kearney who's a leading scholar on the issues of poverty; an associate professor at the University of Maryland; and to our great pleasure, the new director of the Hamilton Project. Her co-author is Lesley Turner, assistant professor of economics at the University of Maryland.

The discussants are Kevin Hassett, director of economic policy studies at the American Enterprise Institute; and Peter Orszag, former director of the Hamilton Project, former director of the CBO, former director of the Office of Management and Budget, and currently vice chairman of global banking at Citigroup.

The facilitator is Glenn Hutchins, co-founder of the private equity firm, Silver Lake, and a member of the Advisory Council of the Hamilton Project.

The second panel is "Strengthening SNAP to Fight Food Insecurity." That panel will begin with a paper by Diane Whitmore Schanzenbach, professor, School of Education and Social Policy at Northwestern University. The discussants are Joel Berg, executive director of the New York Coalition Against Hunger and former Agricultural Department Coordinator of Community Food Service; James Ziliak, director of the Center for Poverty Research and professor in the Economics Department at the University of Kentucky; and Bob Greenstein, president of the Center on Budget and Policy Priorities and also a member of the Advisory Council of the Hamilton Project.

The facilitator is Roger Altman, founder and executive chairman of Evercore, an investment banking firm in New York, and a member of the Advisory Council of the Hamilton Project.

Our program will conclude with a moderated discussion of “Building Ladders of Opportunity for America’s Lower Income Families.” The discussant is Jason Furman, chairman of the President’s Council of Economic Advisors, and like Peter, a former director of the Hamilton Project. And the facilitator is David Leonhardt, Pulitzer prize-winning economic columnist of *The New York Times*.

Let me close by thanking three people who developed the intellectual construct for today's program and put it all together: Melissa I've already mentioned, the director of the Hamilton Project; Karen Anderson, the managing director of the Hamilton Project; and Ben Harris, the policy director of the Hamilton Project. Let me also thank our enormously talented and hardworking staff at the Hamilton Project without which none of what we do would get done.

I will now turn the podium over to Glenn Hutchins. And let me remind you when we get to the Q&A at the end of each of our little panels, you can do this by Twitter, Hashtag: help working fams, I think. Is that right? Okay, good. Oh, it's up there, okay. Glenn, it's your ballgame.

MR. HUTCHINS: I'm tempted to ask Bob if he knows what a Hashtag actually is! So we're just going to get started. Bob's done the introductions. I just want to say before Melissa jumps into this that one of the reasons why I was anxious to come here today was because I think we're getting back to our roots at the

Hamilton Project, focusing on these issues. Peter got it started. Melissa's now taken the mantel, and I think focusing on issues of inclusive growth and rising inequality is a core mission of what the Hamilton Project should be doing. I'm thrilled that we're focused on that, and I just want to welcome Melissa to the job and tell her to get going!

MS. KEARNEY: Great, thanks. Thanks for being here this morning. The proposal that my colleague, Lesley Turner, and I want to discuss this morning is designed to give secondary earners a tax break. And the goal of this policy proposal is to help low and middle income dual-earning families.

So let me describe the challenge that we're setting out to address here. And the idea is that lower middle class families who rely on two earners to make ends meet see very little return from sending a second spouse to work. And so why is this? It's because the federal tax code in the United States, which actually is a bit different than most other industrialized countries on this dimension, the federal tax code in the U.S. pools family income for the purposes of determining taxes owed and eligibility for income support programs. And the combination of that pooled family income system with increasing marginal tax rates is that secondary earners essentially face a secondary earner tax penalty. And I want to emphasize that because that's what we're describing this policy challenge as, which is a secondary earner penalty, which means that secondary earners face very high marginal tax rates vis-à-vis primary earners in a family. And we'll run through some examples to show you where that comes from.

But the idea basically that we're trying to address is when these lower middle income families try to improve their economic security by sending a spouse to work, they enter sort of a proverbial treadmill where they work more, but they actually see very little improvement in their economic well-being.

So let's take the example of a couple, each makes $25,000 a year if they go to work full time. So this is about $12 an hour of full-time work. So under the current federal tax and transfer system -- and by transfer system I'm going to focus very specifically on SNAP, or our food stamps program -- and let's assume standard childcare costs. So the census tells us that for dual-working families, they spend on average about 10 percent of their income on childcare. And if we denominate that by the wife's wages -- which is often done because in the majority of dual-earning families, wives still are the primary caregivers of children -- it's about 20 percent of a wife's income or earnings that goes to childcare. So assuming that, we estimate that a spouse who goes to work for $25,000, if she already has a spouse making $25,000, she will keep less than 30 percent of her earnings. That is an extraordinarily high marginal tax rate.

So where does this come from? Well, if just one earner in the household goes to work at full time making $25,000, they'll pay their payroll taxes. They'll also receive $4,900 from the earned income tax credit program. They'll get $2,000 in a child tax credit, and they'll get $2,600 in food stamp benefits.

If the spouse goes to work, under current federal law they will double their payroll taxes and they will lose their entire earned income tax credit payment. They will lose all their SNAP benefits. They will incur childcare costs, which will be somewhat offset by the child and dependent care credit, but the percent of the wife's earnings kept by this household is a stunningly low 29 percent.

This was not a carefully chosen example to illustrate this point. So here what we've done, we've done it for three different groups and this is for couples who would make 100 percent of the minimum wage, 150 percent of the federal minimum wage, or 200 percent of the federal minimum wage. And you see for all of them the take-home rate of pay for the secondary earner is below 40 percent.

So what do we claim? We are going to propose that secondary earners disserve a tax credit, and we propose this based on both grounds of fairness and with an eye towards improved economic productivity. So why do we think this is fair? Well, there's two ways to think about this problem. The way the federal tax code and our federal transfer system is set up is that if we have two families and they both bring in $50,000, there's no distinguishing between whether that money comes in from one earner or two earners. And it's easy to think about the fact that the family who requires two earners to bring in $50,000 does not have the same level of resources as the family who brings in $50,000 with one earner. In fact, the family who brings it in with one earner has a stay-at-home spouse who can devote 40 hours a week towards childcare or home production, et cetera. The other family is much more economically constrained. They have to pay for childcare. They pay for transportation costs. They have no cushion. They're relying on both of them to make that $50,000. And so we think that on fairness grounds, the tax code should not treat those two families as equal.

The other fairness point to bring up is the tax rate imposed on secondary earners as compared to primary earners. So consider the spouse who goes to work for $25,000, the first $1,000 that spouse makes is taxed as though it were between $25,000 and $26,000. In other words, it’s taxed at a much higher rate than the first $1,000 that the primary earner made. Now, some in the legal world have actually spun this as a gender issue because, again, in most families it’s still the wife that’s the secondary earner to the extent that wives are more likely to enter in and out of the workforce or bring in lower wages. And so if you want to spin it this way, it wouldn’t be inappropriate to say that the marginal tax rate on women’s work tends to be higher.

The second reason to do this is because this improves work incentives. If we make work pay, more people will go to work. I don’t want to overstate this. What we’re proposing is not a huge increase in a return to work, but it’s not negligible. And the best academic estimates suggest that there will be a positive work response to this.

So the specifics of our proposal: We’re going to propose that dual-earning couples can deduct

20 percent of the first $60,000 of earnings from the second earner in the household. In our baseline proposal, we propose a phase-out beginning at $110,000 and that's really for political and budgetary reasons. Our economic preference would be to extend this up the earnings distribution.

So how is this going to get more disposable income to the households? Well, practically for families in the range of $20,000 to $50,000, the primary effect is going to be to increase the family's earned income tax credit by shielding some of that income. They still will qualify for that benefit. And for families above that range, this is going to reduce their federal income taxes.

We also propose a revenue neutral option where we could pay for this by scaling back the spousal exemption, and hopefully we'll have time to talk more about that in the panel.

So how much is this going to cost? Well, on an annual basis it will be $8.2 billion in lost tax revenue. And what does that get us? That gets us

$13.4 billion in increased disposable income to dual-earning families making below $130,000. So our benefit-to-cost ratio is 1:6.

In the revenue neutral option, if we limit this to married families with children, it will cost us $.8 billion in lost revenue. It actually is revenue neutral if we extend it to all married families below $110,000. But the benefit-to-cost ratio is actually a larger 6:8.

So to summarize, a secondary earner tax deduction would allow lower and middle class families to keep more of their combined earnings, and this would encourage more spouses to go to work by making work pay. Thank you.

MR. HUTCHINS: Thank you, Melissa. And before we ask the first question, I just want to congratulate you and Lesley on a terrific, provocative, and very thoughtful piece of work. Well done.

MS. KEARNEY: Thank you.

MR. HUTCHINS: I'm going to start with Kevin Hassett. Welcome, by the way. Kevin I learned is a bigger sports fan than I am, but we're not going to regale you with that at the moment. Kevin, just give us a quick response, a reaction. What do you think?

MR. HASSETT: Yeah, and first it's a real honor and pleasure to be here, Glenn and Secretary Rubin. You guys have -- and Peter in the beginning -- have built something really special. I think the Hamilton Project was really quite an innovation in its time, and I think it's been emulated since. But it's always been a challenge for places like Brookings and AEI to get the people who do the best academic work to want to think about current policy. There's something tawdry in some academic circles about that. And I think that --

MR. HUTCHINS: I thought what Peter and I did was now tawdry. You've made me feel much better.

MR. HASSETT: But what the Hamilton Project sort of taught us is that if you can force the best minds to come up with a proposal, then whether people like the proposal of not is something that we can work out in a conference room. But it starts a conversation that ultimately stimulates other people to want to have a proposal, too, because the proposals actually influence law. And so the Hamilton Project was an innovator in that space and it's been ridiculously successful I think. I would say that the hit rate is much higher than anyone could have guessed at the beginning in terms of policies that have had a lasting impact on the conversation.

I think that this paper is a nice example of the kind of thing that the Hamilton Project has successfully pioneered, and that is that it identifies a very clear problem and then puts forward a solution. And I think that the first thing to say is that the problem is something that I think that people at Brookings and AEI and around town and throughout the country are going to have to wrestle more and more with as we go forward because if you look at say the traditional disputes between progressives and conservatives, there might be maybe I think that the marginal tax rate should sort of be flat throughout the income distribution and maybe Peter thinks it should go up --

MR. HUTCHINS: I can guarantee you Peter thinks that.

MR. HASSETT: That's right, but the point is that there's not really anybody who would try to defend the view that the marginal tax rate schedule would look the way it looks. And so that I think is the first thing that the paper sets kind of a marker for the policy community that that's an important thing to the Hamilton Project. That's an important piece of news because my view -- now just to be provocative, I'll say it in a stronger way than maybe is 100 percent accurate -- but effectively what we've done is we've undone President Clinton's welfare reforms that he passed by moving a lot of stuff into the tax code and into other parts of government spending so that the benefit to work again is really obscenely low for a big swath of income distribution, especially at the bottom. So while we can argue about marginal tax rates at the top and whether they should be 30 or 40 or 50, the fact is that now -- and after a conference call I did some calculations with the Affordable Care Act, working that in -- the fact is that for the examples in this paper the second earner decision will move someone from getting free Medicaid off -- I used the DC Website, which works, and I'm assuming that the numbers on that are correct. But in your two higher income examples, the second earner moves the family by choosing to work from getting free Medicaid to having, assuming a Bronze Plan, that costs them a few thousand bucks. And so it's easy -- I guess it'll depend on whether the network, the Bronze Plan, is comparable or better than Medicaid. I don't want to make that the conversation, but the point is that it's got to be something that would really influence a family's decision to have sort of free health insurance versus not if that person enters.

So my view is that right now we've got a world where the people that are the focus of the tables in this paper are probably facing tax rates above 100 percent. I can remember in some corners --

MR. HUTCHINS: If you include the ACA.

MR. HASSETT: If you include the ACA. And so what this means is -- and I think this is a really urgent problem. And it brings to mind, I was watching -- there was either a 20/20 or one of those evening news shows was talking about this in the last couple of years and the reporter did the math for a family that had sent the wife to work. And then it showed the person that they're actually worse off financially, even if you don't count the disutility of working, because once you factor in all these things that they're losing that the fact if she stayed home the family would have more money. And she started weeping. And the fact is that right now we've got this complicated welfare system that is harder to figure than the one that was reformed in the past that makes it so a big swath of the population doesn't have a very big incentive to work anymore. But what's worse is they're optimizing vis-à-vis the wrong things. And so if you actually explain to them the true consequences of their decision to go to work, then you can induce them to weep.

MR. HUTCHINS: Which is not an appropriate policy.

MR. HASSETT: Yes, it's an unacceptable circumstance and so that -- then I want to let you hear from Peter. So I think that that's the thing that we have to stipulate to; that that's been created. I think that the issue is just that the proposal seems kind of meek if you really think through those factors; that I think that if we worked some kind of analysis in the Affordable Care Act in, which will vary by states, and so it'll be a whole another paper, then I think that we'll find that the marginal change in the incentive is going to be pretty small. And the fact that people are still optimizing vis-à-vis the wrong things won't really be addressed completely. And so I think the proposal needs to be more aggressive, but I think that it's a step in the right direction.

