

The Social Contract Revisited

A Living Income for Every American:

Jobs and Income Strategies for the Twenty-First Century

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Executive Summary

- Income support policy in the United States should be restructured to focus on ensuring a living income from work and associated public policy. Ending poverty is not a sufficient goal; rather, American income support policy should pursue three goals: 1) a living income for all low-wage workers; 2) an enhanced emphasis on helping people overcome barriers to entering the labour market; and 3) reform of the safety net to ensure a decent level of assistance to all.
- Income support policy cannot succeed without being linked to other vital societal responsibilities, including: universal health coverage; help with child care for all who need it; assurance of affordable housing; and investment in children, especially in an educational system that offers all children the opportunity to make full use of their talents.
- The definition of poverty utilized in the United States – about US\$16,000 for a family of three and US\$20,600 for a family of four in 2006 – does not reflect reality and should be changed. The income at which research shows people are able to meet their financial obligations is about twice the poverty line, and encompasses about 90 million people, compared with the 36.5 million found to be poor in 2006.
- Low-wage work has become an endemic problem in the United States in recent decades. The median wage has stagnated since 1973, while the income of the wealthiest people has soared. Particular attention must be paid to the problems of young minority men in gaining access to the labour market. The percentage of young African-American men holding jobs declined substantially in the 1990s, while virtually every other group in the population did better.
- The debate about welfare in the United States has been conducted in isolation, as though welfare is synonymous with poverty. There are important issues about welfare and work, but the debate as it has been conducted diverts attention away from a more comprehensive, three-dimensional focus on poverty and low-income work.
- Responsibility for initiating change is threefold. Public policy at all governmental levels, civic action, and personal responsibility – both to help others and to be responsible for oneself in order to succeed – are all essential requisites of successful reform.

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Recasting the welfare debate

In the United States, 'welfare' and the politics of welfare – cash assistance for families, generally female-headed single-parent families with children – have been treated as a separable realm of policy, and too often as synonymous with all of anti-poverty policy.

The debate needs to adopt a more holistic approach that treats jobs and income as inseparable aspects of the same subject. Moreover, the societal commitment should expand from a goal of ending poverty to a determination to achieve a living income for everyone. The discussion should have three main aims:

- 1) a living income, based centrally on work, for the millions of people who are mired in low-wage jobs, with a companion objective of ensuring that workplaces are safe, healthy, and family-friendly;
- 2) a more encompassing emphasis on helping all under-included groups enter the labour market, including disadvantaged young men and mothers with children who are receiving cash assistance; and
- 3) a reinvigorated effort to ensure decent income support for all who need it.

Just as the terms of the debate need to be recast, so the roles of the actors needed to effectuate the remedies need to be redefined. In order to instigate effective change, public policy, civic engagement, and personal responsibility must come together to form a three-dimensional, interactive relationship among individuals (and their families), communities (in a number of senses), and governments at all levels.

The nature and significance of the poverty problem

The problem can be stated simply, although there are many complications. The simple point is that in 2006, 12.6 per cent of the American people, or 36.5 million individuals, lived in poverty. This is an unacceptably high number in such a wealthy nation.

The first complicating factor concerns the definition of poverty. Unlike other countries, the United States uses an absolute number (adjusted for inflation) as the poverty threshold, so that the poverty level is not affected by improvements in the nation's standard of living. The American poverty line – about US\$16,000 for a family of three and US\$20,600 for a family of four in 2006 – was adopted in the early 1960s based on a shockingly simplistic analysis. The designers, career government officials, began with the Department of Agriculture's estimate of the cost of a minimally adequate diet and then chose a multiplier of three to obtain a rough estimate of the cost of surviving. They made no effort to quantify the actual costs of housing, clothing, health care, expenses of working, or other necessities of life. A study carried out in 1995 by a panel of experts convened by the National Academy of Sciences concluded that if actual minimum costs of living were used, the poverty rate would increase by about 2.5 per cent, or about 7.5 million people.

The second complication concerns the question of how much income it actually takes to make ends meet, which is quite different from the absolute minimum of even a slightly enhanced poverty line. This varies regionally, but numerous researchers have concluded that, speaking generally, the proper figure is about twice the poverty line: about 90 million people, or about 30 per cent of the population. Few suggest that this should be the redefined poverty line, and most people who would be labelled as living in poverty would vehemently reject this revised figure, but whatever the proper terminology, the number of people facing recurring economic difficulty is closer to 90 million than the 36.5 million officially regarded as poor.

