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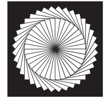

Focus

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The question of what it takes to be "middle class" in America is reviewed in this issue. One thing it surely takes is wealth accumulation. Middle class families of all types, including single-parent families, aspire to homeownership, a car, college education for their children, health and retirement security. Public policy can help with many of these needs, through avenues such as health care and college education subsidies. However, the majority of these aspirations remain the responsibility of the family, which must build its own financial security.

The first four articles in this issue of Focus highlight many of the elements needed to attain financial security. First, families must avoid debt, especially unsecured credit card and other consumer debt that can add to the depths of poverty. Second, they need to accumulate and maintain an adequate level of precautionary savings to avoid the downside of unforeseeable circumstances, such as car repairs or other unexpected expenses. Finally, many poor persons need more financial savvy to manage their assets and debts and to take advantage of potential asset-building subsides like the Earned Income Tax Credit.

If we can give people the tools they need to accumulate wealth, the middle class will grow as people leave poverty and move up the income and financial well-being ladder. IRP is becoming more involved with these efforts in affiliation with the new University of Wisconsin Center for Financial Security (www.cfs.wisc.edu) and its 5-year cooperative agreement with the Social Security Administration Financial Literacy Research Consortium. In conjunction with IRP, the Center is focused on financial choices and outcomes for vulnerable populations—including people in poverty and with disabilities. We hope the research developed through this partnership will spawn a new generation of policy and programmatic approaches that use information, advice, and other mechanisms to help families build financial assets over the life course.

—Timothy M. Smeeding, IRP Director

Middle class in America

Most Americans consider themselves middle class.[1] A 2005 *New York Times* survey found that only 1 percent of respondents considered themselves to be "upper class" and only 7 percent considered themselves part of the "lower class." The remainder said that they were either "middle class" or "working class."[2] The fact that so many people consider themselves part of the middle class raises the question of what it means to be middle class. What characteristics are shared by so many people?

How is "middle class" defined?

No single accepted definition of "middle class" appears in the academic or popular literature. In this article we have selected two-parent, two-child families and one-parent, two-child families as the focus for analysis.[3] Table 1 shows the median, lowest quartile, and highest quartile income levels for these two types of families in 2008.[4] (The median is the income level at which half of all families earn less and half of all families earn more; the 25th percentile is the income level at which one-quarter of all families earn less; and the

This article was excerpted from the report prepared for the Vice President's Middle Class Task Force by the Economics and Statistics Administration of the U.S. Department of Commerce, under the direction of Rebecca M. Blank, Under Secretary for Economic Affairs.

Table 1
Income Levels for Selected Families, 2008

	In the Distribution of Two-Parent, Two-Child Families	In the Distribution of One-Parent, Two-Child Families
Lowest quartile cut-off (25th percentile)	$50,800	$13,200
Median (50th percentile)	$80,600	$25,200
Highest quartile cut-off (75th percentile)	$122,800	$44,000
Poverty Line	$21,800	$17,300

Sources: Income sources are U.S. Census Bureau, Current Population Survey, 2009 Annual Social and Economic (ASEC) Supplement and ESA calculations; poverty lines are from the U.S. Census Bureau Web site at http://www.census.gov/hhes/www/poverty/threshld/thresh08.html.

Note: Calculations are based on the income distribution of each family type with two children under age 18.

75th percentile is the income level at which three-quarters of all families earn less.)

The family at the middle of the income distribution of two-parent, two-child families has $80,600 in income. In contrast, one-parent families have significantly lower incomes. The family at the middle of the income distribution of one-parent, two-child families has only $25,200 in family income. More than one-fourth of single-parent, two-child families have incomes below the poverty line, an income level that cannot support a middle class lifestyle.

Overall, the literature on the middle class leads to a conclusion that income levels alone do not define the middle class. Members of the middle class tend to be defined more by their values, expectations, and aspirations than their income level, although income may constrain the manner in which some of their aspirations can be realized. We follow this approach by assuming that middle class families have certain common aspirations.

What are middle class aspirations?

We assume that middle class families aspire to homeownership, a car, college education for their children, health and retirement security, and occasional family vacations. These are general aspirations and different families may weight them differently. Some families may spend vacation time with relatives and some may not feel the need for two cars. Others live in areas where house prices are high and more resources have to be expended for housing. While we do not assume that all families have exactly the same goals, we posit that, in general, these are items that most middle class families value and wish to attain.

What does it cost families to achieve middle class aspirations?

This section presents some hypothetical budgets as examples of how families at different levels of income with middle class aspirations might achieve these goals.

This exercise has at least three distinct purposes:

- To show how families at a wide range of incomes, under the right circumstances, may be able to attain a middle class lifestyle, and what sort of expenditures this might involve.
- To show the variation in what different families at different income levels might buy to achieve their goals.
- To indicate how constrained some of these choices are, and point out the difficulties that could prevent families from achieving a middle class lifestyle. While this is particularly true for families below the middle of the income distribution, even higher-income families may have problems achieving a middle class lifestyle in certain circumstances.

It is important to emphasize that the budgets we present below are examples of possible budgets. They do not indicate what families *should* spend. Rather, we estimate the costs of the six middle class aspirational items (housing, health care, car, college education, vacation, and retirement savings). We make assumptions about what families at different income levels are likely to buy and these estimates are based on our calculations of what it would cost to attain these items. We also take account of what families at different income levels actually spend on non-aspirational items (food, clothing, utilities, and taxes) based on the best available expenditure data. Adding these expenses together, our budgets indicate how a family at a given income level *might* choose to allocate their money across different goods and services in order to achieve their middle class aspirations. As we emphasize below, different families will make different trade-offs and some will choose to spend more on some items and less on others. And, as we also emphasize, many families will find these suggestive budgets unrealistic and will not be able to attain all of the items that make up a middle class lifestyle.

We focus on two different types of families in this article:

- A four-person family with two parents and two children under age 18 who are both in school; and

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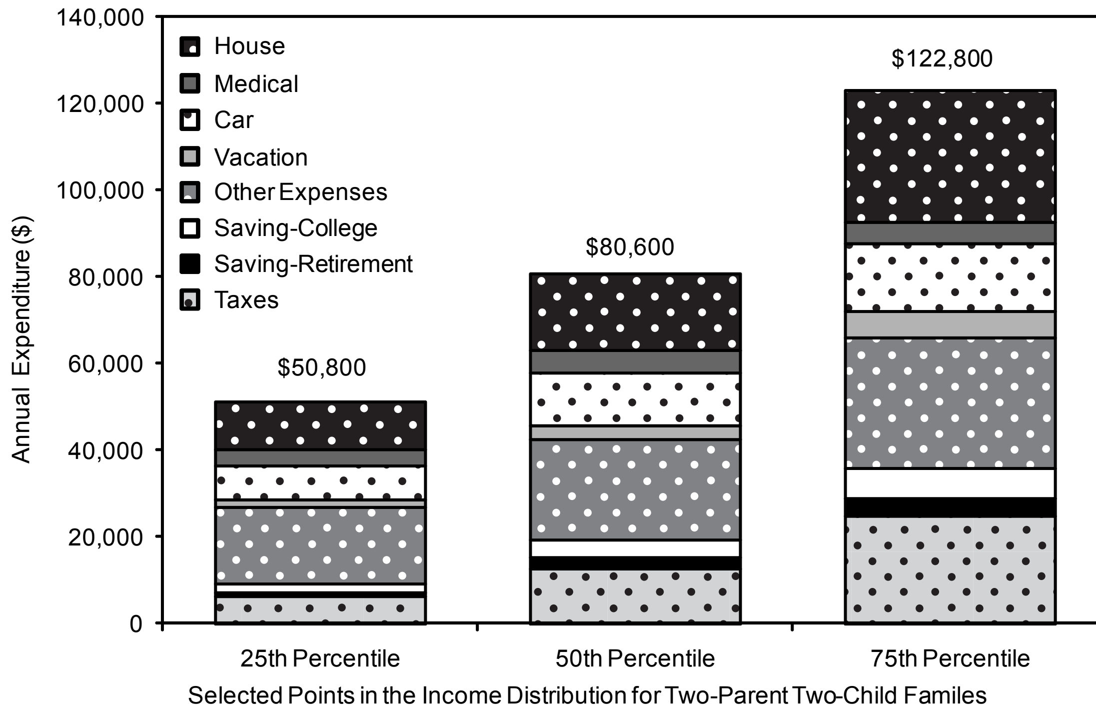

Figure 1. Hypothetical budgets for married-couple families with two school-age children.

- A three-person family with one parent and two children under age 18 who are both in school.

We recognize that many families incur expenses for child care when children are young. This is a particularly important issue for single-parent families but is also a major concern for two-parent families in which both parents work. We assume that families begin to save for college when the second child enters kindergarten. The presumption is that child-care costs prevent earlier college savings. Any ongoing child-care costs for families with school-age children are subsumed in the "other expenditure" category.

The estimates that we present describe a single year, providing a snapshot of hypothetical family finances during the period after both children start grade school and before they start attending college. We do not model the complete life-cycle of consumption and income paths for our hypothetical families. If we did so, we might have them spend more in certain periods of their life and save more in other periods. Or we might have them pay off big expenses in "lumpy" ways, rather than spreading the cost of items like a car over long periods of time through borrowing. The intent of this paper is not to replicate family finances over their lifetime, but to show what a reasonable set of possible expenses might look like for families at different income levels who seek a middle class lifestyle.

Middle class spending for two-parent families with two children

To illustrate how families might achieve middle class status, we focus on three hypothetical two-parent, two-child families at three different income levels. We start by looking at a family whose income is at the median income level for two-parent, two-child families in the United States, and investigate what their expenditure patterns might look like if they wanted to attain those things we characterize as goals of the middle class. This family has $80,600 in total annual income, as we saw in Table 1. But we want to see how these goals might be attained by higher- and lower-income families as well. So we also consider families whose income is at the 25th percentile ($50,800 in income) and at the 75th percentile ($122,800 in income) of income among two-parent, two-child families. This allows us to observe the additional trade-offs lower-income families would have to make, or what additional luxuries higher-income families could afford.

We have six middle class items we assume these families want to purchase. We estimate the cost for every one of these items except housing. We use published estimates of what similar families are paying in federal, state, and local income taxes. Using data on family consumption expenditures, we estimate the actual dollars spent on all other items (i.e., everything except the six things in our middle class consumption bundle) by families at these income levels. Hence, we allow these families to spend on average as much on "everything else" as they do in reality. Finally, we estimate how much money this leaves in the family budget for house payments and estimate the affordable mortgage (and the resulting value of the house) that these families can pay each month. In this sense, housing is our "residual item" and we balance the family budget by having them purchase only the house that they can afford.

Figure 1 demonstrates our hypothetical budgets for these three married-couple, two-parent, two-child families.

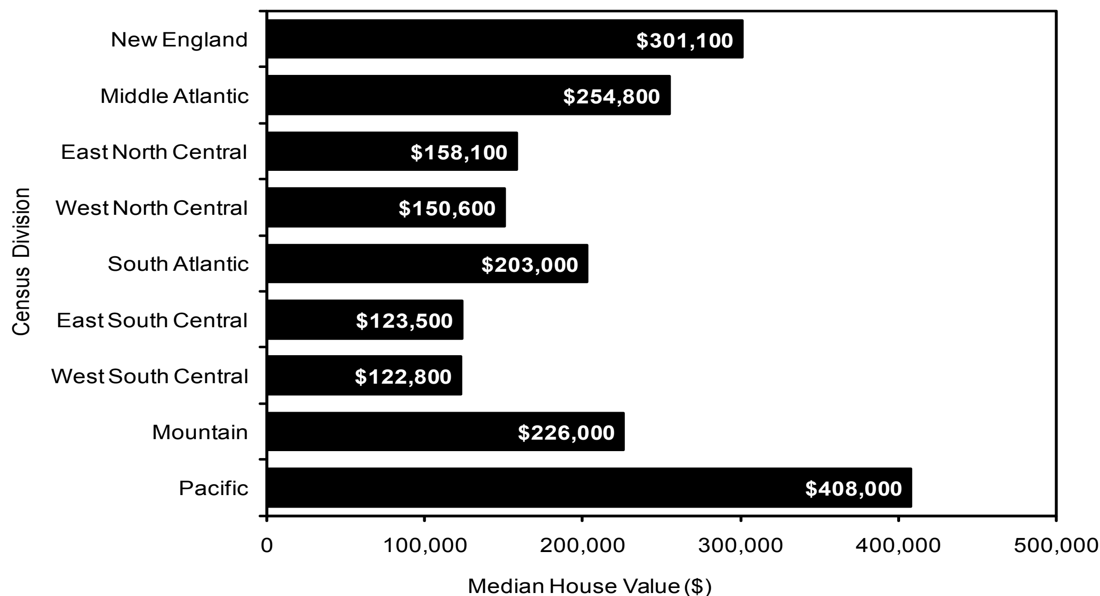

Figure 2. Median house value of owner-occupied housing, 2008

Source: U.S. Census Bureau, American Community Survey, "Table B25077, Median Value (dollars). Universe: Owner-Occupied Housing Units." 2008 ACS 1-year estimates.

Note: The high point for housing price in the 2000s occurred in 2007. Prices fell in 2008 but year-to-date data in 2009 show little further decline.

Families at these different income levels will have to make quite different choices in order to live within their budget. The range in income from $50,800 to $122,800 is wide. Nonetheless, with careful planning, some families at all these levels can realize these aspirations.

Homeownership

Housing makes up a significant portion of any household's expenses. These costs will vary among families depending on a variety of factors. Geographic location matters since housing prices throughout the country vary considerably. There are also other trade-offs families make in selecting affordable housing. For example, many urban families must choose between living in the far suburbs with long commuting times in exchange for a larger house at a given price versus living closer in but making do with less living space. Others choose between lower down payments and higher monthly mortgage costs.

Attaining the middle class dream of owning a home is likely to be difficult for many at the lower end of the income scale. We estimate that our middle-income, two-parent family can afford a mortgage for a house worth $231,400. As Figure 2 shows, while this amount is sufficient for purchasing the median house in certain parts of the country, in other regions (particularly in the Northeast and West) this amount will fall short. This suggests that many of these families may have to devote more of their income to housing or perhaps live in smaller houses or in neighborhoods with lower school quality than they might prefer. As we will see below, the situation is much worse for single-parent families who have significantly lower incomes.[5]

Health security

All two-parent, two-child families, regardless of income, are assumed to be covered under an employer-sponsored health insurance plan, and to pay the average employee share of health insurance premiums as well as expenses not covered by insurance. We estimate these premiums and expenses are likely to cost $5,100 for both the median and 75th percentile married-couple families with two children. However, the 25th percentile family income is low enough that the children in these families are eligible for low-cost health insurance under the Children's Health Insurance Program (CHIP) in many states. We assume that the parents of such families purchase health insurance only for themselves through their employer.