MR. HUTCHINS: Kevin, thank you. Peter?

MR. ORSZAG: Well, a few comments first. I have to say that since I've left, the cover selection on the Hamilton Project proposals has gotten much better. This just screams "I need a secondary earner deduction."

A few points: First, I join Kevin in being supportive directionally of the proposal for a few reasons. First, if you look at the trends in female labor force participation in the United States, they were rising rapidly throughout the '70s, '80s, into the 1990s. Around about 2000 or so, there was a topping off, an actual start of a slight decline. That has been attributed, falsely, but attributed to the op-out revolution among high-income, well-educated, spouses. It is true that their labor force participation rates have declined, so the op-out revolution is true to some degree. What that misses is labor force participation rates have also declined for single mothers, for mothers without kids, for all sorts of females. And to the extent that females disproportionately are secondary earners, this is part of a broader problem that we should be focused on. So that's the first point.

The second point is -- and this has come up in bits and pieces -- but just to be very clear, a lot of the problem here, that is the focus of this proposal, arises because of the understandable concern to contain the cost of means-tested benefit programs. So you've got a program like food stamps, SNAP, or the ACA. You don't want the cost to be astronomical, and so you try to target it on the people who are the most in need. That necessarily means that there is a phase-out and that's what creates these problems. So this is not a -- this shouldn't be a kind of revelation to anyone. It reflects the desire in the first place to contain the cost of various means-tested benefit programs and there is no way around that. Either you're going to have a universal program that is much, much more expensive, or you're going to phase-out the program and you're going to create marginal tax rates that are higher than you'd like.

Third, in general I am of the view that new tax proposals should take the form of a credit rather than a deduction so that they are not tied to the marginal tax rate. This is an exception. This is a tax break that is presented as a deduction and that's appropriate because the underlying problem comes from the family's marginal tax rate; and, therefore, providing it in the form of a deduction rather than a credit makes sense in this very isolated example, but in general this is not the right form for a new tax provision just as a reminder.

And then finally, very supportive of the proposal, but I would frankly join Kevin in saying let's not believe or be under the false impression that this is going to change the world. Table A-1, for example, in this paper shows that under current law, the illustrative family that's illustrated takes home $.29 on the dollar -- this is without the ACA effect built into it -- $.29 on the dollar for the secondary earner to go to work, and under the proposal they would take home $.35 on the dollar. So, yes,

$.29 versus $.35 it might help a little, but the basic point that the marginal tax rate is still in that case 65 percent even after the proposal is still very high. It needs to be kept in mind.

And then finally I would join I guess an undercurrent of what Melissa said, the difficulty or the problem facing secondary earners is not limited to the income category that this proposal applies to. And there are two gaps. One is above the place -- the proposal starts to phase-out at $110,000, ironically, to my point earlier, partly to contain the cost of the proposal they also phase-out the proposal thereby creating higher marginal tax rates at $110,000 through the phase-out range. And then secondly, at the very bottom of the income distribution where families don't have positive income tax liability, that can be offset with a new deduction.

So addressing both problems in the paper they note that if you eliminated the phase-out, the cost goes from $8 billion to $10 billion. It strikes me that that is not a game changer in terms of political feasibility and, therefore, would be beneficial because the problem is broader than just the income range that is being attacked. And then if you also layered in -- they mention a proposal to make the child independent tax credit refundable, which would fix the problem for the very bottom end, you add another maybe $1.5 billion-ish to the proposal. So 8.2 with this kind of constrained income applicability versus 11.5 universal, my money would be on 11.5.

MR. HUTCHINS: So, Lesley, I'm going to ask you to take up this question. So Kevin called the proposal meek and said it should be more aggressive. Peter just outlined a way in which it could be more aggressive. I know that you have done the research around that. Would you kind of address that question, talk about the cost and benefits of a more aggressive, more fulsome, proposal?

MS. TURNER: Yeah, thank you for that question. It's an excellent one and sort of as many people have pointed out, Melissa and I would be in favor of making this policy universal, not including this phase-out that starts at $110,000 of AGI. One of the main reasons as we see it is we essentially get more bang for our buck here. The overall revenue lost from the proposal increases from about $8 billion to $10 billion, but for every dollar of revenue spent, families with two earners with dependent children would get $4. So this is sort of a much higher benefit-to-cost ratio than our proposal that includes a phase-out.

And I agree also that if we are not targeting the lowest earning household, although to be clear even a family with two minimum wage workers that are working full time, full year, would see a benefit from our proposal. So this is sort of part of a limitation of using the tax code for redistribution. We're not going to be able to help the lowest income households that don't have a positive tax liability, but are sort of potentially losing these other means-tested benefits.

MR. HUTCHINS: So, Melissa, before I put some other questions on the table, do you want to respond to this discussion?

MS. KEARNEY: Sure, sure. So I think, you know, I agree with the general sentiment of all the observations that Kevin and Peter raised. The meekness of the proposal is what happens I think when academics try to rein in our high-brow ideas and make it politically feasible.

MR. HUTCHINS: Collide with the pole --

MS. KEARNEY: Exactly, so Lesley and I --

MR. HUTCHINS: And you haven't even gotten on the Hill yet.

MS. KEARNEY: Right. We would have been happy to blow up the tax code and start from scratch and move to individual-based taxation, and this was, as Kevin pointed out, a very small incremental step in that direction. So let me be clear, what I mean is that in the U.S. two earners who are married are not treated as two separate earners. They are treated as a household from the purpose of the tax code, and so this only does a little bit to mitigate that problem. But I think it’s fair to say it’s almost surely not going to happen anytime soon that we move to full individual-based taxation.

So I think the observation that this is meek is correct. I think Peter’s observation that this only really marginally increases the return to secondary earners is also correct. But I don’t want to minimize that because for the families that we’re talking about in this range of $25,000 to $60,000, they will see between an additional $1,000 and $1,500 a year. That’s not nothing. I mean if we think about it in terms of what the payroll tax holiday gave people, that was on the order of $600, and we know that that was valued by these households and it was felt when it was taken away.

So this is meek. It doesn’t fix the problem. It mitigates it a little bit.

MR. HASSETT: Can I --

MR. HUTCHINS: Kevin, please.

MR. HASSETT: Just on the question of meek, just to sketch what a less meek proposal might look like that probably would not be within the purview of the paper, but that I think could be the next kind of thing that follows.

So let's stipulate that the problem is that these things that we'll call welfare -- not in editorial content, but just to summarize them -- that welfare has expanded a lot and made this problem a bigger deal and that it's --

MS. KEARNEY: I'm sorry; you're including EITC in welfare?

MR. HASSETT: Well, I -- yeah, that's right. But these welfare programs have expanded and so now there's this issue that if you don't work you get a lot of stuff. If you do work, you lose the stuff. And so the benefit of working has gone down a lot. If we're going to think about --

MR. HUTCHINS: At the margins.

MR. HASSETT: At the margins, but even on average, too. But my point is just that so if you wanted to think about well, what do we do about that, then one thing you can do is you could reverse the expansions of welfare and then use the money that you gain from that to fund a proposal like Melissa's and Lesley's. That would be a lot less meek and it would be something that might get both sides of the aisle talking.

MR. HUTCHINS: That was a question I wanted -- that's directionally a question I wanted to ask. So let's explore that for a minute. Lesley, do you want to respond to that? You seemed like you were ready to.

MS. KEARNEY: Do you want to take it?

MS. TURNER: So I think Melissa will have more to add to this, but I wanted to emphasize sort of our proposal is focusing on a very specific problem, which is the low returns to work for secondary earners. A lot of this especially at the lower end is caused by welfare programs, if we include the EITC as a welfare program. But even in the absence of these programs, if we think of the secondary earner's first dollars being taxed at the marginal tax rate of the primary earner's last dollar, we still will see lower returns to work for secondary workers.

MR. HUTCHINS: Peter?

MR. ORSZAG: Can I just add? If you actually look at the numbers in the back of the paper, a huge effect -- actually, frankly, on the order of if not bigger than the phase-outs of the means-tested benefit programs -- is the fact that the secondary earner going to work outside the home necessitates childcare. And that -- if you just look at the numbers, that's as big if not bigger. So I'm not going to go there, but one could take the opposite approach from Kevin's, which is if you want to address this specific problem in terms of the return to work, an alternative approach is you could start subsidizing that childcare, making the "welfare state" bigger.

MR. HUTCHINS: Melissa?

MS. KEARNEY: So just one comment I want to follow up that Kevin mentioned, which is we have a lot of programs that give you money if you don't work.

But I don't want that to be overstated because the earned income tax credit very specifically subsidizes work. It just subsidizes work in a range that hits single parents. So if you earn a low amount, you qualify for a 40 percent subsidy. So that's not subsidizing you or paying you to stay home. That's subsidizing your work effort. The problem is for married families. Most of them are on the phase-out range or beyond it. So the earned income tax credit has been shown to be an effective program to incentivize work among single parents, but it actually discourages work among married couples. And so we're taking the "make work pay" philosophy of the earned income tax credit and trying to expand it to married couples.

On Peter's point about childcare, that is an alternative proposal. We could spend an entire hour discussing whether that is feasible. There are lots of policy issues.

MR. HUTCHINS: Take a couple of minutes.

MS. KEARNEY: Yeah, exactly. I don't want to go too far down that road. There are a lot of issues with provision of childcare in the U.S., about the effectiveness of subsidies, about the quality of care, about the need to regulate them. In Scandinavian countries that have done this, it is extraordinarily expensive, on the order of $20,000 per kid per year; and so it's not obvious at all that that would be a more feasible or affordable policy.

MR. HUTCHINS: So I want to come back a little bit later to Kevin's view; maybe we can end with that, which was how would you think about a larger proposal against this broader issue. But let's narrow in on a couple of things you just raised, Melissa, if I can, which I'm going to describe as how do we know what the behavioral impacts of this are going to be? How do we know how people are going to behave as a result of this? One question, a subpart of that, I'd like to ask -- and by the way, there's a paper being released today and I think Bob might have alluded to it, but it's "A Dozen Facts About America's

Struggling Lower Middle Class." I think we're releasing that today, correct? And it's really, really interesting; worth looking at because this group of people who are from $60,000 to $100,000 in income, the middle class, the lower middle class?

MS. TURNER: Well, it's more like $15,000 to --

MR. HUTCHINS: $15,000?

MS. TURNER: Yeah, depending on the family size.

MR. HUTCHINS: The family size -- has a very different set of characteristics than the people you think about, poorer people who are in a higher socioeconomic strata. It's a very interesting group of people with high marriage rates and a fair amount of college education, right?

MS. TURNER: That's right.

MR. HUTCHINS: But one of the things, how do we know that this influences work as opposed to marriage, as an example? And there are different kinds of impacts that come from not working versus not marrying. So that's one example of a behavioral impact. I'm not certain about that. Well, how do we know that what you predict is a behavioral impact or accident ones?

MR. ORSZAG: Also can I layer on the question of so the whole goal here is to get secondary earners to work more. So how much -- in your numbers -- how much additional work are you actually assuming?

MR. HUTCHINS: Right, thank you, Peter.

MS. KEARNEY: Yeah, that's great. So the estimates that we use in our simulations come from very well respected academic estimates. It's work by Nada Eissa and Hilary Hoynes. They have studied the work response of this population of married couples to the earned income tax credit expansions. And so what they find is basically the EITC expansions during the 1980s and 1990s led to a decrease in work effort among married women. Their likelihood of participating in the workforce fell by a full percentage point and the hours worked by both married men and women fell by 1 to 4 percent. So these are actually -- they're not huge numbers, but they're not negligible. And those translate into responsiveness estimates that are what we incorporate.

So compared to other papers that have also simulated effects of tax incentives, the estimates we incorporate are conservative.

MR. ORSZAG: But just, again, just to show the kind of ambitiousness of it, how much does secondary earner worker labor supply increase because again this looks pretty small.

MS. TURNER: So if we assume no response, then it's sort of the revenue cost would equal the benefits a family received. So in our baseline proposal, including these responses, so including sort of -- allowing spouses to increase their hours or to enter the labor force, we estimate that $1 of lost revenue leads to $1.40 in increased income. And so the difference between those two represents sort of our underlying assumptions about this behavioral response.

MR. HASSETT: But how about this issue of work versus marriage? Isn't another rational response to this to not get married?

MS. KEARNEY: Yes. So there has -- I think it's well understood -- well, I think it's well recognized that there is what's called "a marriage penalty" in the tax code, but that's actually misnamed. So I actually think it's a bit misunderstood. The marriage penalty really only applies to dual-earning couples. If you are two individuals who get married and one of you stays home, you get a marriage bonus. So there's lots of reasons why the tax code gives preferential treatment to one-earning couples. So we want to --

MR. HASSETT: So some of this is a marriage bonus going away as one way to think about it?

MS. KEARNEY: No, this is the marriage penalty applied to workers, so we think sort of the focus on marriage is a little bit misplaced because it's really a penalty on two married workers. So we're trying to shift the emphasis and recognize that the problem is really a secondary earner penalty.