Poverty disparities among groups based on race and ethnicity and also on age and family composition further complicate the picture. People of colour continue to be poor at levels about two to two-and-

a-half times the level of poverty among non-Hispanic whites. In 2006, African-American poverty was 24.2 per cent, Hispanic poverty was 20.6 per cent, and white poverty was 10.3 per cent. (The largest absolute number of poor people has always been non-Hispanic white.) Child poverty was 17.4 per cent, and 36.5 per cent of female-headed households with children were poor (as were 43.6 per cent of African-American female-headed households with children). Clearly, race and ethnicity make a difference. Some of what is occurring is out-and-out discrimination, some is the result of the poor schooling afforded low-income children of colour, some relates to the impact of incarceration, some relates to poor choices about childbearing, some reflects what low-wage work does to single-parent families, and some (on the Hispanic side) reflects the struggles of newer immigrants.

A final complication relates to remedy. The simplest way to end poverty would be to give people enough money to live on, yet almost no one advocates that solution. Ending poverty requires an amalgam of steps, some that would be effectual in the short term to raise income, mainly from work, and provide a decent safety net, and some that would invest in the future, alongside steps to build safe and healthy communities and neighbourhoods, provide vitally needed services of every kind to individuals and families, and fight discrimination of all types.

The approach just outlined is of course not unanimously agreed upon: there persists a raging debate about the causes and the remedies. Some commentators argue that it is all a matter of personal responsibility and everyone would do well enough if they just made enough of an effort. In general terms, this formulation has predominated politically in the United States since the election of Ronald Reagan in 1980. Others point to structural causes. What has happened to the median wage is certainly telling. In 1973, the median-wage job paid US\$12.99 an hour (in 2005 dollars), and that increased only to US\$14.30 by 2005. This translates to US\$27,000 annually for 1973 and a little over US\$29,000 for 2005. A quarter of all jobs in 2005

did not produce enough income to get a family out of poverty. These are striking figures. Real wage growth for the bottom half was about one-third of one per cent a year. Economic growth was somewhat slow, but there was some, and all of the increase went to people at the very top. The bottom half was stuck and, as with the poverty figures, the impact was felt disproportionately in communities of colour. Cost of living increases that were higher than the rate of inflation – in rents, energy costs, and medical costs (even for people with health coverage) – exacerbated the problem.

The problem is significant for a number of reasons, all of which hardly need spelling out. Firstly, it is immoral that there should be significant poverty in a nation as wealthy as the United States. Secondly, poverty costs the country a great deal of money. A paper by Harry J. Holzer and colleagues, commissioned by the Center for American Progress, estimated the cost of poverty as being at least US\$500 billion annually in lost productivity and wages, increased crime, and higher health costs. Thirdly, the effects over time of having so many people not educated and not working up to their potential will be cumulative. More jobs will go offshore instead of staying within American borders, and more jobs will be replaced by automation as well.

Recent welfare reforms

Over the past fifteen years, two changes in American income support policy stand out. One is the major increase in the Earned Income Tax Credit (EITC) – the income supplement for low-wage workers with children – that was enacted in 1993. The other is the radical revision of welfare – cash assistance for low-income families with children (formerly Aid to Families with Dependent Children, now Temporary Assistance to Needy Families [TANF]) – that was enacted in 1996. The EITC expansion of 1993 was significant. The programme adds more than US\$4000 to the income of a low-wage family with two children, and now helps 22.5 million people at a cost of in excess of US\$40 billion. Accompanied by continuing increases in the minimum wage, improving the EITC is at the heart of a sound income support strategy.

The welfare changes were the culmination of a backlash that began in the late 1960s. The combination of a welfare rights movement, the emergence of federally funded lawyers for the poor, and more sympathetic courts made welfare more accessible during that decade. Not surprisingly, African-Americans, disproportionately poor and disproportionately excluded from the rolls until then, were disproportionate beneficiaries. Why the backlash? My view is that the idea of a right to cash assistance (no matter that states could set benefits at whatever level they wanted) was threatening to some (especially because it seemed to be particularly helpful to people of colour), or at least was opposed by people who thought public assistance should be a matter of charity. Having lost the ability to play overt racial politics, it was convenient for some candidates and public officials to use welfare (and crime) as veiled but obvious racial references.