In the absence of health insurance, it would be difficult for a family facing serious illness to maintain other elements of a middle class lifestyle. If at least one parent does not have employer-provided health insurance available through his or her job, the cost of directly purchasing health insurance on the open market is high. The average annual premium for non-group family coverage on the open market can be twice as high as out-of-pocket premiums under employer-sponsored plans, roughly $6,200 compared to $3,100 in 2005–2006.[6] Unfortunately, employer-based health insurance coverage has been declining, from 64 percent in 2000 to 59 percent in 2008, suggesting that more families are struggling to find health insurance coverage.[7]

Car ownership

We assume all two-parent families would like to own two cars, one for each adult. We assume each car is driven the

national average of about 12,500 miles per year, but that the likely size and purchase price of cars would increase with income. We assume these cars are bought with a loan and that the monthly costs include the loan repayment fees. We also include the cost of gas and car maintenance expenses. We estimate the annual cost of owning cars would range from $7,900 (15.5 percent of annual income) among lower-income families to $15,400 (12.5 percent of annual income) among higher-income families. All three of our families spend a significant share of their income on cars.

Saving for college

Family expectations about the type of higher education institution their child will attend and their child's living arrangements in college will likely vary by income level. This is one of the trade-offs that families at lower income levels make. We assume that a family at the lower end of the income distribution would plan for their children to attend a community college for two years and then transfer to a four-year public institution, receiving financial assistance that provides a considerable discount from published tuition and fee rates. Their children are assumed to live at home to save on room and board expenses. Of course, this assumes that a family lives within commuting distance of a community and/or four-year college. While this is true for most urban and suburban families, it may not be possible for rural families. We assume that a medium-income family would plan to send their children to a four-year public institution for a full four years. A higher-income family is presumed to plan to send their children to live and study at a private four-year college or university.

Family vacation

We estimate the cost of one week of travel for a family vacation. We assume that the frequency of such vacations increases with income: a lower-income family would take a week's travel vacation every other year, while a higher-income family would take two week-long vacations every year. Vacation costs range from $1,500 (3 percent of annual income) to $6,100 (5 percent of annual income) among our families.

Saving for retirement

Social Security replaces a decreasing share of pre-retirement earnings as incomes rise, so families with higher incomes need to save at a higher rate in order to attain our assumed target. As a result, retirement saving rates range from 2.0 percent for a lower-income family to 3.3 percent for a higher-income family.

The sum of retirement savings plus college savings indicate the total amount of savings needed to meet middle class aspirations. For two-parent, two-child families, total saving as a share of income ranges from 5.5 percent at the 25th percentile to 8.9 percent at the 75th percentile. As a share of after-tax income, the saving rates are 6 percent and 11 percent, respectively.

Low saving rates among American families in the recent past may suggest that some families believed that their appreciating housing values in the mid-2000s meant they did not have to save in other ways. But over the past decade many families have faced significant costs that rose faster than their income. One response to this may have been lower savings.

Other living expenses

All families have to pay certain basic expenses. Our calculation for expenditures for non-aspirational items is based on average expenditures for consumption items such as groceries, clothing, and utilities for families at each income level, although it also includes non-essential expenses, such as entertainment expenses and the purchase of food at restaurants. Such expenses will clearly vary among families and perhaps across geographic areas where costs differ, although the regional differences in prices for these items are quite small relative to the differences in housing prices. Because this category includes many items often considered necessities, expenditures do not vary as much across households as other items.

Taxes

Before families can decide how to spend their income on purchases or savings, they have to pay taxes. We estimate that tax rates will range from 11.75 percent to 20 percent. This means that after tax income for these three families will range from $44,800 to $98,200. However, it should be noted that a large share of taxes represent contributions toward future Social Security and Medicare benefits; absent such programs, a significant share of such contributions would have to be saved to ensure similar security after retirement.

What do these budgets show for our married-couple, four-person families? First, they suggest how families who do not face unexpected expenses can attain a middle class lifestyle at quite different income levels. Second, they show the differences in quality and quantity of goods that families at different income levels must purchase.

Finally, it should be clear from these budgets that many families will face difficulties achieving their middle class aspirations. Families without employer-provided insurance may face much larger out-of-pocket medical expenses. Families in rural areas may face much greater car and transportation costs. Families in high-cost housing areas may be unable to afford a three-bedroom house (or any house). Many families may find that their college or retirement savings disappear in a year when they face unexpected expenses.

Middle class spending for single-parent families with two children

We now turn from married-couple families to single-parent families with two school-age children. Table 1 showed that families at the 25th percentile of the income distribution for this group had only $13,200 in income and were below the poverty line. A family income at or below the poverty line for single-parent families cannot sustain the middle class

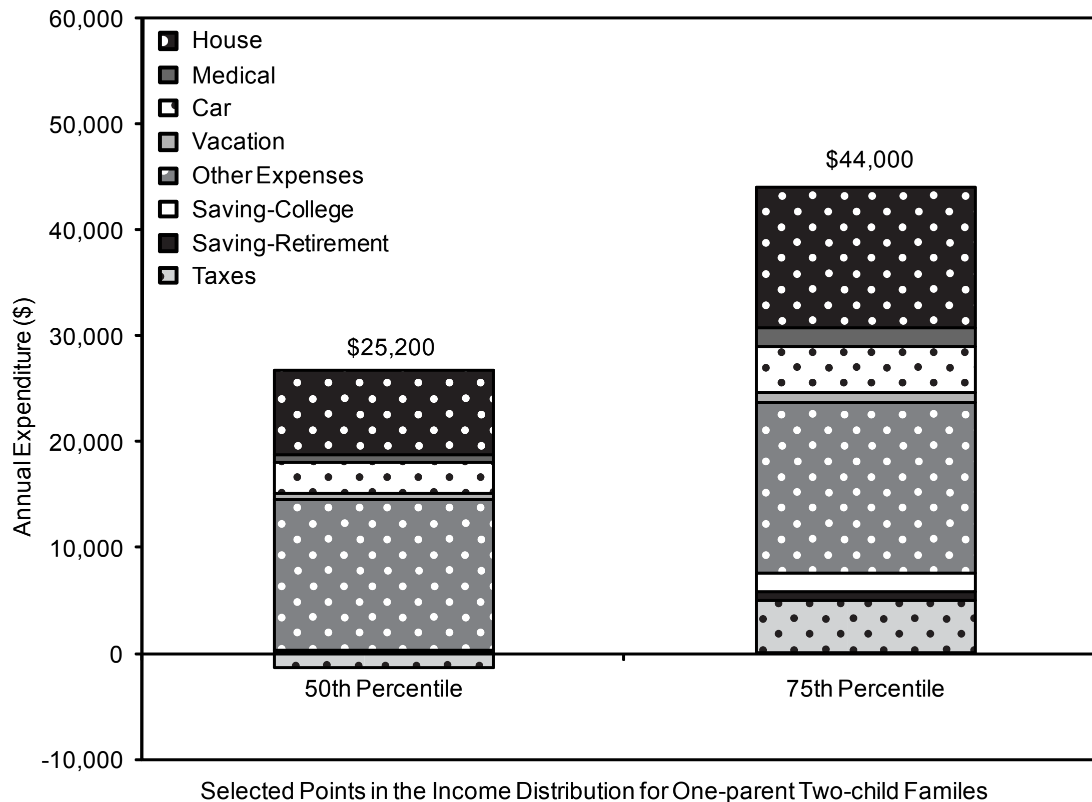

Figure 3. Hypothetical budgets for single-parent families with two school-age children

lifestyle that we define in this report. Therefore, this report considers only hypothetical budgets for two sets of single parents, at the median ($25,200 annual income) and at the 75th percentile ($44,000 annual income).

Single-parent families with two children have only three people to support while the two-child married-couple families we discussed in the last section supported four people. Hence, single-parent families need less income to live an equivalent lifestyle. The differences in income between these two types of families are much, much larger, however, than any adjustment for family size would suggest. Because of their low incomes, these families will have to make steeper trade-offs than any except the lowest-income married-couple families in order to maintain a middle class lifestyle.

Why are incomes among single-parent families so low? One-parent families generally rely on only one primary earner while many two-parent families have two earners. One-parent families are typically headed by women who work in lower-wage jobs and (often because of child-care responsibilities) work fewer hours. Furthermore, parents in one-parent families have less education, on average, than parents in two-parent families, and this also limits their earning potential.

Figure 3 shows the potential budget that single-parent families at these two income levels would have to maintain in order to attain a middle class lifestyle.

Income levels among single-parent, two-child families tend to be low and this is a major constraint on their ability to achieve middle class goals. For the two families that we consider, at the median and the 75th percentile of income, a middle class lifestyle can be achieved but only with substantial budget discipline. Emergencies don't fit into these budgets.

Homeownership

A median-income single-parent family can afford only a $104,900 home, while the higher-income single-parent family can afford a home valued at $175,500. Note that the 75th percentile single-parent family can afford a higher-valued house than the 25th percentile married-couple family, despite the similarity in their incomes. We estimate that the median single-parent, two-child family would spend 31.5 percent of their annual income on housing, while the 75th percentile family would spend 30.2 percent. These expenditures approximately meet the traditional 30 percent of income affordability benchmark.

In 2008, 16 percent of owner-occupied housing units with a mortgage nationwide were valued at less than $100,000, which suggests that in some parts of the country it may be feasible—albeit challenging—for the median single-parent, two-child family to afford a house, given our hypothetical budget.[8] According to the housing data presented in Figure 2, however, it is probably impossible for median-income single-parent families to attain homeownership in many parts of the country. No matter where they live, they will have to

buy a small home, well below the median-priced house in their area. In many areas, these families are likely to end up renting a lower-cost apartment or living with others and will have to give up the middle class dream of homeownership.

Health security

We assume that single-parent family medical expenses would be lower than for married-couple families, reflecting smaller family size. We assume children in both the median and 75th percentile families are eligible for CHIP coverage. Given their low overall incomes, however, we assume that median-income parents decline to purchase health insurance for themselves through their employer and opt instead to apply the money that could have been spent on out-of-pocket premiums toward housing expenses. These lower medical expenses come with much less security in health care.

We assume that parents with the 75th percentile income do purchase health insurance for themselves through their employers. If the parent does not have a job that provides health care or lives in a state with less generous CHIP eligibility requirements, this family will almost surely have to forego health insurance coverage or forego other middle class goals in order to either buy high-priced health insurance on the open market or to pay health expenses if a family member becomes seriously ill.

Car ownership

We assume single-parent families would own one car, but that the likely size, annual mileage, and purchase price of a car would increase with income.

Saving for college

We assume that the 75th percentile single-parent family would plan for their children to attend a community college for two years and then transfer to a four-year public institution, while living at home to save on room and board expenses; children would be expected to borrow to cover 25 percent of their college expenses. This requires them to save $1,700 each year.

The median-income single-parent family does not have the money to save for college and must forego the security of college savings. Because of very low family income, however, if the children have reasonably good high school grades and standardized test scores, they will be able to receive financial aid from almost any college to which they apply. We assume that this aid, combined with loans incurred by the children, will cover all college expenses.

Family vacation

All families want occasional vacations. This may be more difficult to attain for single-parent families but it is likely that some vacations are considered desirable and important. We assume that the median and 75th percentile families spend a week traveling every other year, but the median family spends less and must stay with relatives and friends.

Saving for retirement

The median-income single-parent family would need to save an estimated 1.2 percent of income for retirement—less than the higher-income family because of higher Social Security replacement ratios for lower-income workers. This is a very low estimate of needed retirement savings. Living on 50 percent of current income after retirement will be a challenge, given these parents' low income levels during their working years.

Other living expenses

We estimate that these living expenses vary from $14,200 (56 percent of annual income) for families at the median to $16,100 (37 percent of annual income) at the 75th percentile.

Taxes

Tax rates range from -5.75 percent to 11.1 percent. This means that after-tax income ranges from $26,650 to $39,100. The middle-income single-parent family has a negative tax rate and is actually receiving some money back from the government, because the parent is eligible for the Earned Income Tax Credit.

The budgets for single-parent families are much tighter than for most two-parent families. It may be possible for these parents to attain a middle class lifestyle and to do the saving necessary for retirement and college if the family lives in a low-cost housing area. But any sort of emergency, from unemployment to illness to unexpected home or car repairs, will make these budgets difficult, if not impossible.

Conclusion

Families across the income spectrum often report themselves as middle class. This suggests that most American families share the desire for economic stability and a better life for their children. Income may not be the primary determinant of whether a family considers itself middle class, although income will shape and constrain choices. We assume that families that strive to be middle class want to attain certain things, including their own home, a car for each adult, retirement and college savings, adequate health care, and a regular family vacation.

Our hypothetical budgets indicate that a middle class lifestyle is possible even among relatively lower-income families under the right circumstances. Of course, lower-income families will face many more trade-offs and saving will be much harder for them. Single-parent families face particular difficulties in reaching these goals because of their lower income levels.

Yet, it should be clear that only a few unplanned expenses can dispossess any of these families from their middle class dreams. Loss of a job, unexpected illness that isn't covered by health insurance, or the need to help out an elderly parent can create a severe budget crisis for any of the families that

we describe above. This will require them to forego some of the things that middle class American families expect.

Housing is the biggest wild card in these budgets. In some areas of the country, even the two-parent family at the 75th percentile of the income distribution would be unable to buy the average available house and would have to select a smaller-than-average house or live further away from their jobs and pay higher commuting expenses.

In fact, while we've focused particular attention on the lower-income families, it is easy to see why even the 75th percentile family may feel very budget-constrained. We are not assuming an extravagant lifestyle for this family. Particularly if this higher-income family lives in a high-cost housing area and wishes to send their children to a private college while also accumulating adequate retirement savings, the family will quickly face real difficulties putting together a workable budget.

Not all families will value the aspirations that we describe in this report and this is both expected and appropriate. There is no reason to expect that all families want the same things. Some families consider two or even three cars essential for their well-being while others prefer to rely on public transportation. Similarly, some families may choose to forego vacations and other luxuries to send children to private colleges. These are all personal preferences and trade-offs across these choices are expected.

The income of families with two children has risen substantially over time, in part because the parents of two children are a different group now versus two decades ago. They have become more educated and older, earning more income and working more hours. At the same time, despite these income increases, these middle class goals have become harder to attain because the costs of three big items housing, health care, and college have risen faster than their incomes. Thus, we conclude that it is harder to attain a middle class lifestyle now than it was in the recent past.

A major conclusion to be drawn from this report is that planning and saving are critical elements in attaining a middle class lifestyle for most families. Under the right circumstances, even families at the lower end of the income scale may be able to achieve many of the aspirations listed if they are willing to undertake present sacrifices and necessary saving, and if nothing unexpected happens to their income or their budget needs.

One of the hallmarks of America has been the common dreams among families of all backgrounds for economic security and a better life for their children. Many middle class families have been able to achieve this dream. Unfortunately, not all families are able to afford the sort of expenditures that we lay out in this report. Even those families that can afford a middle class lifestyle must make regular sacrifices and may be one unexpected event away from disaster. To provide stability for American families, our nation needs a healthy economy, a responsible private sector that offers decent jobs with health care and pension plans, and an effective public sector that provides high quality schools for all children. When these goals are met, more families will be able to reach their middle class dreams.■

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[1]This article is based on the report *Middle Class in America*, prepared by the Economics and Statistics Administration, U. S. Department of Commerce, for the Middle Class Task Force, Office of the Vice President of the United States, January 2010. The full report includes information on sources of earned income and on changes over time and is available online at http://www.commerce.gov/news/fact-sheets/2010/01/25/middle-class-america-task-force-report-pdf.