MS. TURNER: So if I can just add on to what Melissa said. Not all households receive a marriage penalty, but all married couple households face a secondary earner penalty and this is universal. And so it is a related issue. It's related in that the tax code pools income for the purposes of taxation in the U.S., which is as Melissa mentioned in her talk is very different from most industrialized countries. So it's related and the mechanisms are the same, but this is -- the secondary earner penalty applies to all married couple households.

MR. HASSETT: So I did a paper on this, but it was 10 years ago or so, so it's probably not exactly true anymore. But when I last did the math very carefully with tax data, the marriage penalties and bonuses were about of equal scale. And it wasn't exactly just secondary earner phenomenon in the sense that if you have a person who makes $200,000 a year, then if they marry a person who makes $20,000, then they'll still have a bonus. So it's the variances in their incomes. So the closer the husband and wife are to having the same income, the more likely they are to have a bonus.

MR. HUTCHINS: Regardless of where it is in the scale of income.

MS. TURNER: And this matters because we've seen increasing labor force participation of spouses, mostly wives, so we have more married couple households with two earners, and we've seen a convergence in earnings. So in married couple households with two earners the spouses are more likely -- especially in this range of income that we're focused on -- the spouses are more likely to bring home equal earnings.

MR. HASSETT: And that, by the way, assuming that I can trust the DC Website because, again, working out the Medicaid rules is so complicated because they vary from state to state. But this is going to be one of the next things that is a very important thing to analyze about the Affordable Care

Act because if you type in "I'm a single person making $15,000 or $20,000 a year," then it says well, you qualify for Medicaid. But if you're a married couple making $40,000 a year, then you don't. And so it looks to me like -- and actually, Peter, I know that you were kind of somewhat involved in this. It looks like there's a big increase in marriage penalties in the Affordable Care Act that hasn't received much mention to me.

MR. HUTCHINS: Well, let's talk about the interaction between --

MR. HASSETT: It could be related to this.

MR. ORSZAG: Well, that issue actually preexists because the Medicaid rules --

MR. HASSETT: I thought you got rid of preexisting conditions?

MR. ORSZAG: Yeah, yeah. But I think it is correct to say -- I come back to that general observation. You cannot create a new benefit program that is where the subsidies are concentrated at the lower to moderate income part of the income distribution without creating a phase-out --

MR. HASSETT: Right.

MR. ORSZAG: -- and higher marginal --

MR. HASSETT: So the ACA is the same thing.

MR. ORSZAG: It's the same thing.

MR. HUTCHINS: Right, but the benefit is large for people in this income bracket, right?

MR. HASSETT: Which when you phase it out it comes at a large loss, right?

MR. ORSZAG: Exactly.

MS. KEARNEY: But you can mitigate it if you focus on individuals as individuals as opposed to a married unit.

MR. ORSZAG: Yes, you can mitigate it. The problem then is -- this comes back to -- and by the way, other countries do do the individual taxation where spouses can file separately. The problem with that typically is that that opens up other issues. The reason we haven't done that is it opens up other game playing like is that income mine or yours and how am I going to shift you. I'll pay you to do this or that, et cetera, et cetera.

MR. HASSETT: So this is a separate --

MS. ORSZAG: There's no perfect solution here.

MR. HASSETT: No, the perfect solution is not to have a progressive tax code.

MR. HUTCHINS: I'm going to throw this over to you, Kevin, and there are two questions going on here. The first is the ACA interaction. The second is why don't we go to a more individually based tax code? What are the ramifications of doing that, which is one of the implications in your proposal? Kevin, what do you think about these two?

MR. HASSETT: Yeah, it's actually a really fun, but maybe excessively nerdy conversation to have.

MR. HUTCHINS: Go ahead, it's the Hamilton Project.

MR. HASSETT: The question is that when we think about social welfare and we have our disputes about how progressive the tax code should be, then we have to decide well, are we talking about family units, are we talking about individuals. I there are four people in the family, are there increasing or decreasing returns? If somebody adds an extra kid, then is it easier for them because they already have built up the infrastructure to support children? Or is it harder because now you have three kids and so the parents are outnumbered? And so it's a very -- but it's really relevant. Alan Auerbach and I had a paper on horizontal equity in the *American Economic Review* a while ago and we talked a lot about this issue. But basically in the end there's no right answer and that if we think about, so what is the unit, then it depends really on the way the technology of household production. And so if two people move in, then do they get a benefit because they can stay in the same room or do they need more than twice as much space because the stuff expands with a free rider problem of who cleans the house or something? So I think that we just don't know.

But it is true that the marriage margin is much cleaner if you have income split. So that is known. But whether one is better than the other, I think it's not.

MR. HUTCHINS: Peter, did you want to say something?

MR. ORSZAG: Nope.

MR. HUTCHINS: In each of these proposals, and let's take your revenue neutral proposal for a moment, there are winners and losers. So, Melissa, who are -- in the revenue neutral approach to this, who are the winners and losers and how do you think about that?

MS. KEARNEY: Yeah, I'm going to give that one to Lesley.

MR. HUTCHINS: Lesley?

MS. TURNER: So how does our revenue neutral proposal achieve revenue neutrality? So we're scaling back the spousal personal exemption. So I'm going to get nerdy here, too, to take your lead. So how do personal exemptions work? This is a reduction in your taxable income, so it reduces an individual’s or household’s tax liability if they have taxable income. If we look at single workers, if we look at single parents filing as head of household, they only benefit from their own personal exemption if they’re working. And with married couple households, however, the household can take this spousal exemption even if the spouse is not working. And so how our revenue neutral proposal works is that we’re essentially replacing the spousal exemption with a secondary earner deduction. And so in a fact we’re sort of retying this tax preference to work behavior.

So who will be the losers here? Households with -- married couple households with one working spouse will face a higher tax rate because they will not be able to reduce their taxable income by a portion of the spousal exemption. In our policy with the phase-out we will also have redistribution --

MR. HUTCHINS: Will they be worse off than they are before the proposal?

MS. TURNER: Uh, huh, yes they will. So the redistribution will come from --

MR. HUTCHINS: From them.

MS. TURNER: -- married couple households with a single earner. But our argument here is that sort of the intention of this personal exemption is to reduce your tax liability if you are working. And in married couple households, they're benefitting from this tax preference even if the spouse is not working. And so by sort of replacing the spousal exemption with a secondary earner deduction, we're retying this part of the tax code to work behavior.

MR. HUTCHINS: Peter, do you want to respond to that?

MR. ORSZAG: I was just going to say one way of summarizing that this is rough is we were talking before about marriage bonuses and penalties, this would reduce the marriage bonus to pay for a reduction in the marriage penalty, narrowing it, and I think that's a desirable thing.

MR. HUTCHINS: That's well said. So we have one more minute -- actually we're overtime, but I'm going to take one minute till we take audience questions. Kevin, if you had -- you raised the broader issue of how this gets at tax code incentives for work and what not. If you had some advice for Melissa as she's now embarking on this subject matter, broadly defined for the Hamilton Project in the future, what would you recommend as a research agenda, at the core of the issues you raised earlier?

MR. HASSETT: I think that we both, that our organizations need to focus effort on thinking about what the next round of welfare reform should look like and that it's significantly different than the last round because welfare has become kind of a many-tentacled beast that's both on the spending and tax side. And so it's a much thornier problem and worthy of a big research agenda, but I don't think that's something that you don't know.

MR. HUTCHINS: Great, thank you. Now we have 10 minutes, is that right, for questions from the audience? A Twitter question: "Do we want both parents to be working? Don't young children do better when they have a parent at home?"

MS. KEARNEY: It's a good question. In general I would say that the political movement has been to try to incentivize women to work. That's certainly been true of our welfare reform efforts, which tried to move towards single women working. I think it's fair to say that there's some evidence from the child development or child psychology literature suggesting that in the first year of work, it's beneficial to have mothers at home. At sort of other ages --

MR. HUTCHINS: You mean "the first year of life?"

MS. KEARNEY: Sorry, first year of life --

MR. HUTCHINS: You said "the first year of work."

MS. KEARNEY: Yeah, oh yeah, first year of life.

MR. HUTCHINS: Life is such a struggle.

MS. KEARNEY: In general I think my reading of that literature is that the positive income effects that come from low income women bringing additional income into their household is quite beneficial for the children.

MR. HUTCHINS: It's an important offsetting benefit.

MS. KEARNEY: There's an important offsetting benefit that's been shown in a lot of this.

MR. HASSETT: I would say, too, that in the Hassett household, my wife practiced law for many years. But then when our youngest was born, she started practicing martial law and she's now imposing curfews, saying that -- but I think that that decision didn't have a big effect on the nutrition of the Hassett children.

But the population that we're looking at in this study is much different, and so you do see things like the access to things that everyone needs access to increases in this population, which is why it's an appropriate focus of this paper.

MR. ORSZAG: And can I also just say, look, one way of looking at this is obviously the right thing is going to vary from family to family. But for those families where the secondary earner would like to work for whatever reason and perhaps thinks it is beneficial to the kids, the whole point here is to just make sure there's a return to that.

MR. HUTCHINS: Yeah, that's a good point. They're not determining the choices.

MS. KEARNEY: Whether we want them to or not, they are, right? And as Lesley pointed out, the trend -- many of these households rely on the income from both spouses.

MR. HUTCHINS: Good point. Good question, good point. Question from the audience? Yes, ma'am, on the aisle here.

QUESTIONER: I think if I understand your point, there is a portion of America's lower middle class families. So I just wonder if you have addressed or have you looked into the problem or listened to those people who are really low or lower middle class families who are not heard and you can see no one depend on it is from Occupy Wall Street or Home Defenders League or some sort of customer protection.

MR. HUTCHINS: Great, good question. So we have this report, which I highlighted earlier, but do you want to address that question, Lesley?

MS. KEARNEY: Well, there's -- that's not our area of expertise, but there are certainly very well written books and accounts that I think all of us have learned from about the struggles of working lower class families. And I think the numbers sort of give us something to work with and quantify their experiences.

MR. HUTCHINS: So I've got a Twitter question: "Rather than coming up with a new tax break, why not just make the EITC stronger?"

MS. TURNER: So this was something that we really sort of thought a lot about. Why not change the EITC schedule to give sort of larger benefits to married couple families with two earners, sort of getting them out of this phase-out region. And we kept coming back to the point that sort of this is going to create lots of additional cliffs or marginal tax rates, and it's going to increase complexity.

So if we were to propose a new EITC schedule for households with two earners, what would we count as being a sufficient amount of work activity? If the secondary worker worked one week, would we give that family a new schedule? Would we require six weeks of working or a certain amount of income? And we really sort of prefer our proposal in that. So for lower income families, it is working through the EITC. It's moving them back away from the phase-out.

But the benefits of our proposal are directly tied to the amount of income the secondary worker is bringing into the household. So we avoid sort of these policy cliffs where we have to define what is sort of a working secondary household member.

MR. HASSETT: In the spirit of the question, though, given all the work you've done, it might behoove the Hamilton Project to put up a little calculator so that people in the circumstance can figure this stuff out for themselves, right? Because like right now, you're going to lose some benefits, you're going to have to pay more taxes, and you're deciding whether to go to work. And you've done the math and I think it actually addresses this lady's question a little bit, too, that I think it would really be positive social product to help.

MS. TURNER: Well, talk about nerdy, if you really want to go play with these numbers, as of today you can go to the Taxum Website at the NBR. So the Taxum is a FORTRAN-based code, but there's an interface where you just put in the numbers and Dan Feinberg --

MR. HASSETT: It's FORTRAN 77.

MS. TURNER: So the way we think of it is create your own reform. You can play with the numbers. You can play with sort of where the phase-out falls, assumptions about the responsiveness of secondary earners. So you can see we haven't just cherry-picked our particular policy to look really good.

MR. HUTCHINS: Well, I think Kevin -- I took you saying something quite different, which was helping people who are actually making choices, give them something that they --

One more question from the audience. I'm going to get someone in the back here. The fellow on the aisle in the back there, and then I think we'll take one more Twitter question and be done.

QUESTIONER: Well, given that marriage is becoming less -- the trend is that there are more single parent families, and so you guys are developing a solution that is all about married couple families. So why did you do that?

MR. HUTCHINS: Well, if you look at the paper that -- this is the paper I showed here. If you look at this paper at this group, what they call the lower middle class is actually much higher marriage rates than your question would suggest, I think. But go ahead, answer the question.

MS. KEARNEY: So we absolutely agree, sort of -- we're not saying that single parents should not deserve their own set of supports and policies that help them get out of poverty. I think our proposal really we want to highlight what we're calling a secondary earner penalty and highlight the inequity in the tax code whereby secondary earners that are most likely to be women, wives, are highly penalized by the family-based nature of the tax code and propose a solution to this. In our revenue neutral proposal, sort of the redistribution is all occurring within married couple households. And so it's not to say that we don't think single parents are a really, really important group, but we do think this is an important issue and worth talking about.

