

THE FACTS BEHIND THE VISIONS

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In recent years, much attention has been paid to the changing structure of U.S. income inequality, but somewhat less to the changing structure of U.S. poverty. Why has the discussion of “new poverty facts” been sidelined? It is certainly not because the changes have been minor or unimportant. To the contrary, the landscape of U.S. poverty appears to be changing rapidly, with many of the most popular proposals to reform the country’s safety net motivated precisely by new empirical developments. But these developments have typically been invoked in piecemeal fashion and have not captivated the country to the extent that the spectacular takeoff in income inequality has. Although there are many reasons for this reticence (including the obvious one that recent trends in income inequality are, by any standard, especially dramatic), we cannot dismiss the frequently voiced worry that an open discussion would be counterproductive because some reformers might seize on that discussion to justify reforms oriented more toward reducing spending than reducing poverty. This worry sometimes leads to less-than-transparent discussion.

We offer this article in the admittedly quaint hope that it is better to operate with full and complete transparency and that an open and honest discussion of the facts will in the end lead to informed poverty-reducing policy. The simple predicate of this piece is that, given the massive externalities brought on by running a high-poverty economy, there is an open-and-shut case for reform efforts that are authentically focused on *reducing* the poverty rate. We will attempt, therefore, to identify the key poverty facts that such legitimate reform efforts should bear in mind. In the course of doing so, we will reveal how the current array of reform proposals, including those published here, attend to different sets of stylized facts.

We thus begin this review by focusing on two stylized facts that inform many current proposals to reform the U.S. safety net. The first stylized fact, the ongoing increase in “jobless poverty,” may be understood as one of the fallouts of a more general decline in the prime-age employment rate. The second stylized

fact, the rise of “childless poverty,” refers to the growing share of poor adults who are either childless or are not living with their children. The rise of this noncustodial form reflects a more general increase in nonmarital childbearing and nontraditional family structures. These two stylized facts, taken together, paint a “jobless-childless” picture that provides the foundation for many of the reform proposals on offer and are thus a useful starting point for our review.

Why are these two facts so frequently selected from among the many changes in play? It is partly because the U.S. safety net, as it is currently configured, cannot readily respond to these two developments. The welfare reforms undertaken by President Bill Clinton in 1996 ultimately led to a safety net that, mainly via the Earned Income Tax Credit (EITC), expanded wage subsidies for working families with custodial children. Because the country’s new safety net was built around a vision of “working custodial poverty,” its capacity to respond to increases in nonworking or noncustodial poverty was weakened, thus motivating a spate of reform proposals.

These two stylized facts, although very frequently invoked, are not of course the only ones around which welfare reform might be built. The balance of our article thus turns to such additional relevant developments as the rise of low-wage labor and the gig economy, the emergence of a racially and ethnically diverse poverty population, the growth of immigrant poverty, the rise of highly concentrated poverty, and the growing need for post-secondary training to provide protection against poverty. The proposals featured in this issue of *Pathways Magazine* respond—to varying degrees—to these developments as well.

We conclude by discussing how most of these developments, far from being unrelated, reflect a growing commitment to allocate opportunities on the basis of one’s capacity to pay for them, a development that might be dubbed the “commodification of opportunity.” The market is gradually emerging as the go-to source for delivering opportunity-conveying goods and services. This development in turn implies that all reformers must choose

between either (a) “decommodifying opportunity” by providing universal services (e.g., free child care, free college), or (b) acquiescing to commodification by delivering the money that allows poor families to buy opportunity on the market. The fate of a new war on poverty, if the country ever does decide to wage one, will likely depend critically on which of these two possible pathways is taken.

The Rise of Jobless Poverty

We begin, then, by discussing the rise of jobless poverty. The main backdrop to this rise is the ongoing decline in the employment rate of men who are 25 to 54 years old. This prime-age employment rate fell from approximately 97 percent in the late 1940s to approximately 89 percent in early 2017.¹ Is this a large decline? Yes. If the higher employment rates of the mid-20th century had been maintained, nearly 5 million more men would now be employed.²

This decline in male prime-age employment has not taken a simple linear form. As might be expected, the long-term trend in male prime-age employment has instead been highly cyclical, with each of the postwar recessions (especially the Great Recession) driving the rate down and every recovery then reversing only some of that decline. The general trend, ignoring such complicating effects of the business cycle, has nonetheless been relentlessly downward. For women, the historic changes in gender equality produced increases in prime-age employment up to 2000, but thereafter the decline has also been steep.³ These employment problems may of course worsen. There are growing worries that, even if automation has not yet had a net job-reducing effect, it may well have that effect in the future as new “autonomous forms” of technology (e.g., self-driving cars) reduce complementarities and pose a more complicated threat to jobs.