[2]B. W. Cashell, *Who are the Middle Class?* Congressional Research Service Report for Congress, October 22, 2008.

[3]The data used throughout this article are based on family income, which combines the income of all related individuals who live together. This includes the income of the primary family with any related secondary family living in the same household. The income of unrelated cohabiters, including unmarried partners, is not included in family income. While this has little effect on the income of married couples, it does reduce potential income among single-parent families. About 20 percent of single-parent families with two children reside with an unrelated individual. Including the income of unrelated individuals would increase the total median income available to single-parent families by about $5,000. The research on how much income is shared among non-related cohabiters shows mixed results, however. Cohabiters share some income, but much less than married couples. Most family income statistics count only income of related individuals and we follow this convention, excluding the income of unrelated cohabiters.

[4]Throughout this report, "income" refers to gross money income (before tax payments and tax credits), which includes earnings and non-labor income such as interests and dividends, child support, and cash payments. It does not include in-kind (noncash) benefits.

[5]Wages and cost of living are correlated, so family incomes also vary regionally. Incomes on average are higher in some of the high housing-cost areas like the Northeast and West regions, which somewhat offsets housing cost differences. These regional income differences are, however, outside the scope of our estimates.

[6]D. Bernard and J. Banthin, *Premiums in the Individual Health Insurance Market for Policyholders under Age 65: 2002 and 2005*, Statistical Brief #202. April 2008, Agency for Healthcare Research and Quality, Rockville, MD. http://www.meps.ahrq.gov/mepsweb/data_files/publications/st202/stat202.pdf

[7]U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2008,* pp 60–236RV. http://www.census.gov/hhes/www/income/income08.html

[8]U.S. Census Bureau, American Community Survey (ACS), "Table S2506, Financial Characteristics for Housing Units with a Mortgage" (2008 American Community Survey 1-Year Estimates). (http://factfinder.census.gov).

Consumer debt and poverty measurement

Steven Pressman and Robert H. Scott III

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Debt has become a big problem for U.S. households. According to the Federal Reserve, total consumer debt (which excludes home mortgages and home equity loans) is currently around $2.6 trillion, or $11,000 per adult. Over the past two decades, consumer debt has grown at an annual rate of 4.1 percent—much faster than the 0.6 percent growth of median household income. This has pushed debt-to-income ratios to record levels and has created severe financial hardship for many Americans.

Rising consumer debt also affects economic measures. Median household income (adjusted for inflation) is usually assumed to measure the economic well-being of a typical family. But when more income must go to pay interest on past debt, less money is available to buy goods and services. High interest payments mean that living standards for U.S. households are lower than median household income would suggest, and that more people in the United States have disposable income below the poverty line than is indicated by current poverty measures.

Measuring poverty

The United States is one of the few countries in the world with an official national poverty rate. It was developed in the early 1960s by Mollie Orshansky of the Social Security Administration. Orshansky was given this task by President Johnson, who was about to declare war on poverty and wanted to be able to show his progress on this battlefield.

Orshansky's assignment was to find the minimal income that would enable households to survive during one year. She began with U.S. Agriculture Department data on the minimum food requirements for families of different sizes; she then calculated the cost of purchasing this food. Next, using 1950s surveys of household expenditures, Orshansky found that families, on average, spent one-third of their income on food. So she multiplied the cost of a minimum food budget for each family type by three to arrive at its poverty threshold. These thresholds represent the minimum income needed by families to survive during the year, and the poverty rate measures the fraction of families that fail to meet this threshold. Each year, poverty thresholds are increased by the annual rate of inflation. The official poverty thresholds in the United States thus represent a fixed and constant real living standard. The national poverty rate is the percentage of all households that fall below their poverty threshold.

This methodology has been repeatedly challenged. Harrell Rodgers contended the food requirements used in the official poverty thresholds were designed for short-term, emergency situations only; they could not meet a family's nutritional needs for an entire year.[1] Harold Watts argued that a pretax poverty measure is problematic because, while the poor paid no income taxes and virtually no Social Security taxes in the early 1960s, they faced a considerable tax burden by the 1970s and 1980s.[2] Although the Earned Income Tax Credit has substantially reduced the tax burden on the poor, for single individuals who are not eligible for a large EITC, this problem still exists.

Finally, many have argued that what constitutes minimal necessity changes over time. For example, private baths, telephones, and television sets were not regarded as necessities in the 1920s or the 1930s, but they are today. Similarly, child care was not a necessity in the 1950s or 1960s, but as more and more families have two earners, or a single head of household, child care has become an important family expenditure. For this reason, some critics prefer a relative definition of poverty to the absolute definition used by the federal government. Typically, relative definitions of poverty take poverty thresholds to be some fraction of the average or median income at a particular time and in a particular place.

Other critics claimed that the official poverty line overstates real poverty. Rose Friedman argued that families below their poverty threshold enjoy most of the amenities that most Americans take for granted.[3] Since they receive free education, own TVs and cars, and live in homes with indoor plumbing and electricity, they should not be classified as poor. Edgar Browning points out that poor families receive many in-kind benefits from the government, such as food stamps (providing subsidized food), Medicaid (providing free medical care), and housing vouchers (subsidizing rents).[4] These improve living standards, but are not counted as part of household income and so do not affect whether a family gets counted as poor.

These debates have generated many suggestions for improving how we calculate poverty, as well as many alternative poverty measures. A National Academy of Sciences report suggested varying poverty thresholds by geographic area to take account of different costs of living in different parts of the country.[5] It also suggested that government benefits and taxes should be taken into account when measuring poverty and that expenses for work-related child care and out-of-pocket medical costs should be subtracted from available

income. Based on this report and subsequent research, a new supplemental poverty measure is to be published by the Census Bureau beginning in the fall of 2011. The new measure will initially be published along with the 2010 income and poverty statistics that contain the official poverty measure, then annually thereafter.[6]

Ignored in all this is the issue of the rising indebtedness of American households. Poverty lines are supposed to represent the money income necessary to survive during the year. When Orshansky developed the U.S. poverty thresholds, most poor and middle class households lacked access to credit. Today, this is no longer true. As credit has become more easily available, many low- and middle-income households now have substantial consumer debt and must pay interest on that debt.

While debt has short-term benefits (it enables households to purchase the goods and services needed for their day-to-day survival), it also has long-term costs. Money used to pay interest on past debt cannot be used to purchase things now. These payments thus reduce the money that a household can use to purchase necessities during the year. As a result, many households have income levels above their poverty threshold, but they are effectively "debt poor" because interest payments on their consumer debt prevents them from being able to afford basic necessities. These households are not counted as poor according to the official poverty measure.

Correcting this problem is important because, for a number of reasons, figures such as the U.S. poverty rate do matter. Who we count as poor, and how close households are to their poverty threshold, determines eligibility for a wide variety of government programs and benefits, such as Medicaid, food stamps, school lunch programs, the Supplemental Special Nutrition Program for Women, Infants, and Children (WIC), and housing assistance. Numbers also affect empirical research on poverty, especially estimates of the consequences of poverty and estimates of the factors that lead to greater poverty. For example, studies of the impact of poverty on crime, and studies of the impact of growing up poor on future health and future incomes, may be suspect if they employ a flawed definition of poverty. Likewise, studies of the impact of economic growth and/or unemployment on poverty rates will contain biased estimates. Finally, it is important to remember that poverty figures refer to real people who are struggling to meet their basic needs.

Data on consumer debt

To correct official poverty estimates for interest payments on consumer debt, we rely on data compiled by the Federal Reserve Board. Every third year since 1983, the Federal Reserve has collected detailed information on assets, liabilities, debt payments, income, employment, saving behavior, and other variables from around 4,000 U.S. households. Known as the Survey of Consumer Finances (SCF), these datasets contain information on both consumer debt and the interest that households pay on this debt.[7]

Types of consumer debt

Consumer debt falls into one of five categories: (1) motor vehicle loans, (2) education loans, (3) installment loans, (4) credit cards, and (5) other debt. The first three are installment loans because they have a fixed number of payments of a given amount, which will pay off this debt. Credit cards, in contrast, only require a minimum payment on the balance each month. Again, home mortgages and home equity loans are not included in consumer debt.

Motor vehicle loans

Households finance motor vehicles in one of three ways: purchasing them outright, leasing, or taking out a loan. Between 1969 and 2006, the number of registered personal motor vehicles increased 129 percent (from 62 million to nearly 143 million), while the availability of public transportation increased only 32 percent.[8] As motor vehicles are expensive to buy and many families wish to own more than one, most of these purchases are financed.

The average amount of inflation-adjusted motor vehicle debt has gone from almost $5,000 in the 1962–63 surveys to around $20,000 in 2007. Roughly 40 percent of households had motor vehicle debt in 2007 compared to 25 percent in 1983 and 20 percent in 1962–63.

Education loans

Large education debt is a relatively new phenomenon. Reduced government grants and financial aid to students and to schools has led to both a rapid growth of student loans and to a rise in tuition costs, financed to a large extent by loans.[9] Student loan debt is often viewed as an investment, yielding income in the future. However, students may not reap significant financial returns for their investment because of labor market competition and high interest rates. Federal Stafford loans currently charge an interest rate of 6.8 percent, with even higher rates for private loans.

Average inflation-adjusted student loan debt more than doubled between 1995 and 2007 for those under 40 years old (from $4,272 to $9,664 per person), and nearly doubled for people under 30 (from $5,957 to $11,436 per person). Note that these are averages over all respondents, including those who incurred little or no student loan debt.

Installment loans

Traditional installment loans were the first type of consumer credit to become widely available.[10] They made it possible for people to purchase a variety of goods and services, from cars and sewing machines to computers and vacations, without having to save the money beforehand. This is the only category of consumer debt that has not experienced rapid growth in the past several decades, although it still increased 34 percent between 1989 and 2007, from $7,181 to $9,609 in constant dollars. The relatively small growth rate in this category is probably because many items previously bought using an installment loan can now be charged with a credit card.

Credit cards

Credit card debt must be paid in full each month to avoid interest charges. Our analysis only considers revolving credit card debt, which is the outstanding balance after paying last month's bills.[11] We do not include people who pay their credit card balances in full every month, thus avoiding interest charges.

Credit card interest rates are usually much higher than interest rates on installment loans. In 2007, the national average was 15 percent, more than double the average installment loan interest rate of roughly 7 percent.[12] Credit card interest rates are also likely to rise over time. Introductory teaser rates rise after a short period of time (usually one year or less); rates can rise even more if a borrower misses a payment or exceeds the card's credit limit.

Credit cards have become a popular means of payment in the U.S. economy. According to the SCF data, the average household has four credit cards. In 2007, credit cards were used to charge over $2.2 trillion.[13] Average revolving credit card debt rose by more than 100 percent in real terms from 1983 to 2007 ($1,700 to over $3,500). This growth resulted from a combination of high interest rates and the growing availability and use of credit cards.[14]

Other consumer debt

Debt resulting from payday loans, medical expenses, and other miscellaneous debt such as loans against pensions and life insurance are counted as "other consumer debt" by the SCF. These debts include both installment and non-installment loans. This debt category almost tripled from 1983 to 2007, rising from around $3,000 to $10,000. The SCF has no data on why this type of debt has increased or which of its parts have increased the most.

Interest on consumer debt

We also calculate interest payments on consumer debt for each household. We multiply the total amount of consumer debt in each category by its annual interest rate, then sum these five figures to get the total interest on consumer debt that each household pays during the year. These expenditures do not go to repay the principal or help get the household out of debt; they are just the interest payments necessary to service past debt.

Since home equity loans are not included in consumer debt, these interest estimates exclude all interest payments made on such loans, which have grown rapidly in the past several decades. Many of these loans were taken out to maintain household living standards in the face of declining real incomes. Mian and Sufi estimate that each additional dollar of home equity leads to 25–30 cents additional home equity borrowing, and that 30 percent of this borrowing is used to finance consumption.[15] Canner and colleagues find that 26 percent of all home mortgage refinancing in the early 2000s went to pay off other debt and that 16 percent went to finance additional spending.[16]

Our estimates also exclude various fees on credit cards, such as late fees and over-the-limit fees, which have been growing rapidly.[17] Since these fees are part of the cost of borrowing money, and since they reduce the household income available to purchase goods and services during the year, these costs should also be deducted from household income when computing poverty rates.

In addition, our estimates ignore the trend towards leasing motor vehicles rather than purchasing them and then financing the purchase. This hurts households in the long run since they lack an asset at the end of the lease period. In some measures of household financial obligations, lease payments are treated on par with payments on loans for the purchase of a motor vehicle.[18] Furthermore, some people lease with the intent to try out the vehicle and purchase it later. For these individuals, lease payments are partly interest payments.

Finally, our estimates are based on individual reports of indebtedness and interest payments on consumer debt. People are usually reluctant to disclose how much debt they actually have. For all of these reasons, the SCF understates the true consumer debt problem facing U.S. households and thus our revised calculations of poverty rates taking into account consumer debt are still underestimates.

New poverty estimates

In order to calculate our revised poverty rates, we follow the official federal methodology. Using the Census's Poverty Thresholds and SCF datasets, we analyzed eight different family sizes (from single to married with three children) and compared their incomes to the poverty thresholds to determine how many were poor. These eight groups comprise over 90 percent of U.S. households. We ignore larger households because of the small sample size for such families. Since poverty rates generally rise with family size, this again makes our estimates conservative.

We next subtract from each household's income the amount it spent on interest payments to service its consumer debt. Comparing this figure with government poverty thresholds, we can determine the interest-adjusted number of poor, and the interest-adjusted poverty rate. We estimate that the poverty rate for households in 2006 including the debt poor was 13.4 percent, compared to the 12.3 percent reported by the government. Thus we estimate that there are over 4 million debt-poor Americans, people who were not classified as poor by the government in 2006 but who did not have sufficient income to purchase the goods and services necessary for survival according to the official definition of poverty.

As Table 1 shows, the fraction of the population that is debt poor has increased from around half a percentage point in

Table 1
Official Government Poverty Rates
and Interest-Adjusted Poverty Rates

SCF Survey Year	Government Poverty Rate	Debt Poor	Total Poor
1983	15.0%	0.5%	15.5%
1986	14.0	0.5	14.5
1989	13.0	0.8	13.8
1992	14.2	0.6	14.8
1995	14.5	0.8	15.3
1998	13.3	0.7	14.0
2001	11.3	0.5	11.8
2004	12.5	0.9	13.4
2007	12.3	1.1	13.4

Notes: Authors' calculations using Federal Reserve's *Survey of Consumer Finances, 2009*. Government poverty data comes from the U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2007* (Washington, DC: Government Printing Office, 2009).

the 1980s to more than one percentage point in 2006. With the ongoing economic crisis, these figures should continue to rise.

This trend likely stems from several factors. First, for many American workers, wages have been stagnating or falling. Households have tried to make up for this through increased borrowing. The ready availability of credit made this easier to do. Second, position or relative consumption has become increasingly important as income inequality has increased.[19] To finance the increased spending necessary to "keep up with the Joneses," households must resort to borrowing. Finally, the price of higher education has greatly increased over the past several decades. Young people are graduating with more debt, which also increases the possibility that they will need to borrow more in order to finance consumption when they start working.