MR. HUTCHINS: Gotcha. That question was actually very similar to the last Twitter question. So in closing, Melissa and Lesley, I want to congratulate the two of you on a really insightful, thoughtful, piece of work and very good responses to the questions. I think it's been a great panel. Thank you very much.

So you want to give us -- so, Lesley, is there something you'd like to close with as you think about this proposal?

MS. TURNER: No, we're happy to take additional questions and if there's anyone on the Hill here who wants to push this through, we're happy to help make that happen.

MR. HUTCHINS: So she'll pass her card out afterwards here. Thank you very much. Well done.

MR. ALTMAN: Good morning everyone. I'm Roger Altman. I think we're going to have quite a good and I might say hopefully important discussion now over food stamps or SNAP benefits as they're officially called, and it couldn't be more timely because as you'll hear a House Senate Conference Committee is shortly, we think, shortly going to take up the Farm Bill. The Farm Bill is where SNAP benefits are included, and there is quite a debate around the country and here particularly, of course, in Washington about the level of SNAP benefits, whether they should be cut, which is the current trend, or not, or alternatively whether they are actually, as Diane will argue, inadequate. So, we're going to start with a paper that Diane -- let me be sure I introduce properly the participants here so I don't fail to do that.

Diane Schanzenbach is associate professor in the School of Education and Social Policy at Northwestern. We're going to hear the beginning of a very, very good paper that Diane has prepared for this event, and we're grateful to you, Diane, for that. Joel Berg is executive director of the New York Coalition Against Hunger. I'm particularly interested in hearing Joel's observations. Jim Ziliak who is director for the Center for Poverty Research at the University of Kentucky, and of course, the estimable Bob Greenstein who is the head and founder of the

Center on Budget and Policy Priorities, without which I sometimes wonder where we would be. So, Diane, the floor is yours.

MS. SCHANZENBACH: Thank you. So, my proposal is about ways to strengthen the food stamp program, SNAP, in order to fight food insecurity. Many of you are aware of how important the food stamp program is today. About one out of every eight Americans is on the food stamp program, and as they talked about in the first panel here, we've really moved to a safety net that's based on work. And of course, to the extent that we have deep recessions and work is not available, that means there are these deep holes in the safety net, and the food stamp program is one of the fundamental safety net programs that fills those wholes especially when there's not work to be had when we have great recessions.

So, as background I want to make sure that everyone in the rooms understands that food insecurity is on the rise. So, before the great recession food insecurity was about 11 percent, and today during the great recession it's closer to 15 percent. Those of you who don't know how food insecurity is measured, it's a battery of questions that tries to get at the notion of whether Americans have enough access to food to live a healthy and active lifestyle.

There is some misunderstanding about what is driving the increase in food insecurity because of the way the questions are asked, so the battery starts off by asking are you nervous about not having enough money? Are you concerned that you're going to run out of money to purchase food this month, and we've seen a large spike in the percentage of families who've answered yes to that question. But then it goes on and on and asks more specific questions such as did you have to skip a meal today or this week or this month because you were worried about running out of money for food, or did you go for a day without eating, or did a child in your family skip a meal or go for a day without eating.

And what we've seen is across every single one of these component parts to the food insecurity measure, a sharp increase during the great recession, so it's not just that people are concerned about their economic stability, it's that Americans and American children are skipping more meals and we don't like that. And I know that this sharp increase in the rate of food insecurity has happened despite the fact that there was this temporary stimulus bump in the level of the food stamp program that bumped it by about 15 percent.

So, in order to think about ways to strengthen the food stamp program, we have to dive in a little bit to think about the benefits formula, and I know I don't need to apologize to this room for having to be a little bit wonky right now. But to start off, there's sort of two pieces that we can think about that goes into the food stamp program. The first piece is we have a target-spending level, a target-spending floor. And we think in society this is the minimally adequate amount of money that you need to have available to you to purchase food. This was originally designed about 50 years ago when the food stamp program was first introduced, and it's been essentially just increased by inflation ever since, and so we'll talk about why I think that maybe we could do a little bit better than that.

The second piece, after we have this food-spending floor, is the amount of income that you're deemed by the program to have available to purchase food. And so that's a function of your total earnings and any income that you get from other sources like Social Security and so on, and you get to subtract necessities like child care, or there's a standard deduction, medical expenses if you're elderly and so on.

So, with these two pieces, the floor-target spending and the amount of resources that you have available, we take the difference between those two and the difference is awarded to a family in terms of SNAP benefits.

So, by design most families who are on SNAP combine both their own cash resources and food stamps benefits in order to provide enough food for their family, and that's again by design. This was a well-designed program. It's been in existence in the state that it's in, more or less, for the last 50 years.

Furthermore, if you have no income available, if that second piece here is equal to zero, then you receive the maximum food stamp benefit amount. That's about $200 per month for a single individual, and so if that's your only source of income, that props you up to about 20 percent of the poverty line in terms of consumption, so this is not a particularly generous program. It's about 20 percent of the poverty line is what you should be thinking of.

So, in order to think about ways to strengthen this program, I have some proposals to tweak this formula which I think is fundamentally sound but could use an update. The first piece is to think about the adequate food-spending floor. Like I mentioned, it was originally calculated in the 1950s, and has been adjusted for inflation ever since.

As we think about how families feed themselves have changed over those last 50 years, we can think that one of the main differences today is that many more moms are at work. And so, if we think about how you actually get dinner on your table, it’s some combination of the foods that you purchase at the grocery store plus the elbow grease and the cooking time and the preparation that the cook, the chef, does in order to produce dinner. Over time as mom has less time to prepare food herself, we’ve seen across lots of parts of the distribution people shifting to purchase more prepared foods, intermediate prepared foods, things like shredded cheese or frozen dinners, things like that.

So, my first proposal is to prop up this adequate food-spending floor in recognition that today we sort of expect people to have a different mix of food plus time. We want people to spend more money on intermediate prepared goods. So, this will account for changes in food preparation patterns since the 1950s, and I propose approximately a 15 percent increase in this level of adequate food-spending floor.

The next set of proposals will modify the formula that determines how much income a family has available for food purchases, so I have a couple of sort of in the weeds ideas. One is to increase the earnings deduction. We just had a panel talking about how high marginal tax rates are on two-income families, to low-income families, and I would like to see us reduce that marginal tax rate for workers.

Another proposal is that we should probably do a better job of accounting for regional differences in shelter cost and we can get into more of the weeds of that if you're interested.

I have two additional proposals to think about how to strengthen the SNAP program. The first comes directly from a really terrific randomized, controlled experiment that the Department of Agriculture just completed running called the Healthy Incentives Pilot. In that, food stamps recipients were given incentives to purchase a narrowly targeted group of fruits and vegetables. The idea behind this that we want Americans to consume more fruits and vegetables; more healthy foods. The way that this was implemented was there's a 30-cent rebate for every dollar that was spent on fruits and vegetables. The results of this Healthy Incentives Pilot program found several things. First that it was feasible to implement at the point of sale, and second, that it increased the consumption of targeted foods by 25 percent, which is terrific.

The second sort of final proposal that I have to strengthen SNAP is thinking a little bit about these time limits on non-disabled, non-elderly, childless adults. They're sometimes called ABAWDs in this debate. Currently they're time limited to receiving benefits for 3 months out of every 36 months unless we're in times of recession or inadequate job availability. Under current law, local areas or states can apply for temporary relaxations of those time limits if there are not adequate jobs available.

There's some discussion in Washington right now about whether should get rid of that flexibility in this program and take it away. I argue that it's very important that we keep that piece because the food stamp program has become such an important piece of the safety net during recessions when jobs are not available, it seems important that we should be able to respond by sort of letting the rules be a little more flexible during that time. And furthermore, I propose a change in the eligibility time limit even in good times to 6 out of every 12 months.

So, in conclusion, I want to propose that we improve the effectiveness of this key security program by providing incentives to purchase healthy foods, by some updates to the benefit formula, and finally by maintaining flexibilities to respond to needs during recessions when jobs are inadequate. Looking forward to the conversation. (Applause)

MR. ALTMAN: Thank you. Thank you, Diane. One of the things I'm going to try to do as moderator -- I hope I don't flop -- is to try to put this entire debate into a healthy and a broader perspective. So, I'm going to start first with Jim, then I'm going to turn to Bob, then I'm going to turn to Joel. And I'm going to ask Jim, if he would, to stretch out the historical lens a little bit in the following sense because this debate about food stamps is part of an even larger debate about poverty and among other things, the lack of the robust policy debate we used to have in this country about poverty.

So, Jim, if you would give some historical perspective about poverty rates and near-poverty rates. Diane's paper, for example, goes back 15 years in terms of your (inaudible). Let's go back further than that. We had the war on poverty, for example, in the '60s, and also to the extent you can, or any other panelist wants to, let's have some broader perspective on food insecurity. How recent is this phenomenon, or actually is it not recent at all? And I don't think -- I don't mean this as a criticism, please -- but I don't think the 15-year perspective is broad enough. So, maybe we could start with that, and Bob, I'm going to ask you to talk about the current Congressional and legislative landscape in light of its history, and then, Joel, I have some questions for you about whether the benefit levels are fundamentally just inadequate. So, Jim, if you will start?

MR. ZILIAK: Sure. So, go back to 1960, poverty overall in the U.S. was around 22 percent, and it fell rapidly almost in half in the next decade through the beginning of the war on poverty. And then it's gone up and down since then, and today at 15 percent we're roughly where we were two decades ago.

An important thing to keep in mind is that child poverty rates though are roughly what they were back in 1970 today, and so in many respects amongst the most vulnerable in our population, we haven't made nearly as much progress in terms of fighting poverty in the long run.

If you look at food insecurity, now part of the reason in defense of Diane's graph, is that the USDA didn't adopt this new formal measure of food insecurity until about 15 years or so ago, and so it is a relatively recent measure.

However, what we do know is that there were real problems of malnutrition in the United States.

When President Kennedy was running for office back in 1960, he was startled in his tour of West Virginia at the level of abject poverty and malnutrition, so he began an aggressive campaign to attempt to ameliorate that, and so we created the food stamp program or started the siege.

Of course, President Johnson saw the food stamp program passage in 1964, and we saw within a decade after that this chronic malnutrition in some of the more vulnerable populations was gone. And so we do have evidence that the food stamp program is really effective at more or less eliminating the former malnutrition that this country faced at the start of the 1960s.

One thing I think it's important to keep in mind, in our official measure of poverty we don't include the benefit to families included in the food stamps. We don't include the earned income credit. We don't include the value of Medicaid.

So, the Census Bureau in conjunction with the Bureau of Labor Statistics has been producing an experimental measure for the last several years based on a National Academy proposal about two decades ago to change the way we measure poverty, and when you incorporate these things like food stamps and Medicaid, the ITC, you see that the war on poverty has had a positive effect through these additional programs above and beyond what you see in our official measures.

MR. ALTMAN: So, based on that experimental index which incorporates these additional benefits --

MR. ZILIAK: Right.

MR. ALTMAN: Let's call them adjusted poverty levels today.

MR. ZILIAK: Right.

MR. ALTMAN: Look how in the same historical perspective?

MR. ZILIAK: It doesn't go all the way back to the 1960s, so we can't go all the way the back. But if you go back a decade or so and you look at these experimental measures, you see that child poverty rates are lower with this revised measure than they are in the official measure, but child poverty is still the highest among demographic groups, so it's still higher than seniors. It's still higher than adults, but you do see some progress made with these adjusted measures.

There is, though, a worrisome kind of subcomponent and that's kind of deep poverty; those living below half the line have actually increased over the last decade or so, and so we do have -- there is a distribution of poor families and those at the very bottom are still struggling. The SNAP program has been a lifeline. Today roughly 40 percent --

MR. ALTMAN: Jim, let me ask you this. Thinking particularly of this better measure of poverty that you're talking about, the experimental measures, one of the things that I'm going to say bothers me about the current debate on food stamps but even more broadly about poverty is one says 15 percent of Americans live in poverty, 20 percent of children, and that's on the unadjusted basis.

MR. ZILIAK: Right.

MR. ALTMAN: And you'll hear this often from the conservative circles. You hear, well, that's too high. But Americans actually always have problems of this type. This is nothing new, and actually levels are not as bad as they used to be in this country, so if you think the kind of situation is really acute, we can debate that, but it's nothing new in the United States.

MR. ZILIAK: Right.

MR. ALTMAN: What's your reaction to that?

MR. ZILIAK: I think, actually, so when you go to these new adjusted measures, overall poverty rate actually is higher than that 15 percent for the population as a whole. So, the child rate comes down a little bit, but the overall rate actually goes up a little bit. And again, if we want to get wonky, we can go into the details of that later on.

But I think that the issue is that earnings and incomes at the lower end of the distribution have not improved sufficiently enough whether you draw the line using the old-fashioned measure or the newfashioned. The point is that at least 15 percent of Americans as a whole are struggling with very low incomes, and programs like SNAP are kind of a crucial part of the safety net for those families.