Ironically, the attack on welfare for promoting dependency acquired some validity (in the nature of a half-truth) as time went on. It is true that welfare did become the main source of income for too many inner-city families, particularly as the men of the neighbourhood were being sent to prison in ever-increasing numbers. No one ever put serious political muscle behind pressing for a thoughtful welfare-to-work policy, a proactive jobs policy in general, and national support for neighbourhood revitalization. In these circumstances, the welfare backlash had staying power. To his credit, President Clinton took steps to improve the income of low-wage workers with the 1993 expansion of the EITC, and probably would have done more if the Gingrich Republicans had not attained power in the 1994 elections. Even so, Clinton achieved an increase in the minimum wage, as well as the enactment of the State Child Health Insurance Program. On welfare, however, President Clinton's record is less admirable.

There was certainly a problem that had to be addressed. In 1994 there were 14.3 million people on the welfare rolls (mothers and children combined). The welfare policy that had been in place since 1935 never actively connected the worlds of welfare and

work, so too many people who went on welfare did not join the workforce. A different policy was clearly needed, but the bill that President Clinton signed was misguided in that it gave the nation's governors scope to reduce the rolls in whatever way they wanted. The results would have been disastrous had the economy not heated up so phenomenally in the latter half of the 1990s. The rolls shrank by nine million people (roughly a third mothers and two-thirds children), in part because of the hot economy, in part because of the incentive effect of the EITC, and in part because many states pushed people off the rolls (and shut the door to new applicants) regardless of whether they could reasonably be expected to find and keep a job.

Politicians on both sides of the aisle (with more unanimity among Republicans than Democrats) now claim that the 1996 law was a success. Many mothers did indeed go to work. The percentage of single mothers with jobs went up substantially, although something like half of them did not escape poverty, and the percentage of working single mothers has slipped since 2000. But what is seldom acknowledged is that 40 per cent of the three million adult former welfare recipients, or 1.2 million (mainly) women, ended up with no job as well as no welfare. And, as of 2003, half that number not only had no job, but had not married, moved in with family or someone else, or obtained disability benefits. These 600,000 women who are what I call 'out out out' have about 1.2 million children, so a total of nearly two million people are worse-off because of the 1996 law. It is surely not unconnected that the number of people who have incomes below half the poverty line, or below US\$8000 for a family of three, has risen by more than three million since the year 2000, and now exceeds 15 million, or more than 5 per cent of the population.

The flexibility allowed by the 1996 law did result in a few states doing a good job, providing concrete illustrations of good welfare-to-work policy, which could have served as a model for improving the federal law when it came up for re-enactment. Instead, those in control made the law more punitive when the

reauthorization was finally completed in 2006. The United Kingdom has done a far better job in this area, because Prime Minister Brown, as Chancellor of the Exchequer, took a look at very similar facts – too many people on the dole – and adopted an approach premised on the carrot rather than the stick. The British approach (accompanied by many other policy initiatives) is to use income supplements to make work more attractive than welfare, without making welfare less available or less attractive.

Some overarching matters of societal responsibility

The following sections will examine in turn the three major goals to be pursued in a three-dimensional income support policy for the twenty-first century. Closely related to such a policy is the fulfillment of some major societal responsibilities. Health coverage for all, help with the cost of housing, and a series of investments in children and youth (child care, schooling, activities in the off-school hours, and post-secondary education) all effectively supplement income, besides serving fundamentally important purposes for people's well-being. Substantial reform in these areas would also have a significant effect on workers' incomes, furthering the aim of providing a living wage for all Americans.

Goal one: achieving a living income

The heart of income support policy should be a focus on the very large number of people who are working and still struggling to make ends meet. The basic policy has two prongs: the highest minimum wage that will not destroy significant numbers of jobs, and income supplements of various kinds. Some of the income supplements involve cash, and some, mentioned above, involve income equivalents in the form of policies that have their own intrinsic justification. The balance between the minimum wage and income supplementation is extremely important. Raising the minimum wage too much results in a reduction in the number of jobs, whilst relying too much on income supplements lets employers off the hook for providing basic benefits to their employees.