There are few, if any, scholars who would argue that automation has been the driving force behind *past* declines in prime-age employment. The debate on the sources of the decline in prime-age employment has nonetheless been contentious, with some scholars emphasizing reductions in labor supply as a main cause (e.g., “choosing” not to work), and others emphasizing reductions in the demand for labor, especially relatively low-skill labor, as a main cause. We cannot of course review this debate in any detail here. But the key result is clear: The Council of Economic Advisors (CEA) released an especially thorough report in 2016 concluding that reductions in labor supply are far less important than reductions in labor demand in accounting for the long-run trend.⁴

This does not mean that labor supply effects are *entirely* irrelevant. There is likely a growing group of prime-age adults who are now disconnected from work and unresponsive to the recovery and the strengthening demand for labor. This unresponsiveness is attributable to or reinforced by such recent developments as (a) the rising use of disability insurance, (b) growing geographic immobility, and (c) rising incarceration rates (which then blocks reentry to the labor market because of criminal records). The CEA report establishes that supply-side forces of this sort, although hardly the dominant source of the

long-run trend, may still play a small role in contributing to it.

What are the implications of these trends for the composition of the poverty population? In answering this question, it is useful to divide the recent historical record into two periods, one encompassing the effects of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) and the ensuing economic expansion and another reflecting the gradual reversal of these effects from 1999 to the present day. We trace the trend line over these two periods for noncustodial and custodial parents separately, as shown in Figure 1.

PRWORA Period: The PRWORA period shows the expected sharp decline in jobless poverty among prime-age custodial parents (i.e., parents who are 25-54 years old and living with their children). Whereas 56 percent of these parents were jobless in 1995, this statistic dropped to 49 percent in 1999, a decline attributable to the economic boom, the newly expanded Earned Income Tax Credit, and the new work requirements and welfare time limits. The latter result may in large part be understood as PRWORA working as it was intended to work. By contrast, poor adults without custodial children did not experience the same increase in employment, presumably because this group never received Aid to Families with Dependent Children and hence was not as strongly affected by welfare reform. Moreover, because this group had more limited eligibility for the EITC, it did not provide as large an employment incentive.

Post-PRWORA Period: It is not well appreciated that the employment-increasing effects of PRWORA were quite short-lived. Why didn't PRWORA continue to deliver? The effects of PRWORA were overwhelmed after 1999 as the labor market for low-skill workers was permanently reset at a much lower level of employment. As shown in Figure 1, the nonworking share of poor custodial parents rose a full 10 percentage points over the next 11 years, from 49 percent in 1999 to 59 percent in 2010 (in the aftermath of the Great Recession). It has since dropped to 55 percent in 2015. For poor prime-age adults without custodial children, we have likewise seen steadily rising levels of joblessness since 1999, a trend that appears impervious to the business cycle and shows no sign of improving. Indeed, joblessness among poor noncustodial adults continued to rise even during the slow recovery from the Great Recession, reaching the highest level on record, 71 percent, in 2015.

Because of this rising joblessness, the U.S. poverty population is becoming a more deprived and destitute class, one that's disconnected from the economy and unable to meet basic needs. As shown in Figure 1, 40 percent of the 1999 poverty population was in deep poverty (i.e., an income less than half the threshold), whereas 46 percent of the 2015 poverty population was in deep poverty. Likewise, rates of extreme poverty (i.e., living on less than \$2 per day per person) are also increasing, again because of declining employment as well as growing “disconnection” from the safety net.⁵

These results suggest that conventional supply-side solutions to poverty, as embodied in PRWORA, are foundering as the prime-age employment rate remains relatively low. Although PRWORA did initially bring about employment gains, these gains proved to be transitory and nonworking poverty has

again become the norm. In this new world of growing low-skill employment problems, we no longer have the luxury of focusing laser-like on economic growth, confident in the knowledge that, if we can just get the requisite growth, poverty will take care of itself.