MR. ALTMAN: Bob, if I could turn to you. Put the current legislative and budget debate over SNAP, if you would for us, in perspective. We know that a Conference Committee will shortly take up the differences between the very severe cuts in SNAP that the House Farm Bill passed. It seems to me the Senate bill which also cuts I think $4 billion over 10 years, and you and I were talking about this out front, so you know what I mean by perspective. Just put this, if you would, in historical perspective with us, and also let us understand the step-downs, the stimulus increment which just expired a month ago relative to these proposed cuts coming up.

MR. GREENSTEIN: Sure. Could I first just take a minute and follow up on --

MR. ALTMAN: Please, of course.

MR. GREENSTEIN: -- the poverty discussion. So, if you use one of the key alternative measures of poverty, what it shows for the most recent year is that if you look at the poverty rate not counting any government benefits, it's about 29 percent. And if you look at accounting government benefits including things like food stamps and the earned income tax, it's about 16 percent. In other words, the safety net sees to cut poverty almost in half. Secondly, when you look at these measures and if you look at severe or deep poverty, that is people below half of the poverty line, food stamps itself cuts the number of families with children below half the poverty line in half.

Finally, we have a new piece of research we've done that's coming out soon and I should remember -- it's, I think, the Harvard Education Review or something like that -- where we did go back to the '60s. Jim is right. There's no single measure, but we did a series of statistical adjustments using a variety of sources. It's far from perfect, but it does show that if you try to do as close as the data allow us to do with an apples to apples comparison that there has been a significant reduction in poverty since the 60s when you count things like food stamps. It's still much too high, but there has been a reduction. In terms of the current context --

MR. ALTMAN: All right, if I could just interject, Bob, nobody knows how to participate in the public debate on these issues better than you, so I offer this observation humbly, but I don't think that point you just made is very widely understood. One doesn't see that a lot in the press.

MR. GREENSTEIN: No, we're getting ready to do some (inaudible). (Laughter) January is the 50th anniversary of LBJ's declaration of the war on poverty, and I'm fully prepared to hear highly misleading figures that we fought a war on poverty and poverty won because the poverty rate is no lower now than it was then. Apart from the fact that there's been an increase in the quality and erosion of wages at the bottom of the wage scale, the fact of the matter is that people who say the poverty rate is same now as it was then use the official poverty measure. And under the official poverty measure we count cash income like welfare which has plummeted, and we don't count things like food stamps, the earned-income credit, Section 8 housing vouchers, all the things that have expanded by and large aren't counted, and the things that have contracted are counted. So, you really get an invalid comparison. And then there's -- this is particularly why we've undertaken this research in the anticipation of the debate that's coming.

But back to the question of the context for SNAP. So, if you had been working on policy issues relating to SNAP since 1972 and if you go over the period, as a general rule when the costs and the participation in this program mount substantially, the calls and the push on Capitol Hill to cut it escalate in a major way. We've had a very large increase in case load and costs over the last number of years, and you hear rhetoric that the program is a significant part of the nation's long-term fiscal problem and its costs are rising out of control. Not accurate.

The overwhelming bulk of the increase in cost and caseload is due to two factors. Number one, the economy, which has made lots more people eligible, and number two, the temporary increase in benefits, which was substantial which just ended November 1st, and some temporary relaxation in one eligibility criteria and due to the economy which is phasing out.

And the proof of what I'm saying is that when you look at the Congressional Budget Office baseline for the next 10 years it shows you that by the latter part of the decade total SNAP costs come all the way down as a share of GDP to their level of the mid-90s. But historically the program faces big pressure for cuts until such time as the caseloads actually do drop and the costs start to come back down.

What we're seeing right now is we have a Senate bill. It has, as Roger said, $4 billion in benefit reductions over 10 years. Now, on the one hand or on the other hand. On the one hand, the $4 billion comes entirely from closing what is clearly an unintended loophole in the benefit structure that about 15 states are using that no one can really defend. But on the other hand, the people in those 15 states -- it's a portion, not all of it (inaudible) -- will indeed experience a benefit reduction. The preference would be to do what Diane does in her paper. She closes the loophole. She reinvests the money and, for example, making the overall benefit be more adequate.

The House bill is a horse of a whole different color. It's $39.5, I think, billion in cuts over 10 years including some extremely Draconian provisions. CBO estimates, I think, it would throw 3.8 million people off the program next year, and half of the savings come from a single provision that would basically say that people age 18 to 50 who can't find a job aren't working at least half-time in high unemployment areas are thrown off the program after 90 days. You can look for a job and not be able to find one. It doesn't matter. You're thrown off. The data show that the population who'd be thrown off have average income of 22 percent of the poverty lines, so if your goal is to increase severe destitution and homelessness, this is the provision for you. I think this provision is going to disappear in Congress.

Now, the other key element in the current context is that the temporary increase in benefits enacted in the Recovery Act ended on November 1st. The idea here was a temporary increase in benefits. It was -- let's be clear -- it was promoted, not as food stamps need more benefits. It was promoted, I think very accurately economically, that this was one of the best stimulus bangs for the buck you could do. CBO, Moody's, those who rated stimulus options rated this at the top because the money's almost all initially spent, and the design was we raise the benefit level, and you would suspend the annual cost of living adjustment in food stamps until the regular benefit level with its adjustments until the lines cross, so there would be no (inaudible).

That changed for a couple of reasons. It was originally anticipated that the lines would cross around 2013, 2014, but food price inflation was so much lower than anticipated that it was then projected that it wouldn't phase out until 2018. And at this point, 2010, most people thought that the economy would have fully recovered by 2012, 2013.

Meanwhile though, the economy was weak in 2012, and there was a second smaller stimulus bill to help states from firing as many teachers and to avoid cuts in Medicaid, and they couldn't get 60 votes in the Senate. Republicans opposed it. Based on the offsets, they only put it together when every other offset failed. They said all right. They originally thought in terms of the extra food stamps and temporary increase to end around 2013, 2014. We'll go ahead and do that. That created a clip and the clip occurred on November 1st.

Now, the clip is having both political and substantive impacts. Probably everybody in the room has seen multiple stories about hardship being experienced around the country, people running out of food at the end of the month. The cutoff exposed what Diane's paper discusses, which is many of us have long thought that the underlying benefit level wasn't inadequate. But politically the big attention to this has focused that the cuts are on the Hill, particularly in the much more severe House bill will be on top of the $4 billion figure, the $40 billion, the 39.5 billion figure. They don't count. They're in addition to the benefit reduction that occurred November 1st. Now, this is how they really are. A large impact on the debate. It has really, I think, stiffened the spine of the Senate, which wants to hold to its level. Frankly, it has weakened the House, and there's probably only a 50/50 chance that there will be an actual Farm Bill settlement in the next few weeks. I'm a little above 50/50. But if there is, I think the odds are that the level of cuts will be higher than in the Senate bill, but in the single digits, not in the double. It's much closer to the Senate bill than the House bill, and in part because of the big focus on what's already happening as a result of the November 1st benefit drop which is a benefit drop of $36 a month for every family of four on the program in the country.

MR. ALTMAN: Bob, what happens in the event of no agreement?

MR. GREENSTEIN: In the event of no agreement, the food stamps program for the time being continues under its current rules, but as someone who's worked on this for over 40 years, I am not anxious to have to revisit this in the next Congress, which may be less favorable to programs like food stamps than the current Congress, particularly if control of the Senate changes hands.

MR. ALTMAN: Joel, if I can turn to you, and thanks for being patient and waiting. I want to ask you about this issue of the adequacy of the benefits themselves, and also want to get into this a little bit, this question of deep poverty.

I saw a statistic the other day in the *New Yorker* that the lowest 20 percent of citizens in New York City, so that would be about a million, 1.6 million people, had an average annual income of $8,990 which I thought on one hand I should have known that, something like that. On the other hand, I mean, in terms of how low it really was and on the other hand that’s a shocking figure to me.

And then I also am aware just because of some programs I’m personally involved in New York City that at least anecdotal evidence of food insecurity is rising. Food insecurity is rising. I mean, most food banks and pantries and so forth, feeding programs, are serving more people and have been increasingly so in recent months, so just address this whole thing. And then we’ll go and vis-a-vis this panel and talk about the adequacy of the benefits and also the participation rate.

MR. BERG: Yes. Thanks, Roger, and thanks so much to Hamilton Project, and before I answer your question I just want to respond to the previous panel and say how important it is to keep talking about the connections between lower middle-class families and families in poverty. Those statistics that were cited about the behavioral patterns of lower middle-class families that they're more likely to have higher educational levels, more likely to be married, more likely to be employed, and yet they're still struggling economically may conclude that so-called virtuous behavior doesn't particularly make you non-struggling, and I hope people understand the converse of that, that what this broader society considers non-virtuous behavior isn't the main cause of poverty in America. The main cause of poverty in America is the lack of living-wage jobs and adequate safety net.

So, before I give a vigorous defense of the SNAP program, I just want to go on the record and say I believe that the Hamilton Project's main cause of ensuring that there's a broad-based economic growth that helps everyone is the top way to reduce poverty and hunger in America.

That being said, I will talk about what low-income people in New York are facing because there is not broad-based economic growth. There's never been a time I think in modern history, at least since the Gilded Age where the growth at the top so is non-reflected in everyone else's income.

And so we just ran the food insecurity numbers for New York. We ran the USDA numbers over a three-year period, showed extensive growth in poverty and hunger and food insecurity over the last decade. There are now between 1.3 and 1.4 million people in New York City living in food insecurity households; about half a million children. One in five New York City children live in homes that can't afford enough.

Just the other day I met woman who after November 1st lost $45 in SNAP benefits. The numbers Bob was talking about were average numbers, and average for the country. I met a woman who lost $45 in benefits. She's putting herself through college.

She has two kids, and I know Washington describes her as getting some sort of benefit of a loophole and had to go away. I don’t see it that way.

There are people, including Senator Gillibrand -- I see some of her staff in the audience who did oppose moving that benefit away on November 1st. That took $200 million out of New York City alone. In contrast, the city budget of New York, the mayor has about $10 to $15 million to spend on pantries and kitchens, so the fact that the federal government just took away $200 million, and people need to understand that’s on top of the sequestration cuts that are slamming low-income people disproportionally. It’s hurting the women, infants, and children program, the (inaudible) emergency food and shelter program, the main source of operating cash for pantries and kitchens and homelessness prevention programs. It’s 50 percent less than it was at the height of the stimulus bill, so these are real people and I just wish the city would own up to what it’s doing.

I saw a quote and let me quote directly from the senior staffer of the House Agriculture Committee, "They are not kicked off. They no longer qualify." I may suggest that is Orwellian doublespeak at its very worst. There were people who under the law were getting benefits before. Now there are people getting less benefits, and if their proposal is going to affect -- and one other thing I'll just close with is the hypocrisy of the Republican attempts to restrict flexibility for governors.

We talked in the previous panel about how important it is that we don't panelize people for working harder. What the proposal in the House would do is take away flexibility from governors to increase the asset limit, to basically reward work and reward savings, and how fundamentally hypocritical it is that the centerpiece of the Ryan budget was saying we have to block grant food stamps because we must give more flexibility to governors because only they know what's going on. And then the two major proposals to cut this SNAP program are restricting flexibility to governors by taking away the Heat or Eat flexibility and taking away the flexibility to give higher asset limits to reward work and to reward savings.

MR. ALTMAN: Thank you, Joel. Diane, I want to ask you a question about the participation rate. I have the impression and perhaps I'm wrong, but I have the impression based on some conversations we've had about this panel before today that the percentage of eligible Americans, eligible for SNAP benefits, who actually participate in SNAP benefits is surprisingly low. Give us some context on that. What is the number?

MS. SCHANZENBACH: It's 80 percent.

MR. GREENSTEIN: Yes, I actually think it would -- it's the highest it's ever been that we have data for.

MR. ALTMAN: And what is it?

MS. SCHANZENBACH: It's about 80 percent.

MR. ALTMAN: About 80 percent. Okay.

MR. BERG: But it varies dramatically by location.

MS. SCHANZENBACH: Across --

MR. BERG: In California it could be as low as 60 percent.

MR. GREENSTEIN: California is sort -- and much lower among elderly and much higher among families with children.

MR. BERG: Yeah.

MR. ZILIAK: Okay, so in areas where it's not as high as 80 percent, what explains that?

MS. SCHANZENBACH: There's variability across states and it's just how onerous they make the process of signing up, so I think California's a state where you have to give a thumbprint. Is that right?

MR. BERG: They eliminate that --

MR. ALTMAN: They eliminated it recently.

MR. BERG: In Arizona you have to do that today.

MR. ALTMAN: California, you had to do it until recently.

MS. SCHANZENBACH: Right. So, states have some flexibility in just how burdensome they make their requirements to sign up. But the rest of the program is strikingly at the national level, and there's not a ton of variation except for on this sort of aspect of how easy do they get you to sign up.