Conclusion

We have argued that our economic data on poverty is flawed because it ignores interest payments on consumer debt. We have used conservative estimates to count the debt poor in the United States over time. We calculate that around 4 million Americans are currently debt poor and that this number has been increasing and is likely to continue to rise.■

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[6]More information on the proposed Supplemental Poverty Measure can be found at the Census Bureau Web site, http://www.census.gov/hhes/www/povmeas/povmeas.html.

[7]All data was collected early in the calendar year. Debt data is therefore for the present month, but income data is from the previous year. We refer to each dataset by the collection year. All figures are shown in 2007 dollars, the last collection year.

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Effects of mandatory financial education on low-income clients

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Public policies mandate financial education for financially distressed consumers in a variety of contexts, including bankruptcy and foreclosure, as well as for consumers faced with impending financial decisions. Financial education and counseling are provided in the workplace, in schools, by community groups, and as part of public programs. The impact of financial education on credit behavior is relatively untested. This article summarizes a randomized field study that evaluates a highly targeted mandatory financial education curriculum for very low-income clients in a housing voucher program.

Prior research

Several studies have documented the extent to which consumers in the United States and other countries fail to demonstrate financial literacy, numeracy, or both.[1] Financial knowledge measures tend to be higher for more-educated consumers and lower for lower-income consumers.[2] Consumers' understanding of interest and interest rates tend to be particular areas of weakness.[3]

One problem in financial literacy research is establishing accurate measures of financial knowledge. Many studies utilize self-reported knowledge scales ("how confident are you in your knowledge of…"). At least one study found that people tend to overestimate their financial knowledge relative to what they actually know.[4] Thus, studies that rely on self-reported data may yield ambiguous findings. Selection bias is an even more significant problem within existing financial education evaluations.[5] Unobserved characteristics including greater motivation and patience levels may drive certain individuals to seek out financial education or counseling. If these same characteristics also facilitate financial success, then selection effects and not financial education may be responsible for positive findings associated with financial literacy education.

The types of services examined in previous studies include short programs delivered in the context of a particular decision, more intensive one-to-one counseling, and longer-term formal education programs. The clients targeted are often moderate-income individuals faced with impending financial decisions, such as buying a home, investing for retirement, or correcting credit problems. Few evaluations have analyzed financial education programs targeted to very low-income families, and few have evaluated mandatory financial education programs delivered over several weeks. Furthermore, no evaluations have randomly assigned clients into treatment and control groups, so selection effects may have biased past evaluations.

Overall, the evaluation literature suggests that financial education can help individuals gain financial knowledge and that financial knowledge is linked to financial behavior. Possible outcomes from financial education include greater levels of savings, use of bank accounts, and improved credit behavior. Because of selection effects, however, further studies are needed for better estimates of the causal impacts of financial literacy education.

Modeling the effects of financial education

The literature on financial literacy education lacks a strong theoretical framework. Most studies rely on a "black box" model such that information or counseling is the input and the expected outcome is a measurable effect on knowledge and/or behavior. In general, theories of behavior change in the financial education field are derived from the health literature. These approaches all emphasize that behavior change results from a combination of attitudes, social norms, and intentions; knowledge gains alone are insufficient. The model of behavior change that underlies this study is based largely on Ajzen's Theory of Planned Behavior.[6] It is expected that housing voucher clients who complete a mandatory financial education program will exhibit greater improvements in three areas than a control group. First, consumers who complete a mandatory financial education program are expected to report greater increases in their self-assessed knowledge of financial issues. Second, they are expected to report greater improvements in their attitudes about saving and budgeting. Third, they are expected to exhibit greater improvements in objective measures of financial behavior including credit reports and bank statements. This model is admittedly simplistic, as it does not include social norms and instead assumes that social norms are similar across participants and are unaffected by the financial literacy program. This model recognizes that knowledge and behavior may interact through unobserved feedback mechanisms. For example, financial knowledge gained through past behavior may influence future behavior.

The Long Island Community Development Corporation study

I report here on a recent study that addresses some of the deficiencies in the financial education literature. Data for this study were provided by the Community Development Corporation of Long Island, New York (CDCLI). This non-profit agency is the regional administrator of federal rental housing vouchers. Low-income families receive vouchers to subsidize rental payments made to private landlords. Recipients are also enrolled in the federal Family Self-Sufficiency (FSS) program. The FSS program allows families to earn additional income without losing their housing subsidies. All housing voucher clients in the FSS program are required to complete a financial education course, although clients have up to five years to complete the course. The CDCLI created a financial literacy program called "Financial Fitness" for these clients. Financial Fitness is delivered over five sessions and covers a range of topics including credit, savings, and budgeting. For this study, 144 very low-income housing voucher clients who needed to take the Financial Fitness course were randomly assigned to either a treatment group (which was required to take the course within one year of randomization) or a control group (which was prohibited from taking the course for one year). The majority of clients in the treatment group completed the five class sessions in one month or less.[7] Due to attrition, 17 of the 144 clients who initially agreed to participate in the study were dropped from the final sample. The final sample comprised 60 clients in the treatment group and 67 clients in the control group. Multiple statistical techniques were used to address the differential rate of attrition between the treatment and control groups.

Baseline characteristics

Table 1 shows that clients in both the treatment and control groups had little savings and poor credit ratings at baseline (FICO scores below 680 are considered "subprime" in this study). Average outstanding debt was higher for the treatment group than for the control group, but not at statistically significant levels. However, the treatment group's mean income was significantly higher than the control group's mean income at baseline. As a reference point, federal guidelines define very low-income as income below 30 percent of an area's median income, which equates to $24,000 for a family of four in this region (the mean family size for the entire sample is four). A higher percentage of the treatment group had subprime credit scores than the control group (83 percent compared to 73 percent), a difference that was statistically significant at the 10 percent level. The treatment group was also more likely to be employed full time (52 percent compared to 39 percent), which was significant at the 10 percent level. Although not reported in Table 1, about one-half of the clients in both groups were African American, one in ten were Latino or Hispanic, and the remaining one-third were white. Two composite indices aggregated questions concerning clients' self-reported financial knowledge and behavior. Table 1 displays clients' mean scores on both the knowledge

Table 1
Selected Baseline Means for Treatment and Control Groups

	Treatment	Control
N	60	67
Savings balance	$363	$217
Subprime credit score (FICO<680)[+]	83%	73%
Outstanding debt	$8,463	$7,504
Income**	$23,239	$19,382
Welfare receipt	16%	17%
Less than high school education	16%	21%
Household size	3.9	4.0
Female client	96%	93%
Single headed household	73%	68%
Age (years)	39	39
Employed full time[+]	52%	39%
Years in the FSS program	3.7	3.6
Composite index of self-reported financial literacy[a]	1.77	1.73
Composite index of self-reported financial behavior[a]	1.13	1.29

Notes: The sample includes those that participated in both the baseline and follow-up surveys.
[a]Measured on a five-point scale where 0=poor and 4=excellent.
**Difference is statistically significant at the 1% level.
[+]Difference is statistically significant at the 10% level.

and behavior indices at baseline. As might be expected from this relatively disadvantaged population, self-reported scores on both the knowledge and behavior indices tended to be low. In general, clients gave themselves higher marks for providing for their family and lower ratings for saving and investing. Aside from the income, subprime credit, and full-time employment variables, no other differences between the treatment and control groups were significantly different at baseline. This is expected given the randomization process.

Estimated program effects

The statistical models indicate that financial education influences clients' self-reported financial knowledge and ultimately results in improvements in their financial behaviors. Although this study measured changes in clients' attitudes and perceptions, these findings were largely nonsignificant and are therefore not reported. Effects are estimated using difference-in-differences specifications across 35 measures. The measures include data from credit reports and bank accounts, as well as clients' responses to baseline and follow-up surveys. The surveys asked clients to rate their financial knowledge and behavior.[8]

Financial knowledge estimates

Based on prior studies, financial knowledge has a strong association with financial behavior. It is expected that clients who completed the financial education program would report greater increases in their understanding of a variety

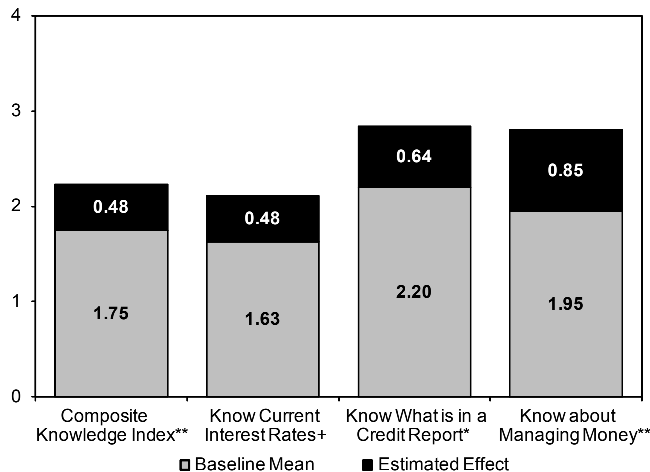

Figure 1: Estimated effect of financial education on self-reported knowledge (0=nothing, 4=a lot).

Notes: n=127; + significant at the 10% level; * significant at the 5% level; ** significant at the 1% level.

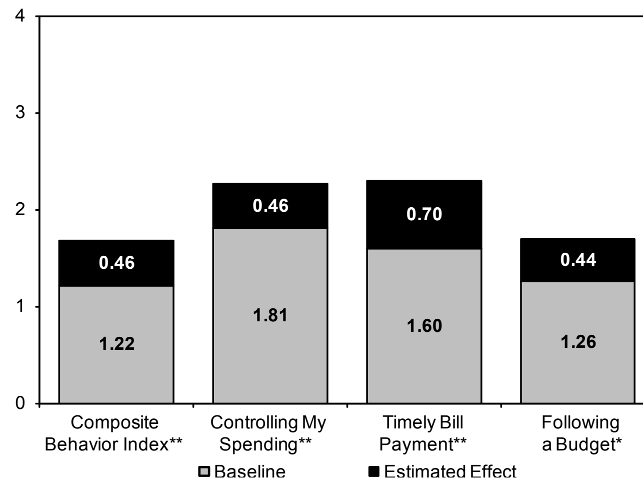

Figure 2: Estimated effect of financial education on self-reported behavior (0=poor, 4=excellent).

Notes: n=127; + significant at the 10% level; * significant at the 5% level; ** significant at the 1% level.

of financial topics compared to clients in the control group. Clients completed a series of questions about how much they understood interest rates, credit ratings, managing finances, investing, and what is on their credit reports. Responses ranged from "nothing" (0) to "a lot" (4). A composite index was created that aggregates clients' scores across the self-reported knowledge measures. Figure 1 shows the estimated effect of financial education on the aggregate index, as well as on three specific questions that were statistically significant. The baseline mean for the composite knowledge index was 1.75, and the difference-in-differences estimation indicates that the financial education program led to a 27 percent increase in this index at follow-up (to 2.23). The program was also associated with increases in clients' knowledge of money management, what is on their credit reports, and current interest rates. Consistent with the program's scope, Financial Fitness was not associated with improvements in clients' self-reported knowledge of investing. While these self-reported knowledge gains are promising, the program's ultimate goal was facilitating behavior change.

Financial behavior estimates

Clients answered a series of questions about their self-reported financial behaviors. Responses to these questions ranged from "poor" (0) to "excellent" (4). A composite index aggregates clients' responses to the self-reported behavior questions. Figure 2 shows the estimated impact of the Financial Fitness program on the self-reported behavior index, as well as on three specific behaviors that were statistically significant. The mean score on the composite index was 1.22 at baseline. The statistical analysis indicates that the financial education program led to a 38 percent increase in the composite score at follow-up (to 1.68). Clients' self-reported ability to control their spending, pay their bills on time, and budget were also significantly higher at follow-up.

Savings account and credit report data contain two objective measures of clients' financial behavior. The mean savings balance was $286 at baseline. The regression analysis indicates that the Financial Fitness program led to an increase of $362 in savings, an increase that was significant at the 1 percent level. Over one-third of the curriculum used in this study focused on managing credit and debt, a typical topic for courses provided to low-income families. Credit report data include a FICO score—named for the Fair Isaac Corporation, which developed the score. FICO scores range from 300 to 800 and are based on a proprietary formula using multiple variables contained in the credit report, including the number of accounts, amount and age of debt, and share of available credit in use by the individual. The statistical analysis indicates that the financial education program led to a statistically significant decrease in the percentage of clients with credit scores in the subprime range (again defined as 680 in this study). The marginal effect of the financial education program on the percentage of clients with subprime credit scores was estimated to be a decrease of 13 percent. Improvements in credit scores may allow clients to qualify for lower interest rates and help clients access additional credit.

Discussion

The Financial Fitness program was designed to help clients access basic banking services, learn budgeting skills, boost savings, and repair credit problems. This study shows that financial literacy education is indeed related to improved financial behavior among the program's very low-income clients. The primary evidence of behavior change is the significant increase in savings account balances (an additional $362), as well as the modest decrease in the percentage of clients whose FICO scores were below 680. Clients' self-reported knowledge gains were also greater for the treatment group than for the control group, especially in the areas of credit and money management. In contrast to the improvements in clients' financial knowledge and behavior, the find-

ings concerning financial attitudes were largely nonsignificant. In the end, many of the findings are surprisingly robust given the relatively small sample size and the weak impacts reported in past studies.

This study has several advantages over previous studies. It includes objective measures of behavior from bank accounts and credit reports, rather than relying solely on self-reported data. The financial education program was mandatory, which reduces the potential bias introduced when clients select into a program. Clients were randomly assigned to the treatment group or the waitlisted control group. This design minimizes concerns about withholding services, and randomization allows for better causal estimates than descriptive (e.g., pre-post) or quasi-experimental evaluations. Furthermore, the one-year follow-up period gave clients enough time to incorporate knowledge gains into their behavior. Behavior changes could then be documented in credit report and bank account data. Finally, because clients were enrolled in a housing voucher subsidy program, they were closely monitored and data were regularly available as part of the program's administrative process.

Despite these advantages, several caveats are worthy of discussion. Generalizing these results to other programs requires caution. Because clients' initial financial circumstances were particularly dire, they may have responded more strongly to financial education than consumers with more stable financial situations. On the other hand, administrative notes suggest that clients experienced a variety of obstacles including domestic violence, unstable employment, drug and alcohol abuse, and problems finding and maintaining adequate day care. Given the array of problems clients confronted, one may expect that the Financial Fitness course would have more limited impacts. This study is also specific to very low-income households in a housing subsidy program that included a financial self-sufficiency component, which raises further questions about the study's generalizability. Because clients were enrolled in other programming, they may respond differently to financial education than clients who are enrolled in housing subsidy programs that lack a self-sufficiency component, or clients who are not part of any type of housing subsidy program.

There are also problems related to the study's design. First, the sample is small and was reduced considerably by the consent process and attrition. The effects of consent and attrition are only partially observable. While an analysis of the consent process indicated that it did not bias the results, attrition was not random. Clients in the treatment group were more likely to leave the program. While the statistical models included observable characteristics in order to minimize attrition bias, the models cannot account for unobserved characteristics related to clients' decisions to leave the program. The second problem with the design is that members of the control group were aware of their participation in the study. The consent process alerted clients that they needed to complete the Financial Fitness course. Clients who were waitlisted and told they could not attend Financial Fitness classes for one year may have reacted to this information in ways that affected their survey responses and even their behavior. For example, clients in the control group may have initially intended to create a budget but upon being waitlisted decided to wait until they took the course. Program staff suggested that while some clients were excited about the program, most clients viewed it as just another requirement to remain eligible for their housing vouchers. Nonetheless, the design may have introduced some unobserved bias.