The United States recently raised its minimum wage after nearly a decade of losing more and more ground to inflation. However, even after the most recent increase to US\$7.25 an hour becomes fully effective, it will still fall far short of lifting a single-earner family with two children out of poverty. The Poverty Task Force of the Center for American Progress (CAP), which I co-chaired, called for indexing the minimum wage to half the average wage over a period of years. If it were at that level currently (as it was in the 1950s and 1960s), it would be US\$8.40 an hour. In today's America, the above steps to raise wages (and associated strategies like state minimum wage increases, union organizing, and living wage campaigns) will not, for reasons both economic and political, get us to the point where every family has a living income. So we must have a policy of income supplementation. As indicated earlier, the EITC now provides over US\$4000 a year to a minimum-wage worker with two children. The refundable child tax credit and modest wage supplements at the state level provide some additional help.

The EITC should include a category for families with three children, greater supplementation for unmarried workers, and amelioration of disincentives to marry. More states should have EITCs. The federal child tax credit should be made refundable for all parents whose income is too low to use it to reduce their taxes, including parents with no other income. (The latter step would have a powerful anti-poverty effect. Modelling performed by the Urban Institute for the CAP Task Force concluded that this one step alone would reduce poverty by 3.3 million people, or 9 per cent.) The Urban Institute modelled the anti-poverty effects of our CAP Task Force proposals in the four areas of the minimum wage, the EITC, the child tax credit, and child care, and found that, together, just these four would reduce poverty in the United States by 26 per cent. So it is fair to conclude that the proposals put forward here would take American workers a long way toward having an adequate income.

Goal two: helping people get and keep jobs

Looking more closely at the experience under the 1996 welfare law, there were many long-term recipients who wanted to go to work but needed extra encouragement, training, coaching, and help with child care. Some did go to work, to be sure, but others, especially those in states that adopted punitive policies, obtained work that was beneath their potential, lost jobs because their child care broke down, stumbled when their lack of work experience created misunderstandings at work, or found themselves pushed off the rolls and also without a job. Many still on the rolls now want to work, but need considerable help to succeed because of problems of mental illness, domestic violence, addiction, educational deficiencies, or diminished capacity.

Two sets of questions represent major areas of controversy as welfare policy is currently structured in the United States: firstly, which recipients should be exempted from work requirements and time limits imposed on their eligibility to receive welfare, or have time limits suspended temporarily (and should there be work requirements and time limits at all?); and secondly, what sanctions should be applied to those who are working less than they should?

There seemed to be a quiet consensus for a long time that welfare policy should allow people who lived far from available jobs to stay in their ancestral community if they wished to, even if it was a place of extremely high chronic unemployment. The Mississippi Delta, the Black Belt of Alabama, Indian reservations, and the colonias in Texas are a few examples. Other categories include women caring for elderly, infirm relatives or chronically ill children, women with small children, TANF recipients who are pursuing a college degree, and legal immigrants. This consensus contrasts with the basic federal policy that virtually everyone on welfare is expected to find a job (including while they are receiving welfare) and is subject to the time limits. States have no obligation to be lenient with anyone, and can have time limits and work requirements that are as stringent as they like. To my knowledge the United States is currently the only country in the world with welfare time limits.

Sanctions policies add to the difficulties. In some states the entire family can be removed from the rolls for a period of time, and in some places permanently, for repeated violations such as showing up late for a work assignment or missing an appointment at the welfare office. Children are penalized for the 'sins' of their parents.

So the questions remain as to where we should draw the line between those whom we expect to work and those who have an understandable reason not to be in the labour force, and what kind of sanctions, if any, we should use to punish noncompliance with rules. It remains my view that, like the United Kingdom, the United States should create a mainly incentive-based structure to make work more rewarding rather than relying on cash assistance, and offer an adequate safety net for people not working. If we are going to keep the current TANF framework, as is likely for the foreseeable future, some basic national minimum standards of adequacy and fairness should be enacted, and states should be rewarded for pursuing policies that take individual families' situations more fully into account.

If the policy the United States adopted to get women welfare recipients into the labour market is, at best, questionable, the policy for young minority men is simpler, and much more unambiguously negative: it is called 'prison'. Instead of a 'cradle to prison pipeline', as the Children's Defense Fund called it in a recently issued report, we need to have clear pathways by which all of our young people can find their way successfully into adulthood. One in three African-American men will spend time in prison or jail during their lifetime. If this isn't striking enough, the employment trends during the 1990s for eighteen to twenty-four year-old young African-American men with less than a high school education were nothing less than shocking. During a decade in which everyone else made gains, the percentage of this group who were employed fell from 59 to 52 per cent.