MR. BERG: But just in perspective that means at least 10 million people live in households with low enough income to be able to receive this benefit aren't getting it. If you compare it to Social Security, I've never seen a single statistic on a percentage point of people who were eligible for senior citizen retirement benefits not getting it, and it's because we've created this ideology that somehow food stamps are welfare even though the Bush administration said they're not, that you didn't earn it, you didn't deserve it, therefore you shouldn't be getting it when in fact, as everyone knows many people take more out of Social Security than they've paid in but we've created this false ideology that somehow food stamps is "the other" because it's poor people.

MR. GREENSTEIN: Now, we also know that the participation rate is lower among people who are eligible for smaller benefits in (inaudible) part of the income spectrum, and Jim's work shows that increasing the benefit level, the temporary increase under the Recovery Act likely increased the participation rate because the trade-off between the transaction costs, you might have to spend four or five hours going two or three times, returning the documents to the food stamp office to make it through the process. The trade-off includes when the benefit level is higher. Well, actually, I think that Diane's proposal for a permanent increasing the benefit level based on Jim's research would like result also in an increase in the participation rate.

MR. ZILIAK: Can I comment on that? I think it's actually a good segue to link Diane's proposal with Leslie's and Alissa's in the sense that Diana's is proposing not only to adjust the maximum benefit but also to in effect provide a tax cut for workers by allowing you to subtract away or deduct a larger fraction of your earnings because as they showed in Leslie and Melissa and their paper, a lot of these secondary-earner families get penalized by having their SNAP reduced and so one way to increase the level of that SNAP benefit for those types of families is to provide this extra-earnings deduction. And I think it's particularly important now that today we have a larger fraction of participants on the SNAP program who are combining work with SNAP. And right now it's about 30 percent of total SNAP households have earnings in it, which is the highest we have, and it's important to keep in mind --

MR. ALTMAN: The highest ever?

MR. ZILIAK: The highest ever, and it's important to keep in mind that SNAP touches the whole distribution; seniors who aren't expected to work, children who aren't expected to work, and yet the numbers are being pushed up; that more and more families are combining work with SNAP.

MR. ALTMAN: So, that gets into the next question I was going to ask which is about the intersection between work issues and SNAP. And of course, one of the arguments against SNAP, and I assume Bob, you correct me, one of the main arguments that the House has made in its bill is that SNAP benefits are too high and they're in effect a disincentive to work. And so, number one, is there any actual evidence that that's the case?

MR. ZILIAK: Very limited evidence. Diane's actually done a little bit of work on some disincentives. There was work done about 20 years ago by Robert Moffitt and Thomas Fraker on this. The work disincentive effects of food stamps program are small, very small.

MS. SCHANZENBACH: I would interject that most of the academic research on the work disincentive effects of SNAP were done prior to the work-based safety net that we've encountered now. So, I think that many of us don't think that we could just simply take those numbers from the '90s and the '70s and project them to do that.

MR. ZILIAK: That's right.

MS. SCHANZENBACH: So, I think we just don't know.

MR. ZILIAK: Part of the current proposal is directed at the so-called ABAWD, the able-bodied adult without dependent, and changing the state flexibility to apply for waivers to allow these individuals to receive benefits if the local economy is weak. And there we know very little. There's very little research on that particular population in general, but I think most people think that the current ABAWD provision under normal rules, which is that these individuals, if they work less than 20 hours a week, can't get benefits more than three months out of any three-year period. It's just ridiculous in the current macro-economy where we have a rise in part-time work. We have stagnant wages. That these individuals just need assistance on a more regular basis to make work more actually attractive.

MR. ALTMAN: Well, let's talk about one other aspect of this, and Diane, you just touched on it so I'll ask you, but anyone, please, join in. And this gets into an even broader debate than poverty which is income inequality. In your view, why hasn't there been -- if my premise is right, why has there been such an increase in the percentage of Americans who are participants in the safety net, in particular food stamps, who are working Americans?

MS. SCHANZENBACH: I think that's a response to the incentives that we've set up under this. You know, the new post-welfare reform era that really sort of ties benefit receipt to work, and of course as backdrop we've seen women's labor force participation rates up on their own, and so that sort of changed societal norms on top of that.

But I think the one-two punch of -- so really shifting from welfare to the earned income tax credit plus these broader society trends is why we're seeing this increase. But that makes, I think, the food stamp program all the more inadequate for families like that because as I talked about in my proposal, the fact that these benefit levels were essentially set in the 1950s when mom was at home and what you could buy at the grocery store looks a lot different than what it looks like today just means that we're underproviding benefits especially for families that are very time constrained and have to rely on a combination of elbow grease but also purchasing prepared goods.

MR. BERG: And with all due respect from our colleague from American Enterprise Institute who kept repeating the phrase "welfare" over and over and over again, the welfare safety net, by most common definitions of welfare is far smaller than it's been in modern American history. President Clinton did eliminate welfare as we know it. Out of poor people, poor people in America, less than 10 percent are getting cash assistance which most people refer to as welfare. Only eight percent of the people on the SNAP program are getting cash assistance. And understand this November 1st cut took benefits from $1.50 a meal to $1.40 a meal. This idea that people are somehow getting rich on this, and now we're going to call the EITC welfare or somehow Medicaid welfare, it really is preposterous, and the circular nature of their arguments, as you outlined, well, these programs dramatically reduce poverty, therefore we don't need them. It makes no sense. You never hear someone saying well, we put more cops on the street. It dramatically reduced crime. That obviously means police officers aren't needed. That's the logic they apply to poverty. It makes no sense.

MR. GREENSTEIN: I think it's important to understand that this substantial drop which I want to come back to in a second, this substantial drop in cash welfare receipts is not fully matched by the increase in earnings. What we also see is an increased number, both of individuals without children and families with children who have neither earnings nor cash assistance. In the case of the people aged 18 to 50 not raising minor children are who the House bill targets.

The history here is very interesting. They, like everybody else prior to 1996, they were eligible if they met the income and asset tests, they were eligible for food stamps. And the rules enforced in varying degrees in varying states were states could require you to search for a job. You didn't do it, you were out. Take a job if offered. You didn't do it, you were out. Not-voluntarily quit a job.

What happened in '96 is when the welfare bill had been negotiated by House and Senate Republicans, and it was passing for the final time in June of 1996, unbeknownst to the committee chairs and negotiators, two Republican Congressmen got up on the House floor and offered an amendment. No one, including the Republican leaders, knew it was coming. This was the food stamp amendment that said for people age 18 to 50 not raising minor children, they will only be able to get the stamps for three months out of every three years unless they're working at least 20 hours a week or on a work program (inaudible). I have here -- I like to carry this around before there was any food stamps. I have here the transcript of the (inaudible). When other members raised concern that this could be Draconian, the two Republicans who offered the amendment said "anyone who can't find a job on their own will get a work fair slot, and in addition to that we'll allow states to get waivers from the three-month cut off for areas with high unemployment or insufficient jobs.

The first claim was false. I believe the two members thought it was true. I don't believe they lied. They were not on the Ag Committee. They really thought that every state had a food stamp work fair program with lots of slots. There are only about five states in the country that offer a work slot to every one of these people, so it's not a work requirement. It's just a cut-off after three months. If you look but you can't find a job, you're out.

But the other thing that they said, their other justification turned out to be true. There was indeed a provision that said that you could get waivers for areas of high unemployment or insufficient jobs. That's what the House bill (inaudible), no more waivers, without any job slots. So, it's described by its proponents as a work requirement but to me a work requirement means you look for a job, you take one if offered, and you don't quit one. Not we throw you off the program even if you're busting your ass and you can't find a job. So, that's why a lot of us think -- I know Joel does, this provision crosses the line. It's really on the other side of the (inaudible).

MR. BERG: And just one other point that that's an unfunded mandate on states, and even in the handful of states that claim they have work slots like New York, much of that is a Potemkin city of fake make-work, the kind of fake make-work that the right used to make fun off under CETA basically having people sit around in resume writing classes that will never ever need a resume.

MR. ZILIAK: I'd also like to -- I mean because Bob's highlighting the person who's, you know, busting to be able to find a job, but suppose you succeed? You find a job, but all you can get is 15 hours a week. You're still hit by this ABAWD waiver, so even though you're trying to get full-time work, you can't find it. You're working. You're pulling in some earnings, but still --

MR. ALTMAN: (inaudible) Diane when I asked you the question about why there's so many working Americans that are now participating in SNAP (inaudible) the safety net, and you said it's because of the incentives of make work. I thought one of the things you would say, so correct me if I'm just wrong, is that it's also because of the proliferation of very low-wage jobs and part-time work.

MS. SCHANZENBACH: For sure, I agree with that.

MR. BERG: And for all the talk education, education, education --

SPEAKER: Great (inaudible) success.

MR. BERG: -- is the answer, someone's going to clean this room tonight. In Northern Europe they're paid enough to feed their family, and I hope in this hotel they're paid enough to feed their family, but in most hotels in the United States they're not. That's not something intrinsic about the world economy or the laws of economics. It's what we choose to do as Americans.

MR. GREENSTEIN: We could even say, and I think this is accurate although I don't think policy makers consciously do it. What's happened over the past 20, 30 years in the country, wages have eroded which are currently the minimum wage, at the low end of the wage scale, but we've expanded the earned income credit, and we've made the food stamp program more accessible than it used to be to the working poor, and we really rely less on actual wages, and we fill a portion of it the gap on the EITC and food stamps side which is part of what makes it so troubling when proposals arise to cut them as (inaudible) food stamps.

MR. ALTMAN: It's time for audience participation. I hope we'll have a goodly amount of it, so the first question is a bad one. (Laughter) Some questions unacceptable. Well, this is a (inaudible) question, and by the way, when I -- I was joking but the first question was already asked in the context of our panel. And this arises in your paper, Diane, so let's surface it here. The question is rather than giving individuals what amounts to debit cards to buy food, why not distribute food directly; for example, healthy food directly to eligible recipients?

MS. SCHANZENBACH: It's just inefficient is my main answer. That's what we used to do prior to the food stamp program. It was costly. It was not reliable. It's very hard for the government to distribute commodities like that. What we're really good at as a society is stocking shelves at grocery stores and letting people participate in regular forms of commerce, and so I think that's why this has been such a successful program over the last 50 years. It uses this infrastructure that we already do extremely well.

MR. ALTMAN: Which, of course, is a private sector infrastructure.

MS. SCHANZENBACH: That's right.

MR. ALTMAN: Right.

MR. BERG: And I may say that the SNAP program now has less than 10 percent administrative overhead at the state and federal level combined. I've calculated that when you look at most of the charitable food distribution which much of America just assumes has to be more efficient than government, there's 20, 30, 40 percent administrative overhead.

Also implicit in that question is the line about getting healthy food, and there's a widespread assumption that low-income people on the food stamp program just shop poorly. The famous study that Mayor Bloomberg cites that six percent of SNAP benefits are spent on soda also shows 20 percent are spent on produce. I don't think the problem is their choices. I think they just don't have enough money to buy healthier food and mainly low-income neighborhoods, it just doesn't exist.

MR. ALTMAN: Well, those people that are dependent on soda, they're terrible. (Laughter)

MR. GREENSTEIN: If I could (inaudible), back in the '60s before there were food stamps or it was only in a small number of areas, the more typical program was called the commodity distribution program, and poor people could go and get foods. They were less healthy, not more healthy. The foods that were distributed were those that were in surplus, and food prices fell too much for your particular products so the government bought it up to prop up the price and gave it away, and the nutritional composition was pretty unbalanced.

It was a particular problem also for the rural poor who didn’t readily have transportation. We then moved the food stamps, but in the early years of the program, up until 1979, you had to buy your food stamps so maybe you paid $100 and you got $200 in stamps. This was a big barrier for the people who couldn’t come up with the $100, and again you had to travel some place often twice a month, but you couldn’t put all the cash together once a month. The 1977 Act implemented in ’79 eliminated the purchase requirement, so instead of paying $100 to get $200, you just got $100.

Overnight when that happened, food stamp articipation went up 5 to 6 million people, heavily in places like the Black rural south, and I think we really learned from that that the most efficient mechanism really is give people the -- we now do it through debit cards. Let them go into the local store and buy food. Don't go out and buy quantities of food and put it in some warehouse somewhere and tell people to go to the warehouse.

MR. BERG: It's a voucher. The right should love it.

MR. GREENSTEIN: Yeah.

SPEAKER: I think to underscore that -- well, and also --

MR. BERG: It's a voucher for food stamps. Food stamps are a voucher. The right should love it.

MR. ZILIAK: I think actually, on that efficiency side, even though the programs have historic size in terms of participation and spending, the USDA does calculate an error rate which is over issuance or under issuance of benefits across all the states --

SPEAKER: It's very low.

MR. ZILIAK: -- and it's very low and it at historic low, so the program's operating more efficiently even though it's scaled up so much.

MR. ALTMAN: I believe there's a question -- a couple questions back there. Yes, sir? The microphone coming up to you.

MR. CHECKOW: Thank you very much. Larry Checkow, and I think we just started to brush on the issue at the end of this conversation, and I would just like to quickly just bear with me one moment, point out an article in today's *Post*. "Taxpayers supplementing low bank pay," and it touches on both of the topics that we had today. It says these workers -- may hand's shaking here -- these workers collect 105 million in food stamps, 250 million through the earned income tax credit, and 534 million by the way of Medicare and the Children's Health Insurance Program.