The Rise of Childless Poverty

The rise of jobless poverty is especially consequential because it often comes together with childless poverty. We use the latter term colloquially to refer to poor adults who either (a) have no children, or (b) are not living with their own children.

The rise of childless poverty emerged gradually over the last 40 years. Among poor adults who are 18 to 64 years old, 47 percent were childless in 1975, while 58 percent were in 2015. There are three main forces behind this gradual increase in childless poverty.

Baby Boom: The rise of childless poverty partly reflects the sheer size of a baby boom cohort that has reached the “empty nest” stage. Because this cohort is so large, and because its members are typically too old to be living with children under age 18, the proportion of the poverty population that is in a “noncustodial situation” is now larger.

Delayed Marriage: Although the latter cohort effect is an important part of the story, childless poverty has increased among all age groups by virtue of the delay in the age at marriage. This growing tendency, while especially prominent among the poor, is also evident throughout the income distribution.⁶

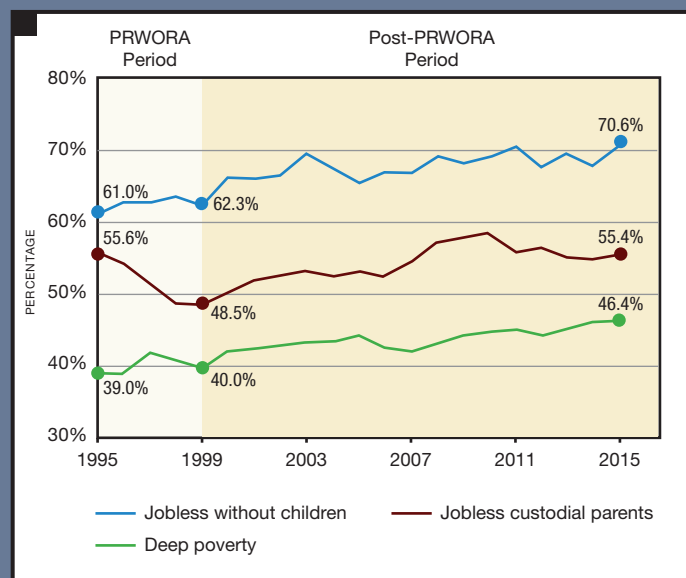
Complicated Families: The third main cause of rising childless poverty is the emergence of increasingly complicated family situations marked by multi-partner fertility, divorce, and repartnering. As families become more complicated, adults who have children may often not live with them, thus increasing the amount of noncustodial poverty.

These three inter-related developments, which have led to declines in both parenthood and co-residential parenthood, have made childless poverty an increasingly common form. In Figure 2, we examine these changes in childless poverty from 1975 to 2015, presenting separate trend lines by both poverty status and age. The most important conclusion from Figure 2 is that childless poverty, although increasing for all ages, has grown at an especially rapid pace for those under 50 years old. For poor adults between 35 and 49 years old, childless poverty increased from 22 percent in 1975 to 43 percent in 2004, with the time series declining slightly thereafter. By contrast, childless poverty took off later for poor adults in the young age group (ages 18 to 34), increasing from 46 percent in 1994 to 61 percent in 2015. Because teen birth rates are now at record lows, noncustodial status has become the new norm for young adults, even those who are poor.⁷

The second main conclusion from Figure 2 is that, among younger *nonpoor* adults, one sees much the same takeoff in noncustodial status, thus making it clear that the younger poverty population is simply registering the effects of larger population-wide forces. There is, by contrast, no evidence of an increase in noncustodial status for the oldest group (whereas the corresponding trend line for poor adults does increase slightly).

These demographic changes arise in part because fewer children now live with both of their parents. Why does this matter?

Figure 1. Joblessness and Deep Poverty Among Poor Prime-Age Adults



Source: Unless otherwise noted, statistics cited in this article are based on the authors' calculations using data from Sarah Flood, Miriam King, Steven Ruggles, and J. Robert Warren. *Integrated Public Use Microdata Series, Current Population Survey: Version 4.0*. [dataset]. Minneapolis: University of Minnesota, 2015. <http://doi.org/10.18128/D030.V4.0>.