Directions for future research

This study has three primary implications. First, mandating financial education can have positive effects on savings and credit outcomes among very low-income individuals. Financial education can also lead to improvements in clients' self-reported understanding of financial issues. If increasing savings levels and improving credit outcomes are policy goals, then incorporating mandatory financial education courses into public programs may be a successful public policy.

Second, from a social welfare perspective, mandatory financial education programs may lead to improvements in savings levels and credit quality that are more valuable than the costs of service delivery. Additional benefits will be realized as improvements in clients' credit ratings yield lower borrowing costs and greater access to credit. To the extent that financial education can be delivered at a cost equal to or below its marginal benefit, financial education is a good investment of public and private resources if improving low-income families' financial status is a policy goal.

Third, this study indicates that if influencing clients' attitudes and perceptions is deemed important—and the literature suggests beliefs are a precursor to behavior change—then the content of financial literacy efforts should focus more on examining attitudes toward spending, saving, incurring debt, and taking financial risks. Providers of such courses should focus on the use of debt, planning for financial risks, and weighing the costs and benefits of taking on various types of debt versus paying off existing debt or saving. Teaching "values" is challenging, however, and may require innovative new approaches.

It may also be possible to complement educational efforts with longer-term "coaching" services. Using regular check-ins, a financial coach can help clients implement the skills and knowledge they gain from formal financial education programs, as well as monitor clients' progress over time. Coaches can help clients formulate and achieve financial goals and provide support for maintaining desired behaviors.[9] Programs could also use peer groups as a support structure to help clients adhere to financial goals and develop positive attitudes about money and savings. These approaches may help provide self-control and impose constraints on people who want to save and pay off debt, but who have difficulty putting their newfound knowledge and skills into action.

Future research on financial literacy education could expand on these findings by examining longer time periods. A longer study period would allow for further analysis of the impact of financial education on credit and savings outcomes. Given the increased risk of attrition as the study period is lengthened, however, such an approach would require a substantially larger initial sample to allow for more extensive modeling.■

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[1]For a review, see A. Lusardi and O. Mitchell, "Financial Literacy and Retirement Preparedness: Evidence and Implications for Financial Education," *Business Economics*, 42, No. 1 (2007), 35–44.

[2]J. Agnew and L. R. Szykman, "Asset Allocation and Information Overload: The Influence of Information Display, Asset Choice and Investor Experience," *Journal of Behavioral Finance*, 6, No. 2 (2005): 57–70.

[3]D. Moore, *Survey of Financial Literacy in Washington State: Knowledge, Behavior, Attitudes, and Experiences*, Technical Report No. 03-39, Social and Economic Sciences Research Center, Washington State University, 2003.

[4]Agnew and Szykman, "Asset Allocation and Information Overload."

[5]S. Meier and C. Sprenger, *Selection into Financial Literacy Programs: Evidence from a Field Study*, Policy Discussion Papers, Boston: Federal Reserve Bank of Boston, 2007.

[6]I. Ajzen, "From Intentions to Actions: A Theory of Planned Behavior," in J. Kuhl and J. Beckmann (Eds.), *ActionControl: From Cognition to Behavior* (pp. 1 l–39) (Heidelberg:

Springer, 1985).

[7]Completing the course was mandatory. All clients were required to fill out baseline and follow-up surveys. The follow-up survey was administered 12 months after the baseline data collection for each client. The sample was completed in September 2007. Clients received a total of $60 dollars if they completed both surveys ($30 each survey).

[8]The original paper uses three difference-in-differences specifications, only one of which is reported in this article. The first specification is a traditional difference-in-differences experimental estimator. This approach estimates the difference in changes between the treatment and control groups from baseline to follow-up, using an indicator for assignment into the treatment group. The second specification uses propensity score matching to weight the traditional difference-in-differences experimental estimator. This specification attempts to balance the treatment and control groups due to the differential level of attrition. The third specification, reported here, includes control variables to account for differences in the baseline values for each group that may be associated with the intensity of other services received. In most cases the results become more robust using the weighted estimator with controls, as might be expected.

[9]See, for example, A. Minzner, .S. Hebert, A. St. George, and L. LoConte, *Evaluation of the CWF Coaching Pilot* (Cambridge, MA: Abt Associates, Inc., 2006).

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Edited by Emma Caspar

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IRP named RIDGE Center for National Food and Nutrition Assistance Research

Officials from the Economic Research Service (ERS) of the U.S. Department of Agriculture have chosen the Institute for Research on Poverty (IRP) at the University of Wisconsin–Madison to be a center for national research on nutrition assistance programs. The primary mission of the new and unique center, called the IRP\RIDGE Center for National Food and Nutrition Assistance Research, will be to stimulate innovative research related to food assistance programs, enable training of researchers interested in food assistance issues, and provide timely and accessible information on new research findings.

ERS also created a second research hub, the RIDGE Center for Targeted Food and Nutrition Assistance Research, at the Southern Rural Development Center (SRDC), Mississippi State University. The IRP RIDGE Center will focus on food and nutrition issues that affect the nation as a whole, and SRDC will focus on issues as they affect specific populations, such as residents of rural areas, Native Americans, and immigrants.

As the new RIDGE (Research Innovation and Development Grants in Economics) Center, IRP serves as a nationwide hub for sponsoring new research related to such programs as the Supplemental Nutrition Assistance Program (Food Stamps); Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); and the National School Lunch Program. Visit IRP's Web site at www.irp.wisc.edu for further information about the program, grant opportunities, and a new visiting scholar program for food assistance researchers. See page 34 for abstracts of the four 2010–2011 RIDGE projects.

To subscribe to IRP's RIDGE Center listserv, which periodically announces food assistance research grant opportunities and calls for visiting scholar applications and provides links to new research findings, send an e-mail message to irpridge-request@ssc.wisc.edu with "subscribe" in the subject line.

Supporting saving by low- and moderate-income families

Peter Tufano and Daniel Schneider

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Families save for a wide variety of reasons, including identifiable reasons such as education and retirement and others they can't even articulate, such as for unforeseeable circumstances or future dreams. Definitions of what constitutes "enough"—enough material possessions, enough services, enough savings—vary widely from person to person. In this messy world, where companies never exhort us to "spend less," saving is hard work, and it is no surprise that household saving rates are low.[1] In 2007, the United States personal savings rate dipped to 0 percent—a fifty year record low.[2] While some debate the proper measurement of the saving rate, there is little dispute that large shares of Americans have saved very little for a long period.[3] In 2004, 10 percent of households had less than $100 in financial assets.[4] Large shares of the population are "asset poor," lacking sufficient financial assets to survive at the poverty line for three months.[5] Over the last ten years, the asset poverty rate has generally been well in excess of 25 percent of the full population, and about 60 percent for blacks and for households headed by someone without a high school diploma.[6] Lack of savings may make it more difficult for families to respond to emergencies, to invest in education and business opportunities, and to retire comfortably.

Some are pessimistic about the potential to address this problem. It may seem as though providing sufficient financial incentives to encourage low- and moderate-income families to save is too expensive and politically unlikely. Similarly, it can be difficult to imagine that the private sector will support such efforts because the potential for profits is too low to make it worth their while.

While these concerns are real, we believe they do not close the book on savings policy. Given that pressures to consume are not likely to abate, what realistically can governments, nonprofits, social institutions, and financial institutions do to help families save? Because people are diverse, it is unlikely that a single solution to the savings problem exists. Rather, this article describes a range of solutions, many of which have great promise in supporting household savings. The continuum ranges from solutions that force families to save (coercion) to others that seek to work consumers into a frenzy about savings (excitement). These varied solutions emphasize different elements of human behavior or impediments to savings. Some require massive government intervention, some require small changes in existing regulations, and still others are completely market oriented. Some require large subsidies, while others might be profitable on their own.

Our notion of savings in this piece is explicitly broad: Savings is the deferral of consumption today to enable the use of funds later. That later period may be decades away, as in retirement. Or, in low-income communities, the deferral may only be a matter of weeks or months, until a water heater breaks. We make no value judgments that only "long-term" savings can be helpful to families. To the contrary, short-term savings can be critical. An emergency fund that allows a family to quickly repair a car needed to get to work can be essential. While most of the concepts we discuss could apply to people of all incomes, our emphasis is on savings structures that would be relevant to low- to moderate-income households.

The range of savings innovations: From coercion to excitement

We attempt to organize savings programs along a variety of dimensions in order to emphasize their common features. Exhibit 1 provides a quick summary of the various dimensions. The first consideration is the mechanism by which the innovation changes the ability or motivation of the saver. We identify six categories for this mechanism. At one extreme are *process* innovations that take the savings decision away from the family through outright transfers or government-mandated savings. Other process innovations do not coerce savings, but make it easier to save or harder not to save by changing the time and place of savings while leaving the decision to save in the consumers' hands. Alternatively, *product* innovations reengineer the cost-benefit calculation of savings by adding financial, social, or psychological incentives. This set of six types of saving innovations represents the primary dimension along which we compare the interventions.

Another dimension is the barriers that inhibit saving. Innovations that take away the need to decide at all, either by giving or mandating savings, are blunt instruments that address all possible impediments. Other process innovations seek to increase savings by making it "easier," either using an alternative way to frame the decision (for example, setting up saving as a default), or by making the offer at a better time

Exhibit 1
Summary of Savings Program Alternatives

	Force to Save	Hard Not to Save	Easier to Save	Bribe to Save	Social Support	Fun or Exciting Savings
Current Barrier	All (ability and will)	Institutional impediments, inertia		Savings not "worth it"; would rather consume		
Saver's Role	No choice	Must refuse to save	Given more convenience, but must decide	Given different savings opportunities, but must decide		
Intervention	Change the savings decision making-process		Change the time and place for savings	Change the cost-benefit of savings itself		
Likely Partner	Government	Workplace, Govt, Vendors of produts and services	Retail sector, workplace, tax sites, schools	Government, Foundations	Communities and social networks	Financial service firms, possibly government
Cost or Profit Potential	High cost (grants); medium cost (man-date)	Generally low cost	Medium cost (new channels); low cost (tax channel)	High $ cost (matches, bonuses)	Low $ cost; high effort by community	Potential for profits in long-run
Example	Mandate (Social Security); Grant (UK Child Trust Fund)	Defaults; bundling; commitment products	New distribution channels; SMarT; buying savings	401k, IDAs, Savers Credit	ROSCAs and gifting savings	Prize linked saving, collectible savings

and place (such as when people have money and are thinking about their family finances). Product innovations all try to make the savings "deal" more attractive, varying in the dimensions along which the savings transaction is defined. If individuals are rational economic actors preferring more to less, financial incentives may induce savings. If we conceive of individuals embedded in a social context, savings can be enhanced by giving people a return in the form of stronger ties to a group. If we think of individuals as responding to psychological incentives, then product innovations can leverage behavioral quirks, such as individuals' tendencies to misestimate low-probability events, be overly optimistic about their own abilities, or draw mental fences around otherwise comparable activities.

Another dimension by which programs differ is in the stakeholders who are involved. By "stakeholder" we mean a party, apart from the saver, who must act to implement the innovation. Some programs involve governmental entities, for example, programs that deliver financial incentives via the tax system or change eligibility for government benefits. Other programs involve financial institutions, such as those that bundle savings with other financial products. Still others involve nonprofits or social networks, leveraging relationships to spur saving.

These stakeholders almost always need to bear costs to support family savings. Some solutions require substantial financial resources (e.g., programs that grant savings or provide financial incentives) and may cost not only dollars but political capital as well. Other programs may require efforts by social groups, drawing upon their social capital. Still others may require investments by financial services in systems and marketing, and some may be costly in the form of potential formal and informal liabilities borne by stakeholders attempting to support family savings.

Any categorization exercise is prone to imprecision. In practice, many savings interventions incorporate both product and process innovations. Some product innovations simultaneously change the economic, social, and psychological features of the product bundle.

Coercing saving

The first class of innovations does not require the individual to make a decision to save. These interventions literally compel individuals to save, under the assumption that without paternalistic government mandate, individuals would fail to accumulate adequate savings. Often, these programs offer universal participation to redistribute individual savings so as to lessen inequality and build a political base of support. Involuntary programs, overseen and funded by the government, tend to fall into two categories, those that force families to spend less to save, or those that give families additional funds but only in the form of savings. These general characteristics are summarized in the first column of Exhibit 1.

One example of forcing families to spend less in order to save is Social Security. While not savings in the traditional sense, Social Security provides a functional equivalent by requiring U.S. workers to make regular contributions, which are matched by employers. These funds are savings in the sense that current consumption is deferred with the goal of ensuring future consumption. Saving is coerced in that the only way not to participate is to avoid working or break the law.

A more recent example of coercing saving is found in the United Kingdom's Child Trust Fund (CTF), which is also an involuntary program, but which takes a different tack from Social Security, giving savings rather than withholding them. The CTF was designed to ensure that all British children will have savings upon reaching age 18, and also to facilitate the development of good saving habits.[7] Beginning in April 2005, every British child born after September 1st, 2002, received a grant of at least £250 at birth, with a similar grant due at age 7. Children born into low-income households receive grants twice as large.[8] The CTF (and various American proposals along the same lines) compel saving, but do so in a way so as not to inspire much complaint. Nonetheless, these policies are involuntary or coercive in that individuals end up with savings without having taken affirmative steps to build assets and without the ability to opt out of that asset creation.

Making it hard not to save

With Social Security in the United States or the United Kingdom's CTF, it is nearly impossible not to save except by not working or not being born. Closely related would be the concept of making it difficult for people *not* to save; that is, making *not* saving an affirmative decision. In this section and the following, we present a set of innovations that are slightly less coercive than either granting savings or forcing people to save. First, we discuss those that make it hard not to save through the use of defaults and bundling, and then we turn to those that make it easy to save (or harder to dissave), through commitment of savings products and by lowering the impediments to saving. These programs tend to change the manner in which the savings decision is made.

Innovations of this sort proceed from a slightly different set of behavioral assumptions than coercive savings policies. People are subject to certain behavioral biases, such as a susceptibility to procrastination, problems of self-control, and orientations towards the status-quo, that have a powerful effect on human action. This behavioral logic is summarized in the first row of column 2 of Exhibit 1.

One way to make saving the default behavior is to make 401(k) plans "opt out" (new employees must affirmatively choose not to participate) rather than "opt in." An increasing number of U.S. companies are changing their 401(k) enrollment policies in this direction and federal policy, in the form of the Pension Protection Act of 2006, supports these "nudging" strategies. A second strategy makes saving difficult to avoid by bundling it with an activity in which consumers typically engage, such as shopping, using a credit or debit card, or borrowing. This type of innovation is embodied most simply in amortizing mortgages. A person who wants to buy a house can get a loan whereby over time the borrower essentially "pays herself," or saves by investing in the equity in her home as the loan is paid off. Each month, the mortgage bill not only covers interest and tax and insurance escrows, but is also effectively a "savings bill" that purchases more home equity. A complementary set of products make it hard not to save through withdrawal commitments. These commitments could, for example, take the form of withdrawal penalties on tax-advantaged programs like Individual Retirement Accounts (IRAs).