I think we're squeezing the balloon at the wrong end. If we spent as much time squeezing corporations who are sitting on $2 trillion and getting them to pay their people livable wages, I think we'd be a lot better off. When the Waltons, who are worth $124 billion with a "B", are running food drives in Cleveland for their employees it's insane. It's insane. I respect what you folks are doing. I just wish we were spending more time at the other end of this equation. Thank you. (Applause)

MR. ALTMAN: Let me just use that observation to ask Bob Greenstein a very quick question which is about the minimum wage. Do you think that the minimum wage will be increased, the federal minimum wage?

MR. GREENSTEIN: In my lifetime, yes. (Laughter) Between now -- not, frankly, probably right now not as far as I can see because you can't get it through the House. In fact, I'm told Harry Reid will bring it up in the next week or two on the Senate floor. It will die quickly. It won't even get 60 votes.

The question is whether at some point political pressure -- because I would also guess, given redistricting, but it's unlikely, not impossible. Unlikely the House doesn't cease to be Republican until maybe 2022 at the earliest. That's the first election after the next set of redistricting following the 2020 Census. It's possible that political pressure builds to the point of some time that one can get 218 votes in the House to raise the minimum wage. I would expect it to be -- I mean, Harry Reid knows it isn't going to pass. This is all about elevating it to be an issue (inaudible) election.

MR. ALTMAN: How widely, Bob, do you think state-level increases in minimum wages will spread?

MR. GREENSTEIN: I think they will spread more as the federal minimum wage erodes more and more. If my thinking is right -- I hope it's not -- but if my prediction is right then obviously $7.25 in nominal terms is a gradual reduction over time in real purchasing power. That also will depend on who controls state government, so right now there are a larger number of state governments with solid Republican rule, both houses of the legislature and the governor's house than we've seen in a long time. If I remember correctly, in the 2010 election and it didn't change much in 2012. Following the 2010 election the percentage of state legislative seats that were Republican was the highest since 1928, so I think it also depends on who wins elections at the state level.

And also in relation to the question and what we're talking about here with food stamps, so if the minimum wage, although we can't pass it, if the proposal to raise it to $10.10 an hour were passed it would have -- I don't want to overstate the magnitude, but it would have some downward effect on food stamps policies.

MR. ALTMAN: Yes.

MR. GREENSTEIN: Some downward effect on Medicaid costs and the like. The trick here is you want to raise the minimum wage to a more adequate level. You don't want to peg it so high that it dooms a lot of jobs and cause more harm than good. I wouldn't put it at $15 an hour, but I think the $10.10

proposal, based on historical experience of the minimum wage and based on the fact that the proposal does not go overnight from $7.25 to $10.10, it phases it up, it seems like a sound proposal to me, with the positive way outweighing the negative.

MR. ALTMAN: Yes, sir?

SPEAKER: Food stamps was put in USDA in part to bolster farm prices. I was thinking, has anybody looked at how much our farm programs and other programs like ethanol mandates and tax credits push up the price of food for low and middle-income households? That might be part of the rationale for boosting (inaudible) subsidy. It would be really hard to do, but obviously you’ve got milk price supports. You have sugar price supports. Corn and soybeans and ethanol obviously pushes up the price of grain and meats as well.

MR. BERG: If I answered that, having worked at USDA, actually sugar is an import restriction which is a little different than direct price supports. Many people in support of those subsidies would argue they actually keep food prices down, and one of the few relatively good things to be poor in America compared to much of the developed world is that our food prices are still relatively lower. That's about the only good thing compared to the rest of the world, that's basically -- the developed world has basically abolished hunger and food insecurity in a serious way.

That being said, I don't know that it would change food prices that much. I do think there's billions being spent on corporate welfare that could be far better spent on feeding hungry Americans, reducing the deficit and helping true small farmers. The vast majority of direct payments go to these large agri-business entities, not to small farmers. Senator Gillibrand did have an amendment that would have kept the Heat or Eat provision and paid for it entirely by making insurance companies get a little less subsidies for crop insurance. Many of those insurance companies are actually foreign owned. That only got about half the Democrats in the Senate voting for it. I think one or two or three Republicans at most, so it's a whole broader discussion how ending the farm subsidy regimen is about the only thing on the planet I agree with the Heritage Foundation on. (Laughter) And most people in the middle oppose them. Most editorial writers oppose them, and why do they still exist if the left, the right, and the middle thinks it's ridiculous? Most public health people think we're subsidizing bad food instead of healthier food. It's because agri-businesses have given $600 million to federal campaigns over the last decade. I know that shopping the same Washington the campaign contributions might influence policy, but that might be the case.

MR. ALTMAN: I knew this panel would find common ground when Joel and the Heritage Foundation are in the same place. We have time for one -- I think it was Laura. Laura? One question? Two more questions? Okay, let's do three. Yes, ma'am.

MS. URBON: I'm Contessa Bourbon from the *New York Times*. I'd like to ask is there an increasing trend of part-time workers getting food stamp and what is the current statistics? Statistical number of part-time workers getting food stamps?

MR. ZILIAK: The answer is yes, there's an increasing trend in part-time workers receiving SNAP, and it's been actually increasing for about the last 15 years. The overall rate -- this is actually in my paper. I should know it.

MR. GREENSTEIN: It's an overall increase of low-income workers in general, both part-time and full-time.

MR. ZILIAK: Part-time and full-time. That's right, so there's actually an increasing percentage of full-time full-year workers also getting food stamps, so it's not just part-time. Right? Thank you, Bob. That's right. So, it's both. It's both part-time, full-year as well as full-time, full-year as a fraction of the total SNAP caseloads been increasing over time.

MR. BERG: And same for the percentage of people going to pantries and kitchens. Low wages is the top reason and people either have low wages because their unemployed or they're underemployed or their previous full-time job paid more than their current full-time job.

MR. ZILIAK: That's what I was trying to get (inaudible).

MS. SCHANZENBACH: And people also rarely talk about the importance of food stamps for low-income workers who are also getting EITC, since EITC is only paid out once a year, and food stamps come monthly. It really helps families smooth budgets better on a day-to-day, week-to-week basis.

MR. GREENSTEIN: Thirty to forty years ago the predominant characteristic of non-elderly, non-disabled people getting food stamps was a single mother with children receiving welfare and also getting food stamps. That is no longer true. Those people are a much smaller percentage of the caseload than they used to be and the predominant profile of non-elderly, non-disabled people getting food stamps today are low-income working family.

SPEAKER: Yes.

MR. ALTMAN: Another fact which I think is not very well known. Yes, ma'am.

MS. JONES: Hi, my name is Brenda Jones, and I'm the director of a struggling, now non-profit operating use to the river, the Parklands Community Center. What I wanted to bring up is the elephant in this country; not in the room, in this country, that has caused us to be here talking about food stamps and welfare. The crack era is still haunting a lot of our communities, a lot of our families. I'm talking about persons in this prison pipeline now, children who are affiliated with people who are coming out of prison, people who are now under-educated who don't have the skills to qualify for more than the minimum wage. Until we start dealing with that and I'm surprised, here it is 2013. We could be having this same conversation 10 years from now. Until we start concentrating on how we're going to deal with the mental health issue in this country, people who are not been able to rise up and be able to have the ability to make more than minimum wage. That's what we need to be striving for, and I wanted to hear from you all. Is that part of the conversation because we continue to talk about this food stamps. You know, we need to help Americans to rise up and be all that they can be. Thank you.

MR. GREENSTEIN: Where this, I think, most closely intersects with current policy decisions is less in food stamps and more in whether states take and how they implement the Medicaid expansion under the Affordable Care Act. Prior to the Affordable Care Act in most states single individuals not raising children, no matter how poor they were, were ineligible for Medicaid. And if they're recently getting out of prison they're likely to be uninsured and not eligible for things like mental health treatment unless they're fortunate to be able to get into a community center in their area.

In states that take the Medicaid expansion, they will become eligible for Medicaid, and they will able to get more things like mental health treatment, drug abuse, and so forth. This is one of many reasons why, in my view, one of the most important decisions at the state level now, maybe the most important decision for low-income people at the state level is whether the state takes the Medicaid expansion under the Affordable Care Act.

MS. SCHANZENBACH: I wanted to underscore how important the safety net is to making sure people are able to acquire those skills, so I wanted to talk about my recent academic research which has been looking at the expansion of the food stamps program as it occurred as a part of the war on poverty in the 1960s. And we've been able to track people who were exposed to the program for the first time in their early life and look at what are they like now in their 40's and 50's. And what we found was as adults they're healthier, but more importantly, arguably, is that among women we find that they're more likely to have graduated from high school. They're more likely to be currently working. They're actually less likely themselves to be reliant on any safety net programs.

So, what we find is that investments in the safety net in early life have really sort of propped up other investments that we made as a society in their education and whatnot and have yielded large payoffs in adulthood.

MR. BERG: I'll just say the bitter irony in America today is the only Americans with a constitutional right to food, enforced by the courts, are prisoners.

MR. GREENSTEIN: I think just to underscore Diane's point, what she's saying is that there's real inter-generational benefits to the SNAP program.

MS. SCHANZENBACH: Absolutely.

MR. GREENSTEIN: It provides a long-term benefit to children as well as providing resources to the parent to help their family.

MR. ALTMAN: I've been told that my own affiliation with the Hamilton Project will be immediately rescinded if I don't end this panel right now, so I want to thank our panelists, (applause) Bob, Diane, Joel, Jim. I thought that was quite a serious and thought-provoking discussion, so we're really grateful to you, and thanks to all of you and now our next panel.

MR. LEONHARDT: I'm David Leonhardt with *The New York Times*, and we're pleased here to have Jason Furman, who is, of course, the chairman of the Council of Economic Advisers currently. He's been many other things. He's run the Hamilton Project. He's worked in the White House. He's worked at NYU. He's been an advisor to many policymakers and campaigns over the years. And we obviously are going to talk about many of the same things that we've already been talking about here.

And I think a good place to start is with the impending 50th anniversary of the War on Poverty. Right? It's a year for a lot of anniversaries. We've got obviously the 50th JFK anniversary, the 150th Gettysburg, and the next one that may start to get some attention is the 50th of the announcement of the War on Poverty, which was in LBJ's State of Union in '64. Is that right?

MR. FURMAN: Mm-hmm.

MR. LEONHARDT: And so it's kind of a nice time to ask the question of what parts of the War on Poverty have worked and what parts haven't.

MR. FURMAN: Great. Thanks for that question, David, and thanks for organizing this event.

If you look back at what's happened to poverty in the last several decades you see something pretty remarkable. And when I say "look back," you can't look in the official statistics, which are very flawed in ways a lot of people in this room understand, but you look at some independent estimates. And here I'll rely on a research group from Columbia.

If you take out taxes and transfers, so you just look at market income, the poverty rate in 1967 and the poverty rate in 2011 was almost exactly the same. Based on market incomes we made no progress on poverty over that period of time.

MR. LEONHARDT: What was it roughly?

MR. FURMAN: It's around 31 percent.

MR. LEONHARDT: Okay.

MR. FURMAN: If you then take into account taxes and transfers, and the official measure only includes cash transfers -- it doesn't include SNAP which you've all just been talking about; it doesn't include things like the Earned Income Tax Credit, all of which are becoming increasingly important anti-poverty measures -- but if you do include all of those, you then see that your poverty rate fell by 40 percent between 1967 and 2011. You made a lot of progress on poverty and you made it precisely because of the policies that aren't captured in the official poverty measure.

So what that says to me in terms of big picture is a lot of what we did in the War on Poverty was very successful. A lot of what we've done since then when it comes to expanding refundable tax credits has been very successful. But if you ask how we're going to make progress going forward, we should continue to try to improve on that policy dimension, but I think realistically a lot of what you're going to be able to do is defend the gains you've made. Make sure you're not making large cuts to SNAP, make sure you are extending the gains we made in the Earned Income Tax Credit. The progress we're going to need to make is on market incomes, on wages, and, an important of that, there's a lot of parts, but one part is the minimum wage. Part of why that poverty rate didn't fall is that the minimum wage fell in real terms by 23 percent between 1967 and 2011. So raising that minimum wage is one of the many things we can do to help market incomes and to continue to make progress on poverty.

MR. LEONHARDT: It seems obvious in so many ways that the minimum wage is something that could counteract poverty and help low-income families. And yet, it also seems to have real limitations. When you look at the decline in the minimum wage that you're talking about, it was mostly in the first part of that period, right? It was mostly from the late '60s to the late '80s that it fell.

MR. FURMAN: Yeah.

MR. LEONHARDT: I think it even be up in real terms since the late ’80s. And yet, obviously, since the late ’80s, low-income families have not done particularly well. How should we think about the fact that over a different time period, over the last quarter century, the minimum wage has risen in real terms and yet low-income families have not done so well?

MR. FURMAN: I mean, for one second let me take you back even further, which is the minimum wage in 2013 is less in real terms that it was in 1950.