We need to help children who are being born into intergenerational, persistent poverty to get a good education and get on the road to being a responsible

adult. A community's commitment to provide clear pathways to adulthood for its young people is obviously a complex undertaking. Schools and colleges, especially community colleges, need to change in many ways. Employers need to play a major role. Neighbourhood, faith, and community leaders should send messages about the need for personal responsibility, and to participate in one-on-one support activities of mentoring and coaching.

Other public policies might be helpful, too. The modest EITC in place for single individuals is US\$428 annually, and ought to be increased to encourage people into employment. The CAP Task Force recommended tripling it, and making it available to workers who are eighteen years old, instead of the current threshold age of twenty-five. Making sure child support payments flow through to the children on whose behalf they are made would be another important step. Now, the majority of states keep all or most such payments when the mother of the child is on welfare, to reimburse themselves for the welfare they have paid out. This pushes young men to work in informal or even illegal ways to avoid having their wages seized for the state's coffers.

Goal three: ensuring adequate assistance for the unemployed

The ranks of those not working include some who it is generally agreed should receive assistance, but there are questions about the adequacy of all of the help that is available.

Two cases in which work is generally not expected are those of the elderly and the disabled. Having taken great strides in the twentieth century toward assuring a decent retirement for its elderly, the United States now faces monumental issues about its pension systems, both public and private, and about health care for the elderly. Politicians speak blithely about the need to tackle the burgeoning cost of what they call 'entitlements', as though the problem is that we have entitled people to help that they do not, in fact, deserve. What is really the basic challenge is one of national priorities and a fair and

adequate tax system. When President Clinton left office, the sound fiscal management of the government and the prosperous economy of the 1990s had left the nation with significant surpluses. The publicly financed old-age funds were left in a stable situation that was projected to last until the mid-twenty-first century, but the profligate spending of the Bush administration has caused the problem to reappear. The issues regarding disabled people are more manageable in fiscal terms, and we have made great strides in the past half century. But the disabled are still poor at twice the rate of the nondisabled, and many disabled people who would like to have jobs are still unable to obtain them.

Two items that urgently need attention are unemployment compensation and food stamps. Only 35 per cent of the unemployed receive unemployment compensation, and food stamps reach about 60 per cent of those eligible (despite the fact that food stamps, unlike most of the other programmes, are a legal entitlement), which suggests a need for an energetic outreach and public education effort. Also, welfare itself has become far more limited in its coverage. The percentage of children in poverty who receive TANF has been cut by nearly half, to about a third of poor children and half of those eligible.

This brief analysis excludes important subjects like veterans' benefits and workers' compensation for job-related injuries, but these and other policies need examination, too. Indeed, all the areas in which there is societal responsibility for some degree of assistance – health care, housing assistance, help with child care, college aid, amongst others – need re-examination for their adequacy and quality.

Some cautionary points

I have argued that all of the policies suggested need to be carried out in a context of new roles and responsibilities for the state, the community, and the individual. This involves perils as well as opportunities. Some will use the rhetoric of civic engagement to claim that all the problems can be solved by voluntarism or faith-based initiatives. We have to insist

that public policy is essential. Some will point to the emphasis on action at the local level to make claims for further devolution to state and local government of decisions about how to spend federal funds. We have to insist that provision of public money from the 'Federal Fisc' (the state treasury) should always be accompanied by adequate national standards, oversight, and accountability. Some will use the call for public-private partnerships to argue for privatization to profit-seeking companies of activities that should be matters of public responsibility. We have to insist on full accountability for any activities carried out by nongovernmental organizations (with strong scepticism about contracting with organizations that are in business to make a profit). Some will purport to agree with the importance of public policy but propose minuscule funding that will make little difference in solving problems. We have to expose their hypocrisy.

And some will seek to apply the idea of individual responsibility punitively, imposing unreasonable requirements and mean-spirited sanctions as the price of state assistance. We have to insist on justice and fairness.

Conclusion

I am heartened by the number of national and local leaders and groups in the United States who have undertaken to focus on poverty and inequality in our country. Many are deeply concerned by the further widening of income and wealth inequality that has occurred over the past half dozen years, and an increasing number of public officials and candidates are beginning to see the saliency of these issues from a political point of view. Perhaps it is not unduly optimistic to hope that this will be the century in which we harness our current wealth and economic power for the benefit of all of our people.

The Foundation

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The Social Contract Revisited

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