Making it easy for people to save

Innovations that make it easy for people to save still require individuals to make a conscious, unbundled savings decision, but lower the impediments to saving. Making saving easy involves making savings products available when and where people can save, that is, where they have "free" money. These attributes are described succinctly in column 3 of Exhibit 1. They typically open up new, convenient distribution channels and make saving less of a hassle.

One such distribution channel is the workplace; for most Americans, the primary source of funds potentially available for savings comes from their employment income. One clever innovation that marries product and process innovations in the workplace is the Save More Tomorrow (SMarT) plan proposed by the economists Richard Thaler and Shlomo Bernartzi, which allows people to save easily with "free" money, that is, their future raises.[9] Mechanisms that allow people to pre-commit to savings may help to circumvent a lack of self-control. Certain sources of money may also be mentally classified differently than others.[10] For instance, people may act differently with unanticipated winnings than with regular income flows. First implemented in 1998, SMarT leverages these behaviors by allowing workers to pre-commit to saving a portion of *future* salary raises.

Tax preparation sites can also provide an easy distribution channel. The Internal Revenue Service distributed over $268 billion in tax refunds in 2007, with $120 billion to families with adjusted gross incomes of under $40,000, largely through the Earned Income Tax Credit (EITC) and the Child Tax Credit.[11] Large in total, these refunds are also financially meaningful at the family level. In 2007, nearly 22 million low- to moderate-income families claimed and qualified for an EITC refund, receiving an average EITC refund of over $1,900.[12] Refund dollars may be particularly "savable," because individuals mentally account for lump-sum distributions differently from regular income flows, seeing them as surplus or bonus funds.[13] Research on the uses of the EITC has found that many recipients either save a portion of their refund or use refund dollars to purchase relatively expensive durable goods such as appliances or autos.[14] Because the large majority of refund recipients file for refunds through intermediaries such as commercial or volunteer income tax assistance programs, this saving could be made even easier by having these professionals both provide filers with access to savings products and allowing filers to pre-commit to saving months or weeks before refund receipt. This type of saving may be facilitated by allowing refund recipients to "split" their refunds, allocating some funds to savings products and some funds to expenditures.[15] While many low-income refund recipients may have existing access to appropriate sav-

ings products, other filers may not. Recent research suggests that U.S. Savings Bonds may be a good simple and universal savings option for these filers.[16] The Obama administration's decision to allow refund recipients to direct a portion of their refunds to the purchase of Series I Savings Bonds embodies this strategy.

A third possible distribution channel is retail point of sale. Retail purchasing is generally considerably easier and less time-consuming than arranging savings. You give the merchant payment and you walk out with the product. It might be possible to create point-of-sale savings where a consumer could "buy" savings in the same way that one buys a cup of coffee, a pack of cigarettes, or a lottery ticket. This principle is currently used in prepaid cards and mobile banking products. One could construct an alternative to a prepaid card that emphasized saving; this alternative card might be branded differently, could pay interest, and could restrict withdrawals, earning most of its economics from net interest margin. The goal would be to make it as easy to "buy" savings as to buy anything else, and to make the economics of point-of-sale savings attractive to low-income savers. This would expand the point-of-sale savings "outlets" from depository institutions to a much wider range of possible places, such as supermarkets, convenience stores, and other retail locations. Various entrepreneurs are creating versions of these products.

Bribing people to save

Financial economists seem especially fond of monetary incentives (bribery) to change behavior. The private sector is generally less enamored with bribery, but uses it in the form of promotions and discounting. For example, banks sometimes offer attractive bonuses in the form of teaser rates on CDs and other products. In the extreme form, compelling saving through outright grants would be the ultimate bribe. One less extreme form of bribery is Individual Development Accounts (IDA), which match the saving deposits of low-income participants (column 4 of Exhibit 1). Similarly, the Retirement Savings Contribution Credit (the Saver's Credit), a progressively structured (but nonrefundable) tax benefit that awards the largest credits to the lowest-income taxpayers, also makes use of incentives to encourage savings. Finally, the Universal 401(k) proposal seeks to establish a simple program that matches contributions to retirement savings accounts. One version of the Universal 401(k) would provide a match to retirement savings in the form of a fully refundable tax credit that would be directly deposited into the tax filer's 401(k), IRA, or new government-sponsored account.[17]

Making saving a group activity

While economists tend to see money as a universal motivator, psychologists and sociologists see other quantities as the building blocks of motivation. Whereas behavioral economics tends to view these other factors as leading to various decision making "biases," other disciplinary perspectives see fear, greed, guilt, excitement, and belonging as determinants of behavior that could stimulate savings. These other lenses provide inspiration for a variety of savings programs, including those that leverage groups' approval and norms to encourage savings (in much the same way that micro-lending uses group norms to reduce default rates on loans).

Innovations that make saving a group activity are summarized in column 5 of Exhibit 1. Leveraging the power of groups, rotating savings and credit associations (ROSCAs) are found in communities around the world. A number of people meet regularly, and at each meeting, each member of the group contributes funds that are aggregated and presented to one member of the group. These meetings continue until each member has been awarded the pooled sums. For instance, a ten member group may meet weekly. At each meeting every member contributes $25. In the first week these funds are awarded to member A, in the second week everyone again contributes $25 (including A) and the funds are awarded to B. This process continues until all ten members have received the "pot." In this way, members who received the pot early on become debtors to those members who have not (who are essentially creditors). This basic structure has been modified extensively. The order of receipt can be set by seniority, lottery, or bidding. The amount of the pot can be fixed over time or adjusted to compensate members who receive it later in the process. The group's savings can be regularly distributed, or saved to serve as capital for loans.

Most of the literature on ROSCAs focuses on developing countries, where formal finance is lacking. However, ROSCAs also exist in the United States, especially in immigrant communities. This savings innovation could also be successfully implemented in non-immigrant low-income communities in the United States. The sociologist Nicole Woolsey Biggart identifies five factors that should be in place for ROSCAs to function effectively: (1) social structure is communally based, (2) obligations are collective, (3) community members are stable economically and socially, (4) the community is socially and geographic isolated, and (5) members have equal social status.[18] These conditions are likely met where there are dense kin networks, relative isolation from formal financial institutions, and an economically homogenous population.

In the United States, there are groups that try to create social rewards and support for savings. One well-known example of this is the America Saves! campaign. Begun in 2001, the program aims to encourage people to save by setting up citywide savings campaigns around providing education and encouragement. Approximately 67,000 people have enrolled in the program in the United States, making a savings plan and pledging to meet their savings goals.[19] The specific content of the program varies across sites, but the individual initiatives are similar in their focus on creating a social movement around savings, emphasizing that individuals are joining a "network of individuals who are interested in

building wealth and reducing debt" and are becoming "part of a growing community… realizing their dreams."[20] While the social bonds forged by saving are less obvious than in ROSCAs, this innovation tries to frame savings in the form of membership in a larger community.

Peer-supported saving has also shown favorable results in the IDA context. Attending meetings with peers increased the savings of IDA participants by more than any other institutional or personal factor.[21] Though the effect may be due in large part to self-selection, the finding is promising.

For low-income families, savings circles may perform many functions: support, education, fewer demands upon the family saver, peer pressure, and social reward. In addition, for low-income savers, pooling resources might give them access to financial choices that might otherwise be unavailable. Furthermore, pooling monies may give low-income families an ability to bargain with—or be more attractive to—more financial institutions. Existing social groups, such as tight-knit faith-based organizations, might be useful settings for these efforts.[22]

Finally, social bonds can be leveraged to encourage savings in the form of gifts. Savings is almost always conceived as an activity done by a person for herself or on her immediate family's behalf. Yet, in many cultures, extended social groups periodically "save" on behalf of newly married couples at weddings, parents at the time of the birth of their children, and children on the occasion of their birthdays and secular or religious transitions (such as graduation, communion, or bar or bat mitzvah). Recent market research on low- and moderate-income adults, especially women, suggests that these savings-gifting motives are very strong.[23]

Making saving exciting or fun

The savings innovations in the preceding sections take various approaches to trying to help people save. But whether they coerce saving, make it difficult to avoid, easy to engage in, or financially lucrative, most of these innovations (perhaps with the exception of group saving) still require that people believe that savings would help them. This is not necessarily an unfair requirement. Americans do seem to desire saving, most can rattle off a list of savings goals, and many own some kind of savings product.[24] However, a bigger challenge is to find savings products that do not require that people particularly want to save. ROSCAs may appeal to non-savers who want social approval. More boldly, can one create savings products that lead people to save because they simply enjoy it? Is it possible to make saving exciting? Even addictive? Are we willing to experiment with concepts of marketing (including some faddish or gimmicky concepts)?

The two product innovations that seek to create fun savings products described in this final section (column 6 of Exhibit 1) both have the potential to be "disruptive innovations" as defined by the business strategist Clayton Christensen.[25] Disruptive innovations are "second best" innovations which have enough features to be attractive to new or existing customers, but which seem inferior relative to the leading products in a market. Ultimately, they prevail over seemingly superior products. Finance theorists might consider lottery-linked savings, the product described below, far inferior to the panoply of advanced products in the market. However, by virtue of their simplicity, they appeal to non-savers.

In 1694, the British government offered investors the chance to join a "Million Adventure." One million pounds was raised in the United Kingdom, with investors receiving a 10 percent return and a chance at winning a large raffle prize (Allen and Gale, 1994). That experiment has since spurred more than 300 years of product offerings with products now offered around the world, including in the United Kingdom, Kenya, Mexico, Venezuela, Columbia, Japan, and South Africa.[26] The form of the product has settled on a fairly simple construction: investors purchase a savings product with no risk of principal loss and either forfeit or accept reduced interest payments in exchange for the chance to win one or several large prizes allocated randomly. Lottery-linked programs permit an interesting blend of classical economic and behavioral elements. While they don't offer the familiar and powerful concept of compound interest, this trade-off may be appropriate for savers who would (a) otherwise earn very low nominal returns owing to the size of the account and their demands for liquidity—and thus have to wait years for material accumulation through interest-on-interest; (b) have relatively short and uncertain holding periods, thus leaving little time for the monies to compound. Evidence from South Africa and from pilot tests in the United States suggests that these programs are particularly attractive to low- to moderate-income people without formal savings plans.[27]

People react to sight, smell, taste, and touch—yet while life is tangible, much of our thinking about saving is ethereal. Perhaps there is a way to make saving more concrete. Taking this concept literally, the cement maker CEMEX designed Patrimonio Hoy, a savings program for poor Mexican families.[28] Families band together to save to purchase construction materials to expand their small homes. After making some progress toward saving (but before paying for all the materials), savings materialize in the form of building materials on site. While American savers might not be motivated by deliveries of cement blocks, one can imagine other tangible manifestations of savings that might work. For example, some people are very motivated by the concept of collectibles. Could one create a collectible savings program, whereby each increment of savings was marked by a physical object and the goal was to "collect them all"? By setting concrete, incremental, and achievable goals, we might set up families for success, rather than the failure of always falling short of large lifetime aspirations. With a physical marker, it might be possible for savers to keep track of their progress easily. Moreover, an attractive physical collectible might itself might keep savers motivated. While faddish, newer concepts like this might be useful in supporting savings. Furthermore, while the economics of the program would need

to be addressed, the private sector might be able to bring its formidable marketing skills to bear.

From ideas to action

In this article, we have acknowledged the wide range of solutions to the problem of low family savings. All too often, we focus on one type of savings (such as retirement or education) or one type of program (such as a tax credit or a default scheme) without acknowledging the breadth of families' savings goals or the range of available savings mechanisms. Some solutions are best suited to government action (savings bonds at tax time), others to the private sector (collectibles or point of sale), and some to social groups or Nongovernmental Organizations (NGOs) (social network savings). Some solutions might appeal to lower-income families, other to more moderate-income families. Some might appeal to "analytic types" (for example, inflation-indexed savings bonds), while others might appeal to savers with other preferences (collectible savings or prize-linked savings.)

If there are such a wide range of good ideas, then why don't we see more of them in operation? In part, we do: virtually all of the examples cited here are taken from practice, albeit not always scaled up. Expanding some of these policies in place does not seem particularly far-fetched. The private sector can offer lottery savings, distribute savings products at tax-time, offer point-of-sale savings, and provide bundled savings vehicles. The private sector can also design effective marketing strategies around the psychological factors that are emerging as salient to saving and support, but not deliver, social savings schemes, for example, by facilitating the paperwork by savings groups in communities.

Firms will be motivated because they believe these products can deliver profits. Our observation, based on working with financial service firms for savings products for low- and moderate-income savers over the past decade, suggests that the barriers to implementation are real, but surmountable. In part, many private organizations lack basic information about low- and moderate-income families as they have not previously served them. Many financial service firms are more set up for delivery, rather than innovation. Both of these barriers can be addressed through partnerships with other organizations. We have witnessed firsthand how these process and product innovations may require relatively minor changes to existing regulations and laws. Splitting refunds to multiple destinations or permitting savings bond sales off of the 1040 form are not revolutionary changes, and it is gratifying that research on these topics has led to their adoption by the federal government. We have spoken to many financial institutions interested in lottery savings programs, and even worked to roll out a successful collaborative launch in Michigan in 2009. While existing laws in other jurisdictions make offering these products problematic, we have seen greater interest among state legislators in revisiting these rules. Finally, even small innovations that simplify the process of point-of-sale or tax time savings (and thereby make the cost of customer acquisition and account opening lower) can be thwarted by the unintentional consequences of existing financial regulations; but in theory, these are surmountable.

As optimists, we are hopeful that effective public-private alliances can increase savings for low-income families—but as realists, we realize that this alliance may hold only so long as the innovation requires modest governmental involvement and investment. A more complicated political calculus characterizes "big-money" governmental interventions described in this article. Child savings accounts and nationwide IDA program bills have not succeeded in Congress, perhaps in part because these policies have both support and opposition on the Left and the Right. By increasing individual and family savings, these programs may advance the Right's "ownership society" agenda—reducing social insurance in favor of private insurance (often in the form of private savings).[29] However, they do so not through small regulatory changes but through multi-billion dollar governmental expenditure. At the same time, by transferring funds to the poor, these programs also advance the traditional leftist goal of assisting the poor and maintaining the role of government in providing social insurance. However, there appears to be suspicion that adopting asset-based social welfare policy means reducing traditional income supports.

While the federal government has shown interest in spurring private savings, we cannot rely on government action alone. Would-be savers, for-profit businesses, and NGOs can all play a role. The cost-benefit equation for these partners must be clear, considering direct and indirect costs as well as benefits.

Whichever innovation is considered, it is important to research its impact on total *saving*. Just because a product is adopted does not mean that it is increasing saving—it could be cannibalizing savings from elsewhere. While measuring savings levels may be the primary goal, it is important to adopt a broad perspective when assessing effectiveness. If saving is seen as a long-run investing vehicle, then measuring wealth impact may be appropriate. If it is seen as a short-run emergency buffer, then the measurement of success may be very different. It is also critical to consider saving in the context of other financial decisions, especially credit management. Were we to induce families to take out debt at high rates to save at low rates, we might be working against the best interests of families. Research should also focus on how new savings initiatives affect family well-being more generally. New savings at the expense of reduced consumption of non-discretionary items (like health care) can reduce family welfare. Where the money for savings comes from remains an important concern.