MR. LEONHARDT: Okay.

MR. FURMAN: And our productivity has increased 200 percent since then. Our economy per capita has expanded, too. Our wealth has expanded eightfold and the minimum wage is lower than it was 63 years ago. So I think if you look at the big sweep of history there’s certainly room for a higher minimum wage.

But, no, it’s only one of the factors. And it’s not -- for example, if you look at the big increase in inequality of the top 1 percent or the top 1/100 of 1 percent, the minimum wage is not an important part of that story. If you look at something like the differential in earnings between the 90th percentile and the 10th percentile, the minimum wage is a big part of that story. And a lot of the increase we've seen is at the very top of the inequality.

MR. LEONHARDT: I'm sure many of you know the research on the minimum wage. Paul Krugman covered some of it in a recent column. It seems pretty clear that the worries that a modest increase in the minimum wage will cause large job losses are unfounded. Right? The famous Pennsylvania-New Jersey experiment, in part looked at by your predecessor, right, Alan Krueger when he was at Princeton, where he is again, but the minimum wage isn't a free lunch. Right? I mean, it seems to me the right way to think about the minimum wage is that it is a transfer from consumers, who skew higher income, of course, because the population as whole does, to lower-income workers.

Is that the right way to think about it? It's not like the money in an increased minimum wage comes from the sky, right? It's coming from people.

MR. FURMAN: I think it's -- I mean, especially if you're looking at how the minimum wage would impact the economy over the next couple years, I think you do want to think in terms of general equilibrium and what the broader set of ramifications is. So the Chicago Fed did a study and they said raising the minimum wage -- I think they looked at the equivalent of raising it to $9 an hour -- would raise the short-term growth rate by 0.3 percent because of the extra purchasing power and we're in an economy that's still not operating at full capacity. So at a time like now you actually can have a certain amount -- you know, something closer to a free lunch when the economy's not using its full capacity, using more the capacity can get you things that you wouldn't have otherwise had.

MR. LEONHARDT: And is that mostly because lower-income people would be more likely to spend the marginal dollar?

MR. FURMAN: Yeah, yeah.

MR. LEONHARDT: Okay. So going beyond the minimum wage, what else would you put at the sort of the list of the things that should happen policy-wise to help low-income families?

MR. FURMAN: Right. So the minimum wage is something that the day you do it, you get the benefits. To go all the way to the other temporal extreme, early childhood education. That's not going to do anything about inequality next year or the year after. That's one of the most important things that we should be doing as a society that we haven't yet done in a broad way that applies to all, to deal not just with inequality, but with mobility. And, you know, there's a lot of debates you can have about inequality. There's no one who doesn't believe in the proposition of equality of opportunity. And you're kidding yourself if you think we have equality of opportunity in this country and preschool is, you know, a necessary condition for that. It's not sufficient, but it's a really important, necessary one.

MR. LEONHARDT: Speaking of early childhood, several of us in the media have raised the possibility that in the current upcoming budget negotiations, given how much the deficit has fallen, it is plausible to imagine Democrats trading changes to Medicare and Social Security not for higher taxes on the wealthy because the deficit isn't as much of a concern as it was, but for important investments, to use a word the President likes. Is that crazy? Is it crazy to imagine a deal that would combine something like savings from Medicare and Social Security that's then plowed into something like early childhood education? Wouldn't that be a good deal for Democrats?

MR. FURMAN: I guess I can just tell you what we'd like and others can as to what ways you could package things. (Laughter) And there's no reason we can't be doing all of that. We can be making progress in our medium- and long-term deficit by reforming entitlements; by reforming our tax code in a way that, you know, brings rates down, but also brings in more revenue by cutting back on some wasteful tax expenditures; and also making investments in things like infrastructure and early childhood education. So we should be doing all of those. For people who can't do all of those, they'll have conversations about different ways to package it.

MR. LEONHARDT: And what package might actually be reasonable to do. Yeah.

So another big priority it seems, in additional early childhood education, this is also long-term, although maybe not quite as long-term as early childhood education, is narrowing the gaps in terms of who graduates from college. It seems to now be a focus of the first ladies. Can you talk a little bit about what things you think the administration can do there, both with legislation and, the always important question, without legislation?

MR. FURMAN: Right. And thank you for phrasing it that way because part of why we're so excited about that issue is that is an area where just using the bully pulpit you can make some progress and then with legislation you can make even more.

And it begins even before you go to college. There's amazing research, some of which has been published by the Hamilton Project, on very low-cost interventions that can affect, you know, where students go to college, find out about a place that's better for them. There are things like the gainful employment regulation that can help the for-profit sector have incentives to up its game and make sure that it's graduating people that really have the skills and the earnings they'll need to repay that debt. There is a combination of transparency and information subsidies, like Pell Grants and American Opportunity Tax Credit, to both make college more affordable and help families to afford it, but also really focus on value.

I mean, a lot of what you care about is not what the tuition is; what you get in exchange for that tuition and are you raising your earnings because of that? And then finally, making sure families are completing college. So it's the whole cycle from selecting the school to affording it to completing.

MR. LEONHARDT: One of the classic tasks, in fact, in some ways it is the classic task of your current job, is to be an economic truth-teller within an administration, right, and to advise the President on the economics, no matter what the politics are. What do you think of the statement that the concerns about student debt are exaggerated? And that while, as you just, I think, suggested, having kids leave college without a degree and a bunch of debt is a terrible thing. That's a big problem. The idea that a kid leaves college with $25,000 in debt and a degree, which I think is now the average for a graduate, there's nothing wrong with $25,000 in debt for a typical college graduate in our current economy.

MR. FURMAN: I think the question is -- I guess there are a few questions, David, when you look at the actual policies. It's what you're getting for that debt. Are you doing what you can to make sure there's value to the degree you have in, for example, the for-profit sector which we were talking about before, a school that charges a lot, doesn't give people a lot of skills, and you just observe an extremely high default rate for students coming out of that program? Maybe that's a program that needs to improve and needs to change.

And then there's also just things like the stability and predictability of interest rates. We had the interest rate this year was set to double. The President put forward a proposal; it wasn't the favored proposal of everyone in his party. He said we needed to pay for smoothing out the interest rates, it wasn't just a free lunch, you couldn't just give that money out, and we're going to pay for it by linking the rate more closely to Treasury's. And that would prevent it from rising dramatically today, but as interest rates rise and interest rates across the economy rise, student loan interest rates are now going to be tied to that.

So if you look at the type of policies they have, they're about driving value an bringing greater stability and predictability.

MR. LEONHARDT: Yeah. Enough questions from me. Let's open it up to all of you. Right here. Thanks, (inaudible). Second row, right here.

MR. CHANDLER: Thank you. I'm Gerald Chandler. What do you think of the current definition of "poverty," which in Europe is anybody who has less than half of the income, average income? And the consequence in Europe is that if everybody's income doubles, you still have the same percentage of people in poverty. Here the definition isn't exactly the same, but, year after year, we do increase the definition of what is poverty. So with the current definition of poverty and the way it's always adjusted can we ever get out and get to where we have nobody in poverty?

MR. FURMAN: I think there are advantages and disadvantages of different measures of poverty and it makes sense to look at more than one. If you're going to only look at one measure of poverty, what's called the supplemental poverty measure which we started computing a couple years ago would be the one I'd look at. And that's coherent and that includes the effects of all of our policies. It also subtracts a set of costs, like the costs associated with working. And it adjusts the poverty threshold based on region, based on whether you own a home or not.

But, you know, if you only looked at one thing, I'd look at that, but you want to look at more than one thing. As I said before, you're interested in what's happening to market incomes and you're interested in what's happening as a result of public policy. So that's already gotten you two measures.

I think there's some ways in which an absolute poverty measure makes a lot of sense because you'd like to be able to set a goal of eliminating something or cutting it in half and not end up on a treadmill. But obviously the standard of poverty 50 years from now is not going to be the same as the standard of poverty 50 years ago, so there's something to a relative measure as well. And that SPM actually, you know, does have embedded in it relative concepts.

Finally, you want to look at, you know, issues like inequality. And, to some degree, that European measure of poverty really is, you know, one slice of a measure of inequality. And that matters because that tells you, in a sense, what your society is capable of producing in terms of its income and whether or not that's translating through to ordinary citizens. So it's not one answer.

MR. LEONHARDT: On the aisle here, ma'am. And if you want to be on deck, we've got a microphone right here.

SPEAKER: Thank you. Good morning. I'm glad an economic advisor can be here and President Obama now should listen to you very carefully because he promised change, but doesn't seem to change in the right direction. It's in a vicious cycle.

I want to point out several --

MR. LEONHARDT: Can I just ask you to ask one quick question?

SPEAKER: I want you to address issues of accountability of each agency. So far as I know from local to federal, whether it is Education or the Department of Justice, there's no accuracy, there's no accountability. And so the money can divert to different directions to promote the wrong (inaudible).

MR. LEONHARDT: Thank you. So what I would ask is President Obama talked a lot about making government work, right? I recall this phrase, "the iPod government," right, back in 2008. You can talk about healthcare if you want, but this isn't just a healthcare question. Do you think the administration has done enough to make government accountable and make it work efficiently?

MR. FURMAN: Let me give you one in the poverty area. There used to be something called the Advanced Earned Income Tax Credit. It was a nice concept because it let you get your EITC in advance. It helped with some of the smoothing issues that I heard Diane talking about on the last panel, but it was rife with fraud, rife with complication. And in our first budget we proposed getting rid of it under -- can I blame Peter for that? -- under Peter's leadership and it was something that was then passed into law. So we also, at the same time, did a lot of things to obviously strengthen the Earned Income Tax Credit, including reducing marriage penalties, an issue that I think you were talking up more this morning in a broader context, and expanding it for families with three or more children. I think that would be a good example of, you know, cutting back on an area where there was fraud and errors and expanding areas where it should have been expanded and needed to be.

SPEAKER: I have a question related to -- could you speak on the role of data and the expansion of the access of data perhaps in addressing issues moving forward for our nation?

MR. LEONHARDT: Do you mean access to data for the government or for citizens?

SPEAKER: Actually both. So from the standpoint of the government having access to raw data, to be able to analyze and perhaps be informed to make programs in the best forum, but also in relation to the public of having accessed the data to perhaps push government in the direction of various waste?

MR. FURMAN: I mean, economists, we rely on data, we live for data, and one of the painful things in the current budget environment is you look at some of the choices that, you know, are eventually going to have to be made between collecting different datasets, all of which are really valuable and inform public policy choices.

The thing I'd add, though, is it's not -- data isn't just going out and surveying people. It can also mean building evaluation into what you're doing in terms of public policy and building in some randomization or something else that lets you figure out the best way that you're doing your programs, not just collecting data. Because all the data in the world, if you didn't design programs to evaluate them well, will let you try to infer and try to guess, but won't give you the same type of definitive answer as you can do by thinking through evaluation on the front end.

MR. LEONHARDT: Speaking of data, I know that obesity has been a big interest of this administration. And we're about to have this fascinating experiment in Mexico with what is really a substantial soda tax. I think it's going to be 10 percent or something like that. Doesn't it seem like that has the potential to be an experiment unlike anything we've seen before in terms of a really substantial fiscal policy aimed at obesity?

MR. FURMAN: Sure. I mean, you know, economists always love other countries doing things and we learn a lot from them. (Laughter)

MR. LEONHARDT: I mean, it's just -- because it seems to me one thing that the soda industry has done is fought each one of these, right, whether it's in Philadelphia or whether it's in New York. And now we have a fairly large-scale one that could potentially lead to a substantial change in soda consumption, which I think public health experts consider about number one of the list.

What else? Sir?

SPEAKER: Yeah. I'm (inaudible). Oh, thank you. Hi. My name is (inaudible). I’m with the Center for American Progress and I work on youth econ issues there. And one of the biggest things we’re focusing on is unemployment and underemployment for youth. And I think half of college grads are overqualified for their jobs and I think there’s 70 percent more college grads earning the minimum wage than there were a decade ago. Is there anything the administration can do without Congress to alleviate a lot of those issues?

MR. FURMAN: I think a lot of that is about, in the short run, strengthening the economy and we’ve seen the participation rate fall. Most of that is a demographic trend as you see the baby boomers retiring. But some of that has been a reduction in the participation rate for young people, and so getting those people back into the labor force, back into jobs is something that we would expect to see and want to see as the economy strengthens.

Some of it, you just said, people who have educations that over-qualify them for their jobs, part of that is better jobs. Part of that, also, though, is better figuring out how to match our education to what our job needs are, and that's especially true for some of the things the President was -- when he visited a technical high school in New York a few weeks ago, he talked about modernizing high schools with our community colleges, making sure that they're feeding in and serving the local job market. I think skills mismatch is not an important part of the explanation as to why the unemployment rate is elevated today. That doesn't mean that reducing skills mismatch wouldn't be a good idea to improve our economy going forward.

MR. LEONHARDT: There are these dueling set of statistics about college grads that are a little bit confusing to sort through. On the one hand, you have all these statistics like this that suggests –

(Interruption)

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