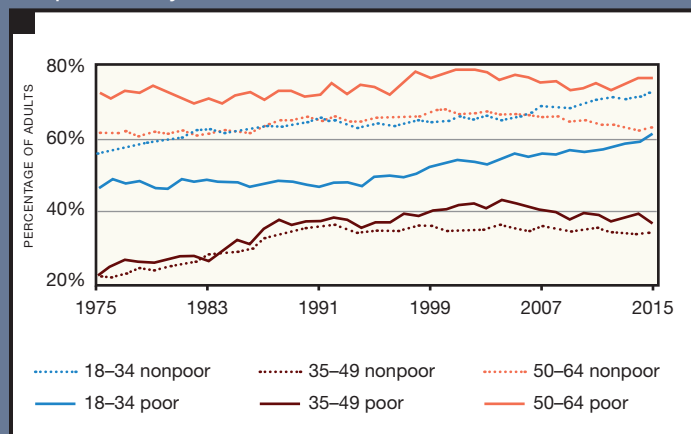
Because single adults have no partner to insure them against the vagaries of the labor market, children raised in a single-parent context face more stress and insecurity, which in turn lead to poorer health, cognitive, and schooling outcomes.⁸ Although the child support system is designed to preserve access to the resources of both parents, it is less successful in doing so in weak labor markets and in neighborhoods with high incarceration rates. Moreover, when single custodial parents repartner, the nonresident parent tends to reduce contact and support payments.⁹ These types of results have led some scholars to argue for various types of safety net reforms that take growing family complexity into account.

The Two Great Mismatches

The rise of jobless and childless poverty, both of which emerged after PRWORA, are not well handled by current safety net programs. There is a growing misalignment, in other words, between the key features of our safety net and the characteristics and circumstances of the contemporary low-income population. This mismatch takes the two forms described below.

A Work-Based Safety Net in a World Without Work: The two-fold purpose of PRWORA was (a) to ensure that programs such as TANF (Temporary Assistance for Needy Families) worked to increase employment among the low-income population, and (b) to shift safety net spending toward employed parents. This approach was predicated on the assumption that the demand for labor remains adequate and that the safety net should accordingly be focused on training labor (e.g., TANF), incentivizing labor (e.g., EITC), and otherwise solving problems with labor supply. The key question here: Is this approach still appropriate for a new world in which prime-age employment is foundering and rapidly developing technologies, such as the rise of auto-

Figure 2. The Rise of the Noncustodial Condition Among Adults, by Age Group and Poverty Status



mous systems, may lead to more precipitous declines in future employment? There are good reasons to worry that it is not.¹⁰

A Family-Based Safety Net in a World Without (Traditional) Families: The first type of misalignment, then, is that our work-based safety net is not well adapted to an economy that may not reliably deliver low-skill jobs. The second type of misalignment is that our family-based safety net is not well adapted to a society that does not reliably produce traditional families. The latter misalignment partly arises because the EITC provides especially large benefits to families with residential children. Because the share of low-income adults with residential children has declined sharply in recent decades (see Figure 2), the EITC is accordingly providing poverty relief to a reduced target population. Some 20 years ago (when PRWORA was enacted), fertility and marriage rates were higher, and the EITC could do adequate anti-poverty work by targeting families with residential children. If we want the EITC to do more anti-poverty work now, it has to recognize that noncustodial status is a new norm for low-income adults.

We have to this point emphasized the mismatch between the present-day safety net and ongoing economic and demographic developments. Do current reform proposals address this mismatch? Not always. Indeed, just as there is a mismatch between the new poverty facts and the safety net's existing configuration, so too there is a mismatch between these facts and many current proposals to reform the safety net. The Congressional Republican poverty plan, for example, is intended to incentivize work by expanding the federal EITC, adding work requirements for the Supplemental Nutrition Assistance Program (SNAP), and devolving safety net programs to the states (which in principle allows states to remove the particular types of disincentives or "cliff effects" that are locally relevant).¹¹ These reforms focus almost exclusively on issues of labor supply and ignore emerging worries about the capacity of our economy to deliver enough demand.