Additionally, while this article looks at savings broadly, we did not fully consider the interplay between other government programs and savings. From a purely economic perspective, a dollar in potential government benefits may offset the need for a dollar in savings. From a psychological or sociological perspective, however, these may not be the same

at all. We suspect that while a dollar of TANF grants might offset a dollar of drawn-down savings, from an emotional level, they might be experienced quite differently.

Finally, policymakers need research to lead the way in providing guidance about how much savings, and what type, is optimal for families. While some research on this topic is available for long-horizon retirement savings, we need to focus the same level of attention and rigor on the full range of saving, in particular emergency saving, which recent research shows is often lacking.[30] In doing so, we must be sensitive to the needs of low- and moderate-income families, whose concerns about short-term emergencies are just as legitimate as their needs to plan for a retirement that may be decades away.■

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The legacy of Alfred Kahn: Comparative social policy and child well-being

Jane Waldfogel

Jane Waldfogel is Professor of Social Work and Public Affairs at Columbia University School of Social Work and a Visiting Professor at the Centre for Analysis of Social Exclusion at the London School of Economics.

Although Al Kahn made many contributions in his long and distinguished career, his greatest contribution was his pioneering work in comparative social policy. His early work focused on delinquency, school truancy, child welfare, and social service delivery. Beginning in the early 1970s, he focused mostly on comparative and international work, undertaken for the most part jointly with his colleague Sheila B. Kamerman. Kahn was convinced that one can only understand one's own country in a larger context—at the very least in the context of developments in other advanced industrialized countries. In particular, he focused on the important role of income transfer policies in reducing child poverty, and documented the poor cross-national ranking of the United States in that regard.[1]

In this article, I review some of Kahn's comparative work as well as some of the comparative work that he inspired. The big questions that come up in the cross-national studies that Kahn and Kamerman pioneered are: (1) How does the well-being of children vary across countries, and are these differences related to differences in social policies?; (2) What explains the policy variation?; and (3) Would children in the United States be better off if we adopted policies more like those in other nations?

Alfred J. Kahn Memorial Lecture, 2009

Alfred J. Kahn, who died in 2009 at the age of 90, built a distinguished career in child welfare and social policy during his 57 years at the Columbia University School of Social Work. He was a loyal supporter of the Institute for Research on Poverty (IRP), where he served on the IRP National Advisory Committee from the committee's inception in 1967 until 2002.

Over the years, Professor Kahn participated in virtually all of the Institute's conferences that periodically reviewed progress against poverty in the United States. At each conference, he was the beacon of hope in the room, always confident that the poor would have a better future. For instance, at the 1984 conference held in Williamsburg, Virginia, at a time when federal support of poverty studies was waning, Professor Kahn took part in a round-table discussion on the future of poverty research. His remarks were summarized as follows in the Summer 1985 issue of Focus*:*

> *"Kahn cited the 1963 book* Seedtime of Reform *by Clarke Chambers, which described the vigorous activities of voluntary associations and their leaders during the prosperous 1920s, a period that did not encourage public efforts for the poor. Yet the diligent work of the associations laid the groundwork for the reforms that began during the next decade, in response to the crisis of the Great Depression. Despite the inhibiting climate of their own era, these groups persisted in collecting data, formulating plans, inventing and advocating. Their efforts made it possible to move on many fronts when the need became urgent. Teamed with others, they contributed to the emergence of social insurance, child welfare, public housing, and a new approach to the federal role, paving the way for further efforts in later decades. Perhaps, Kahn suggested, the 1980s may prove to be a seedtime."*

Alfred Kahn also contributed an essay to the 1986 issue of Focus *that commemorated the Institute's twentieth anniversary. Titled "Poverty Research in International Perspective," his essay reviewed poverty measures and social initiatives in European countries. Kahn concluded:*

> *"Whether the relative line is 50 percent or 40 percent of the median income—or some other proportion—one sees some encouragement to regular reporting of relative as well as country-specific yet comparable absolute poverty in the future. One also notes the likelihood that, stimulated by comparative reports, European and U.S. investigators will look more intensively at their own countries as research covering poverty, income distribution, social benefits, expenditures, and redistribution expands its vocabulary and perspectives. This will be welcomed by those who follow such research for policy purposes or see its relationship to the basic development of their social sciences."*

In honor of Alfred Kahn's important role at IRP and in social welfare policy more generally, the Institute invited Jane Waldfogel to give a memorial lecture in his honor in December 2009. This article is based on that presentation.

—Timothy M. Smeeding, IRP Director

Cross-national analysis of child well-being

Kahn looked extensively at how the well-being of children varies across countries, and whether these differences are related to differences in social policies. While it is now standard in social policy to compare child well-being across advanced industrialized countries, Kahn and Kamerman were among the first to do so. They were also among the first to document that the United States has a distinctive set of social policies, lagging behind other advanced industrialized countries. An early example of this was their 1975 book in which they discuss European social policies that are "not for the poor alone" but are more universal than is the case for social policy toward children in the United States.[2] In particular, the United States spends less on social welfare programs, although recent work has noted that this changes significantly if education and health spending are included.[3] The fact that the United States lacks key child and family policies and has poorer outcomes for children and families suggests a possible link between the two, although of course many other factors (such as labor markets and demographics) differ between the United States and other nations. Thus, in the years since Kamerman and Kahn first documented the differences in policies and child outcomes, researchers have paid considerable attention to exploring whether there is a causal link between the two.

Luxembourg Income Study

One of the earliest, and still influential, studies investigating causal links between differences in social policies and outcomes for children and families used data from the Luxembourg Income Study (LIS). Using simple tabulations of LIS data, Rainwater and Smeeding showed that other countries did much more to reduce child and family poverty than the United States did.[4] This was important because, although there were differences in pre-tax and transfer poverty between the United States and other countries, these differences did not explain the vast differences in post-tax and transfer poverty. In other words, high rates of child poverty were not inevitable and policy could make a difference.

Later studies from LIS used the same kind of data to show what factors were, and were not, correlated with higher child poverty rates. Again, the bottom line was that child poverty was not inevitable and that policy mattered. Figure 1 shows poverty rates before and after antipoverty efforts in eight wealthy countries. While Canada and the United States begin with similar poverty rates, Canada has a much lower rate following government effort. There are also several countries that have higher initial poverty rates than the United States, but much lower rates after government effort.

Is low pay in the labor market a factor in greater inequality in the United States? Figure 2 shows that there is indeed a strong relationship between the two. The measure of inequality in this figure is the ratio of income of those at the 10th percentile to those at the 50th percentile, expressed as a percentage. If there were no income inequality, this ratio would be 100 percent, so higher ratios indicate lower inequality. The measure of low pay used in this figure is the percentage of full-time workers who have earnings that are less than 65

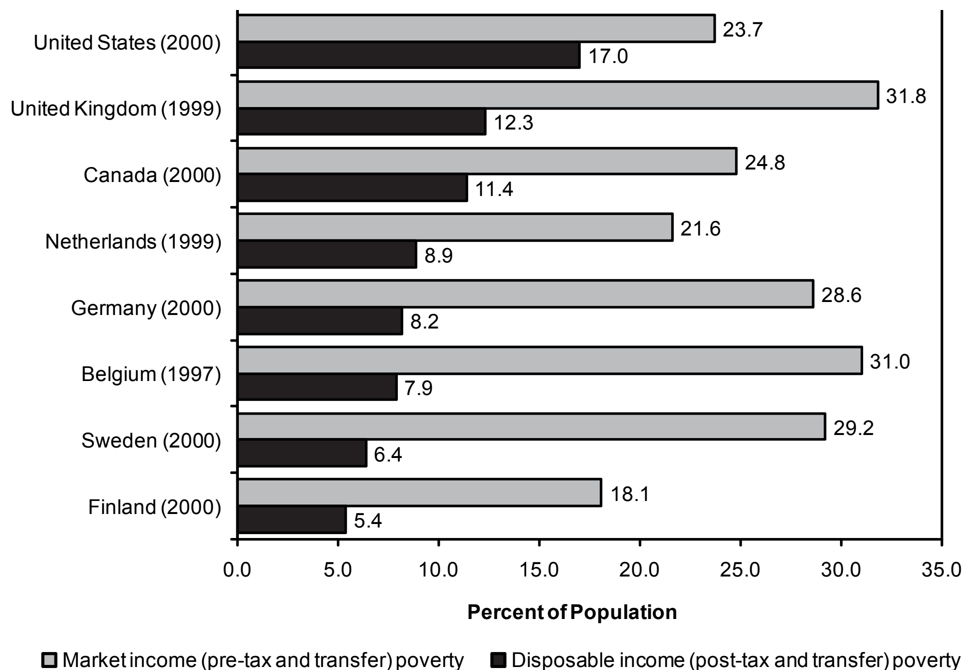

Figure 1. Relative poverty rates and antipoverty effects in eight rich nations at the turn of the century.

Source: T. M. Smeeding, "Public Policy, Economic Inequality, and Poverty: The United States in Comparative Perspective," *Social Science Quarterly* 86: 955–983.

Note: Figure shows percentage of persons with market and disposable incomes less than half of adjusted national disposable median income.

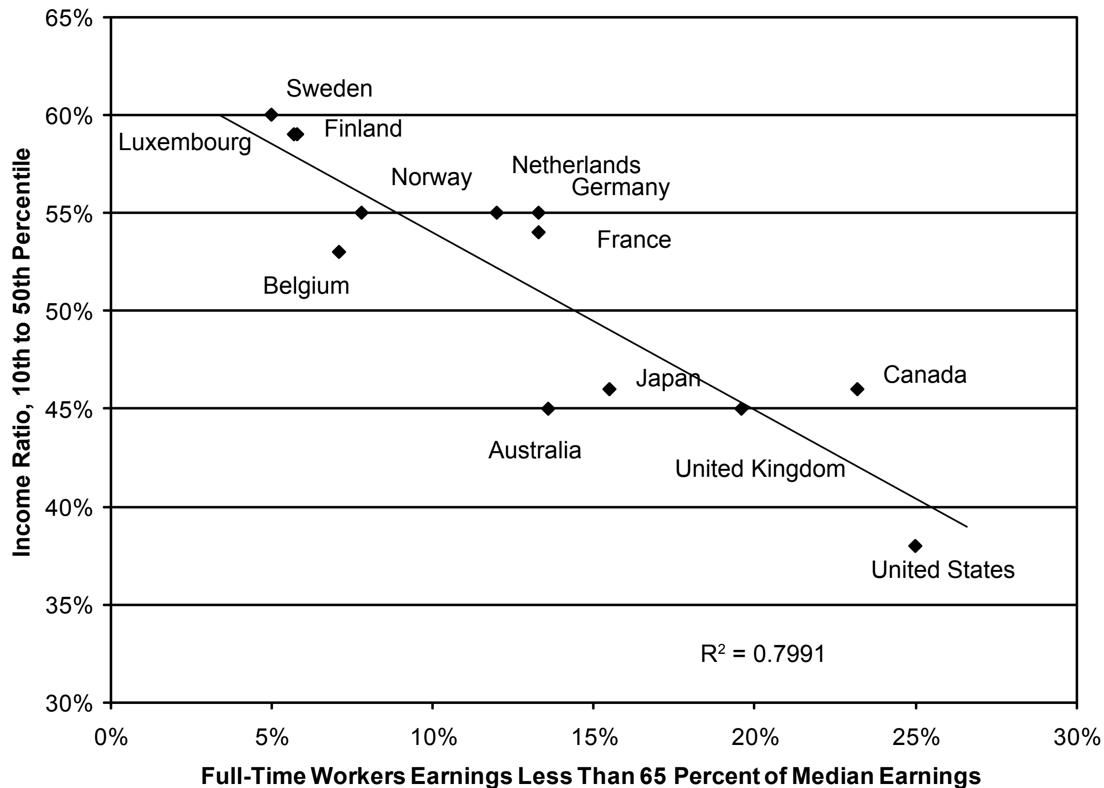

Figure 2. Relationship of low pay and and income inequality in 13 industrialized countries in the 1990s.

Source: T. M. Smeeding, "Public Policy, Economic Inequality, and Poverty: The United States in Comparative Perspective," Social Science Quarterly 86 (2005): 955–983.

percent of median earnings. The figure shows that countries with low inequality, such as Sweden and Finland, tend to have a low percentage of workers with low pay, and those with high inequality, such as the United States, tend to have a high percentage of workers with low pay.

There is now a large set of studies examining child poverty and other child outcomes across countries.[5] A similar approach is being applied to inequality and social mobility in the new Cross-National Research on the Intergenerational Transmission of Advantage (CRITA) project. Teams of researchers are analyzing the extent to which children's outcomes are predicted by their parents' position, and how this varies across countries.

Studies across countries and over time

Descriptive studies that compare outcomes and policies across countries at one point in time can suggest links between policies and child outcomes, but cannot establish causality, since countries that differ in social policies may differ in many other respects as well. A useful research design to address this challenge is to study how *changes* in outcomes relate to *changes* in policies, across countries and over time.

For example, two studies have taken advantage of variation in parental leave policies across countries and over time to examine how child outcomes change as parental leave policies change. Using data from sixteen Organization for Economic Cooperation and Development (OECD) countries from 1969 to 1994, Ruhm showed that when a country extended the period of entitlement to paid maternity leave, infant mortality rates fell.[6] Updating Ruhm's analysis to 2000 and adding the United States and Japan, Tanaka confirmed that paid leave reduced infant mortality and improved other health outcomes.[7] This evidence was cited when the United Kingdom decided to extend its paid parental leave program.

Fuhua Zhai and I applied a similar method to analyze the effect of preschool policies on children's school achievement. Using education data from seven countries, we found that in countries that increased their support for preschool, children's math and science achievement rose, with the greatest gains for the most disadvantaged children.[8] This study supported the argument that more public provision of preschool could raise overall achievement and help narrow gaps in achievement.

Within-country evidence

Evidence of the effects of policy change within other countries can also be very persuasive. A case study from one country can be used to assess the likely effects of changing a policy in another country, although care must be taken to compare like to like. Often such studies take advantage of "natural experiments" whereby some groups within a country are exposed to a policy change while others are not.

Studies of parental leave extensions in other countries have provided evidence as to how such policies affect a host of adult and child outcomes. Taken together, this research has shown that the effects of policies vary depending on how long the leave lasts.[9] Strengthening leave provisions generally improves women's labor market outcomes, but not when the leave is extremely long. And, for child outcomes, benefits are greatest when extensions permit more leave-taking early in the first year of life.

Universal preschool or prekindergarten in the year or two prior to school entry is now offered in nearly every industrialized country except the United States. Several countries in Latin America have recently moved to expand preschool or prekindergarten provision. Taking advantage of these natural experiments, studies in Argentina and Uruguay have shown that children who were offered preschool or prekindergarten went on to have higher school achievement than children who did not have access to such programs.[10]

What explains policy variation across countries?

The second major question explored by Kamerman and Kahn was what explains policy variation across countries.[11] For Kamerman and Kahn, sources of this variation include historical and institutional contexts as well as contemporary public attitudes. Building on this work, Miles Corak and colleagues have used public attitude data to examine the reasons for the differences in social policies across Canada and the United States. They find that while both Americans and Canadians place a high value on social mobility and opportunity, Canadians are more likely to view government as playing a helpful role in promoting social mobility and opportunity, while Americans are more likely to see government intervention as unhelpful interference. Such differences in attitudes could help explain why Canadians support a more active social policy regime.