Are other proposals any more responsive to the "new poverty facts"? The new consensus plans that have recently been proposed do indeed hew closely to existing evidence on the effectiveness of the EITC, ongoing family and demographic

changes, and many of the other developments reported here.¹² At the same time, some of our commentators will question whether they address such problems as the faltering demand for low-skill labor, the stigmatization of poverty relief, or the rise of deep and extreme poverty. It should nonetheless be clear that most everyone recognizes the importance of developing consensus proposals that appeal to wide constituencies and have a realistic chance of being adopted. It is also important, however, to sometimes take off the political shackles and devise blue-sky proposals that open up to a fuller range of institutional reforms.

The Commodification of Opportunity

We have focused to this point on rising joblessness and childlessness as two developments that *might* inform future reform efforts. Although the plans featured in this issue do indeed respond (in part) to these developments, there are a host of other post-PRWORA developments of interest to our contributors and other poverty reformers. We review some of the most important such developments here.

Low Wages and the Gig Economy: If the first type of "jobs problem" is that there are not enough of them, the second is that the jobs that are available do not always provide the requisite hours, wages, or security that are needed for a sure pathway out of poverty. As David Autor has shown, the real hourly earnings of low-skill males declined substantially between 1980 and 2012, falling by 22 percent among high school dropouts and by 11 percent among high school graduates.¹³ Although females without any college education have fared better, even their real earnings growth during this three-decade period was exceedingly modest. It follows that low-skill individuals are not just working less but also that, even when they are working, there is no guarantee that their jobs will lift them and their families out of poverty. This is partly because an increasing share of low-income workers are now working in less secure gig-economy positions (e.g., independent contractor, on-call worker, or temp agency employee).¹⁴ The resulting "wages problem" might in principle be addressed through such approaches as (a) mandating higher wages for low-skill jobs (e.g., minimum wage reform), (b) increasing income supplements for low-skill workers (e.g., EITC reform), (c) increasing human capital investments and thus reducing the number of low-skill workers, (d) introducing a basic income supplement, or (d) introducing subsidized jobs that increase the demand for (and price of) low-skill labor.

Increasing Diversity: The post-reform period is also marked by growing racial and ethnic diversity within the poverty population. On the eve of welfare reform (1995), a full 70 percent of the poverty population was either black (i.e., 26% non-Hispanic black) or white (i.e., 44% non-Hispanic white), and much of our poverty policy and discourse accordingly focused on those two groups. In the post-PRWORA period, the white and black (non-Hispanic) shares of the poverty population grew gradually smaller, while the Hispanic share grew gradually larger.¹⁵ This compositional shift in the low-income population has implications for neighborhood segregation, language acquisition, and many other safety net policies. Although the 2016 election usefully refocused the country's attention on the great many whites

in poverty (and near-poverty), it bears noting that they nonetheless constitute a declining share of the total poverty population.

Rising Immigration: The backdrop to all poverty reform is of course ongoing changes in immigration. Since PRWORA, immigrants have come to comprise an ever-larger share of the poverty population, a development that reflects the rapid increase in the number of immigrants rather than any heightened risk of poverty among immigrants. As worries about ramped-up deportation intensify, existing problems with program takeup will likely only worsen, even among immigrants who are authorized or otherwise eligible for safety-net benefits.¹⁶ Given that immigrants comprise 18 percent of the poverty population, any credible reform effort will have to find a way to engage a very large share of the poverty population that is now overwhelmed by worries of deportation, facing new difficulties in finding employment, loath to engage with any government-delivered programs, and thus likely to be increasingly at risk of poverty. This is arguably one of the most pressing poverty-reform tasks of the next several years (and perhaps longer). Although this problem is not likely to be addressed with government-initiated reform, many nongovernmental initiatives are already in play and may have to serve a heightened role in poverty reduction.

Rising Segregation: It is becoming increasingly common for the poor to live together in high-poverty neighborhoods. From 2000 to 2014, the share of the poor living in an “extreme poverty tract” (a tract with a poverty rate of 40% or higher) rose from 9.1 percent to 13.5 percent, an increase that shows up in nearly every state.¹⁷ There is growing evidence that poor children who exit these high-poverty neighborhoods and move to better ones have superior labor market outcomes.¹⁸ These findings suggest such reforms as (a) ramped-up support for relocating low-income families into better neighborhoods (e.g., housing vouchers), (b) increased investments in poor neighborhoods (e.g., Promise Neighborhoods), or (c) new zoning policies that support mixed-income development.