In my recent work, I contrast the British and U.S. approaches to welfare reform.[12] In Britain, until very recently, welfare-to-work programs were voluntary for lone mothers. Even now, only those with children over age 10 are required to participate, and the goal is to have those mothers work 16 hours per week. These policies reflect much more traditional attitudes about women's roles, what is best for children, and mothers' employment.

Would children in the United States be better off if we adopted policies more like other nations?

The overall thrust of much of Kamerman and Kahn's work was to argue that we could—and should—advance child and family well-being in the United States by enacting social policies more like those found in other nations. In *Starting Right*, for example, they argued that the United States could improve child outcomes by adopting a more supportive set of early childhood policies.[13]

Janet Gornick and Marcia Meyers document the extensive differences in work-family policies between the United States and peer nations and argue that children and families would be better off if we adopted policies more like those in other countries.[14] In my book *What Children Need*, I draw on comparative evidence to make the case that children and youth in the United States would be better off if we enacted parental leave, preschool, school year, and parent support policies more like those in peer nations.[15]

Evidence from Britain's war on poverty

Most recently, I draw on evidence from Britain's war on poverty to argue that the remarkable progress that Britain has made in reducing child poverty contains policy lessons for the United States.[16] When Tony Blair and the Labour party came into office in May 1997—after 18 years of Conservative government—there was mounting concern about child poverty and inequality. In March 1999, Blair made an ambitious pledge to end child poverty in a generation. Gordon Brown put real resources into the campaign and set specific targets to cut the poverty rate in half within 10 years, and to end child poverty within 20 years.

The motto of the British antipoverty strategy is "work for those who can, security for those who cannot." The strategy has three parts: (1) promoting work and making work pay; (2) raising incomes for families with children; and (3) investing in children. While the first part of this strategy has been a major component of welfare reform in the United States, the other two have not.

British measures to make work pay include a national minimum wage, a working families tax credit, and reduced payroll taxes for low-income workers. Promoting work in the United Kingdom also includes welfare-to-work programs. However, unlike in the United States, until recently lone parents were not required to work in order to receive government benefits. Nevertheless, employment among lone parents in Britain increased by 12 percent under the voluntary welfare-to-work programs, the same increase that was achieved in the United States under more stringent work rules.[17]

The measures to raise incomes in families with children (whether or not the parents are working) include significant real increases in the universal child benefit as well as in welfare grants for children under age 10. Welfare grants had previously been higher for families with older children, so this increase for younger children equalized benefits for children of all ages. There is also a new child tax credit for low- and moderate-income families and new child trust funds.

Investments in children include both parental supports and other measures for preschool-age children, and extensive education reforms for school-age children. Paid maternity leave was extended to 9 months (with an aspiration to extend it to 12 months in the future) and 2 weeks of paid paternity leave were added. Maternity grants for low-income families were raised. Parents of children under age 6 also gained the right to request part-time or flexible hours, a right that is now being extended to all families with children. The first year this option was offered, one million parents made such a request, and the great majority of requests were granted.[18] Universal preschool for 3- and 4-year-olds was added. Preschool was also expanded for disadvantaged 2-year-olds, and an ambitious early intervention program, Sure Start, combining home visiting and child care, was added for newborns through 3-year-olds in the poorest areas. For school-age children, there were reductions in primary school class sizes. All teachers in primary schools were required to spend at least one literacy hour and one numeracy hour each day. Education spending was increased from 4.5 percent of GDP to 5.6 percent. Through the extended schools program, schools are encouraged to provide services before and after school, and during school holidays. Educational maintenance allowances provide incentives for low-income children to stay in school, and the minimum age to legally leave school was raised from 16 to 17, eventually to be raised to 18.

Together, these antipoverty initiatives amounted to a sizable increase in spending on children. By 2002–2003, the government was spending an additional £9 billion per year, nearly 1 percent of GDP.[19] By April of this year, families with children were £2,000 per year (around $3,000) better off, while families in bottom quintile were £4,500 year (around $6,750) better off.

Results from Britain

When Blair declared war on poverty in 1999, 3.4 million children (1 in 4) were in poverty (whether defined in relative or absolute terms) and 2.6 million (1 in 5) were materially deprived. By 2007/2008:

- Absolute poverty had fallen by 1.7 million—a 50% reduction;
- Relative poverty had fallen by 500,000—a 15% reduction; and
- Material deprivation had fallen by 400,000—a 15% reduction.[20]

In addition to these headline results, families with young children increased spending on items for children, and also decreased spending on alcohol and tobacco.[21] Adolescents in lone-parent families had improved mental health, school

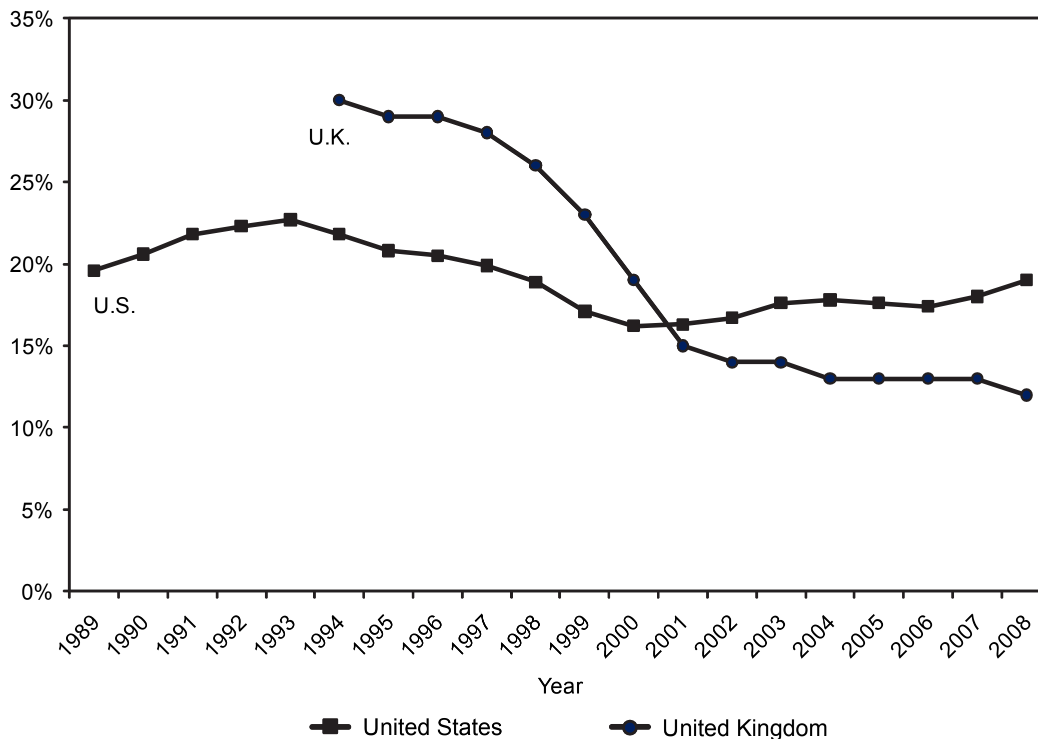

Figure 3. Absolute poverty in the United States and United Kingdom, 1989–2007.

Source: T. M. Smeeding and J. Waldfogel, "Fighting Poverty: Attentive Policy Can Make a Huge Difference," Journal of Policy Analysis and Management 29, No. 2 (2010): 401–407.

Notes:
United States: Percentage of all persons under age 18 below the official US Poverty Line, 1989–2008 (about 35 percent of median in 2000).
United Kingdom: Percentage of U.K. children below the absolute poverty threshold, 1994–2008 (about 60 percent of median in 1998–99.

attendance, and school intentions.[22] Sure Start, the early intervention program for children, led to improvements in 7 of 14 outcomes assessed (2 parenting, 2 child health, and 3 child behavior outcomes).[23] Finally, addition of literacy and numeracy hours resulted in improved children's reading and math scores.[24]

Lessons for the United States

Comparing the British record to the U.S. record after our welfare reforms as shown in Figure 3, Britain achieved a steeper and more lasting reduction in child poverty. After two decades of rising inequality, Labour came into office committed to reducing child poverty, and with public support for that goal. The most important lesson for the United States is that it is possible to make a sizable reduction in child poverty, and that it is not necessary to identify all the details of the policy in advance. There are also lessons regarding the reform strategy (Britain promoted work and made work pay, but also raised benefits for non-working families and investments in children), the reform process, and the politics.

In conclusion: The enduring legacy of Al Kahn

As recently as a few decades ago, American exceptionalism in social policy was accompanied by American parochialism—we did not see what we could or should learn from foreign countries. Today, social policy, like so many other aspects of our lives, is becoming more global. It is telling that, while our welfare reforms of only a decade ago drew on examples from Wisconsin and California (but not Sweden or New Zealand), a major element of today's health care debate is whether we should emulate countries such as France, Germany, Switzerland, Britain, or Canada.[25]

Al Kahn, and Sheila Kamerman, played a major role in convincing Americans that they could—and should—learn from policies of other advanced industrialized nations. Initially, the focus was on Western countries but this was later extended to Eastern Europe and Asia.[26] More recently, newly industrializing and developing countries have been included in this work. This shift is evident in the last piece Al Kahn wrote, the introduction to a volume on social indicators.[27]

The other change Kahn stressed in his final piece was the pronounced shift that had occurred in social policy, away from a narrow focus on child-saving to a broader focus on child well-being. This was a shift he welcomed, writing: "The emphasis will no longer be on the problems, rather the limitless potential, of each wondrously individual child." This terrific sense of optimism and deep concern for children inspired all of Kahn's work, and I hope it will go on to inspire the next generation of comparative social policy scholars.■

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[12]J. Waldfogel, *Britain's War on Poverty* (New York: Russell Sage Foundation, 2010).

[13]S. B. Kamerman and A. J. Kahn, *Starting Right: How America Neglects Its Youngest Children and What We Can Do About It* (New York: Oxford University Press, 1995).

[14]J. Gornick and M. Meyers, *Families that Work: Policies for Reconciling Parenthood and Employment* (New York: Russell Sage Foundation Press, 2003).

[15]J. Waldfogel, *What Children Need* (Cambridge, MA: Harvard University Press, 2006).

[16]J. Waldfogel, *Britain's War on Poverty*.

[17]Waldfogel, *Britain's War on Poverty*.

[18]Waldfogel, *Britain's War on Poverty*.

[19]J. Hills, "The Blair Government and Child Poverty: An Extra One Percent for the Kids of the United Kingdom," in *One Percent for the Kids: New Policies, Brighter Futures for America's Children*, ed. I. Sawhill (Washington, DC: Brookings Institution, 2003).

[20]Absolute poverty is income <60 percent of median income in 1998–1999, updated only for inflation. Relative poverty is income <60 percent of contemporary median income. Material deprivation combines an index of lacking basic necessities and having low income.

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Britain's War on Poverty

Jane Waldfogel

In 1999, one in four British children lived in poverty—the third highest child poverty rate among industrialized countries. Five years later, the child poverty rate in Britain had fallen by more than half in absolute terms. How did the British government accomplish this and what can the United States learn from the British experience? Comparing Britain's antipoverty initiative to U.S. welfare reform, this book shows how the policies of both countries have affected child poverty, living standards, and well-being in low-income families and suggests next steps for future reforms.

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Chapter 2 Promoting Work and Making Work Pay
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IRP RIDGE Center for National Research Awards Four Subgrants

Four food assistance research proposals were recently awarded funding by the Institute for Research on Poverty (IRP) at the University of Wisconsin–Madison in conjunction with the Economic Research Service (ERS) of the U.S. Department of Agriculture.

The grants begin July 1, 2010, and run through December 31, 2011, and are the first in what will be four rounds of 18-month awards for food assistance research since ERS named IRP as the Research Innovation and Development Grants in Economics (RIDGE) Center for National Food and Nutrition Assistance Research in January 2010, following a national competition. The 2010 investigators and proposal abstracts follow below.

Food Security, Supplemental Nutrition Assistance Program (SNAP), and Food Access
Alessandro Bonanno, Pennsylvania State University

The analysis of the factors that enable food stamp or Supplemental Nutrition Assistance Program (SNAP) participation to reduce food insecurity has been so far neglected. Food insecure households joining SNAP will be better off if they have access to a source of food (preferably low priced). As food access is exogenous for low-income individuals (they have limited resources, and therefore limited mobility), the characteristics of the food environment surrounding them becomes a key factor in the effectiveness of the policy. The objective of this study is to analyze the role of food access in SNAP's ability to mitigate food insecurity. In particular, the study will consider both the access to traditional food retailers (grocery stores and specialty food stores) and to a low-priced nontraditional alternative, Wal-Mart Supercenters.

Bridging the Gap: Do Farmers' Markets Help Alleviate Impacts of Food Deserts?
Vicki A. McCracken, Washington State University

Existing research in the area of food deserts and community food security lacks significant empirical, spatially relevant support for developing a sound understanding on the variation of effectiveness of federal food assistance programs in relation to local food systems. This proposed research will begin to fill this void by first establishing the traditionally conceived food desert estimation for Washington state using grocery store location and census demographic data, followed by an expansion using farmers' markets and a behaviorally appropriate measure of travel characteristics to such markets. Following these estimations, we will move beyond the typical food desert analysis by operationalizing them via an assessment of the variation in redemption rates and utilization of federal food assistance programs (SNAP, WIC, Senior Farmers' Market Nutrition Program, FMNP). SNAP data will be obtained from the 20 pilot markets located in Washington, while complete WIC and Senior FMNP data has been obtained for 2009 from all approved farmers' markets.

Explaining the Increase in SNAP Caseloads during the Recovery of 2003–2007
Robert J. LaLonde and Janna E. Johnson, University of Chicago

The recent recession has seen an increase in Supplemental Nutrition Assistance Program (SNAP) caseloads of over 30 percent. However, the period following the 2001 recession also saw an increase in SNAP caseloads, the first time in program history that caseloads rose during a period of economic recovery. This project will attempt to explain this phenomenon by decomposing caseload changes into their basic mechanical components: changes in the number of eligibles, participation rates among the eligibles, and spell length. We will then determine the underlying causes of these mechanical movements to more precisely specify the relationship between macroeconomic conditions, policy changes, and SNAP caseloads than has previously been done.

Estimating the Impact of Food Stamps on the Poverty Rate Using a National Academy of Sciences-Style Poverty Measure for New York City
Mark Levitan and Daniel Scheer, New York City Center for Economic Opportunity

The New York City Center for Economic Opportunity (CEO) developed an alternative poverty measure for New York City based on the National Academy of Sciences' (NAS) recommendations. The creation of an alternative method for measuring poverty, particularly one that accounts for Supplemental Nutrition Assistance Program (SNAP) benefits, is well-timed; over the course of the current recession, SNAP has become an increasingly significant element of the social safety net. As a result, researchers and policymakers have become acutely interested in understanding the degree to which increased SNAP participation has ameliorated the impact of the recent economic downturn on families vulnerable to poverty. An NAS-style poverty measure is well-suited to this task.

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