Changing Training Requirements: When PRWORA was implemented 20 years ago, it was still the case that a high school degree, typically available as a “public good” in local neighborhoods, provided ample protection against poverty. This is of course no longer the case. It is increasingly important not just to secure some post-secondary training but to secure the right type of training (e.g., avoid predatory for-profit training) and to successfully complete that training. Because post-secondary training, unlike primary and secondary training, is very costly for students (in the form of tuition, fees, and foregone wages), this ramping-up of credential requirements means that the poverty-reduction effort is now intimately connected with the task of facilitating access to post-secondary training in its vocational and academic forms. Although the community college and vocational training reforms (e.g., Workforce Innovation and Opportunity Act) implemented during the Obama period marked the beginning of this effort, we have yet to fashion a safety net that fully builds in the new supply-side demands for a new economy.

The preceding discussion of low-wage labor, the gig economy, racial and ethnic diversity, immigration, economic segrega-

tion, and training requirements hardly exhausts the relevant developments in the country’s poverty economy. If a more comprehensive assessment were attempted, it might additionally cover such developments as the suburbanization of poverty, the spectacular takeoff and more recent decline in the prison population, the decline in geographic mobility, the especially rapid increases in spending on disability insurance, and a very general shift in safety net spending that favors the “working poor” over the more destitute.¹⁹

In lieu of attempting any exhaustive discussion of these developments, it may be more useful to conclude by noting that, although the new facts discussed here may seem quite unrelated, in fact there is much that connects them. As David Grusky and Jasmine Hill have argued, they reflect a growing tendency to allocate opportunities on the basis of one’s capacity to pay for them, a development that might be dubbed the “commodification of opportunity.”²⁰ It follows that low-income adults are now doubly disadvantaged: It is not simply that, by virtue of rising income inequality, they have less money than their middle-class peers, but also that money is precisely what they now need to secure opportunities for their children. The “commodification of opportunity” arises because the market is gradually replacing the nuclear family, extended family, and neighborhood in delivering child care, education and training, social networks, and many other opportunity-conveying goods and services.

The commodification of opportunity raises a host of problems for low-income parents intent on helping their children. If early childhood education is now delivered in the market (rather than delivered informally within the family), how will poor families be able to pay for it? If access to high-quality primary and secondary schooling, although nominally free, is in principle only available within neighborhoods with a high entry price, how will poor families be able to access them? If protection against poverty increasingly requires very costly post-secondary training, how will poor parents be able to provide for it? If access to marriage (and the supplementary economic resources it provides) is increasingly a luxury good only available to the well off, how will poor men and women gain access to those resources and the economies of scale that marriage affords? These are all simple—but consequential—examples of the growing commitment to price opportunities at their market value rather than “give them away.”

There are two solutions to this dilemma. The first entails capitulation to commodification: We can acquiesce to the process but insist that, insofar as the poor increasingly need money to buy opportunities for their children, we must then commit to a basic income or to other similarly aggressive redistributive approaches. We can make commodification work, in other words, only if there is enough money at the bottom of the distribution to enable the poor to purchase opportunities for their children. The second approach entails reversing commodification rather than acquiescing to it. This approach proceeds by reinstalling various types of public goods—including free high-quality education, free high-quality child care, and integrated neighborhoods—that then allow the poor to access opportunities for their children without buying them. If this approach

were taken, a relatively high level of income inequality may be more palatable, as basic needs are now met through direct delivery rather than market mechanisms.

If ever there were a big fork in the road for poverty reform, this would clearly be it. The second war on poverty, insofar as a real and authentic one is ultimately waged, will either entail acquiescing to commodification or attempting to reverse it. In reading the

various reforms proposed in this issue, it may be useful to consider (a) which of these two paths is adopted, and (b) whether a considered case for that choice is provided.

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Notes

1. These statistics were retrieved on March 7, 2017 from <https://data.bls.gov/timeseries/LNS11300061>.
2. The male prime-age population was 61.753 million in January 2017, as retrieved on March 7, 2017 from <https://data.bls.gov/timeseries/LNU0000061>. $(.967-.889) \times 61.8M \approx 4.8M$.
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