THE HAMILTON PROJECT

STRATEGY PAPER

DECEMBER 2007

A Hand Up: A Strategy to Reward Work, Expand Opportunity, and Reduce Poverty

Jason E. Bordoff, Jason Furman, and Paige L. Shevlin

The Hamilton Project seeks to advance America's promise of opportunity, prosperity, and growth. The Project's economic strategy reflects a judgment that long-term prosperity is best achieved by making economic growth broad-based, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments. Our strategy—strikingly different from the theories driving economic policy in recent years—calls for fiscal discipline and for increased public investment in key growth-enhancing areas. The Project will put forward innovative policy ideas from leading economic thinkers throughout the United States—ideas based on experience and evidence, not ideology and doctrine—to introduce new, sometimes controversial, policy options into the national debate with the goal of improving our country's economic policy.

The Project is named after Alexander Hamilton, the nation's first treasury secretary, who laid the foundation for the modern American economy. Consistent with the guiding principles of the Project, Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that "prudent aids and encouragements on the part of government" are necessary to enhance and guide market forces.

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The Brookings Institution

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Abstract

Poverty remains a pressing problem in the United States. Many of the 36 million Americans in poverty are working, but full-time work at the minimum wage does not provide enough income to escape poverty. This paper offers a three-part strategy to reduce poverty and strengthen growth across the income spectrum. First, the most effective antipoverty policy is to help people find a job that pays enough to support a family. This paper's principal focus is on programs to reward and facilitate work. Second, a broader set of policies is necessary to prepare people to succeed, by investing in human capital and other critical needs. Finally, public policies should provide a more robust safety net and a set of social insurance policies to help people rebound if they do experience economic hardship, and reduce the likelihood of their falling below a certain economic level at any point. Together, these policies can raise the living standards of struggling families and allow everyone to share in our nation's prosperity.

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Introduction

After falling sharply from the 1960s to the 1970s, the nation's poverty rate has since crept back up in an uneven pattern: declining for periods in the late 1980s and mid-to-late 1990s before climbing up again starting in 2000. The increase in the poverty rate between 2000 and 2006 is especially notable because it is the only period on record when a strong rate of aggregate economic growth has coincided with an increase in impoverishment. At the same time, the persistence of inner-city poverty was made even more vivid by the indelible images of the devastation following Hurricane Katrina.

The failure to make sufficient progress against poverty over the past thirty years is inconsistent with our nation's commitment to equal opportunity and economic mobility. Furthermore, this failure also harms the economy more broadly. Harry Holzer, Diane Schanzenbach and colleagues have estimated that the cost of children growing up in poverty is about $500 billion per year, nearly 4 percent of GDP. That cost includes the lost potential for productivity, the high cost of crime, and the rising cost of health care (Holzer et al. 2007). Addressing poverty is not just a moral imperative—it is also an essential part of a broader strategy to make growth stronger and more sustainable.

The Hamilton Project was founded to develop new strategies and policy ideas to promote stronger, more sustainable, and more widely shared economic growth. From its inception in early 2006, the Project has placed an emphasis on policies that would realize the potential of all of Americans. Efforts to address poverty should not be limited to poverty-specific policies such as the Food Stamp Program, Temporary Assistance for Needy Families (TANF), or a higher minimum wage. Much of the poverty rate's persistence can be explained by wage stagnation at the bottom of the income distribution. Thus, broadly shared growth and inclusion must form a critical part of how we approach the problem of poverty, just as it should be an important part of how policymakers address a range of other economic issues, from education to tax policy, and from health care to climate change.

After describing recent trends in the poverty rate, this paper puts forth a three-part strategy to reduce poverty and strengthen growth across the income spectrum. The three-part strategy emphasizes a new set of discussion papers on rewarding and facilitating work while weaving in a number of proposals The Hamilton Project has previously released in order to present the full range of policies needed to address persistent poverty.

- First, the most effective antipoverty policy is to help people find a job that pays enough to support their families in dignity. Because of the critical importance of facilitating and rewarding work, the bulk of this paper will discuss those policies.
- Second, a broader set of policies is necessary to prepare people to succeed.
- Finally, public policies should provide a more robust safety net and a set of social insurance policies to help people rebound if they do experience economic hardship, and to mitigate the likelihood they will fall below a certain economic level at any point.

To be sure, these categories are neither mutually exclusive nor collectively exhaustive. Many policies defy easy categorization. For example, workforce training programs, ranging from the Career Academies to some

Poverty and deprivation are problems without simple solutions. Addressing these challenges will require both smarter policies and more resources.

community college programs, help facilitate work for young adults and older dislocated workers, but also prepare people to succeed in the workforce. Similarly, health care issues could reasonably fall in any of these categories: eliminating the problem of "job lock" that prevents people from switching jobs for fear of losing their health insurance would facilitate work (Madrian 1994); expanding and improving access to health care can prepare people to succeed and raise future earnings (Hadley 2003; Weil 2007); and having health insurance can provide a safety net and be a springboard to a better future, for example by reducing the likelihood that a person leaving welfare will return to the rolls (Loprest 2002). This three-part strategy captures the range of policy interventions needed to address poverty: growing the economy, providing people with the tools to benefit from that growth, and cushioning the fall and helping those who face economic difficulties.

Poverty and deprivation are problems without simple solutions. Addressing these challenges will require both smarter policies *and* more resources. In this way poverty is different from many other policy areas in which The Hamilton Project has identified reforms that could better target scarce government resources to help those most in need. From automatic enrollment in 401(k)s to expanded use of income-contingent loans to measuring teacher performance, there are opportunities in many areas for large gains at relatively little cost—or even while saving money, for example through progressive cost-sharing in public health programs or eliminating wasteful and counterproductive energy subsidies (Gale, Gruber, Orszag 2006; Gordon, Kaine, Staiger 2006; Furman 2007; Furman et al. 2007). *But alleviating poverty is not one of those areas.*

The challenges facing disadvantaged workers are so large and are growing so quickly that there can be no magic bullet: new or expanded public investments will be necessary. In the 1990s, the focus was on policies to impose time limits on welfare benefits and to encourage and reward work, especially for single mothers. These policies proved effective in large measure at raising women and children out of poverty but failed to reach equally important segments of the population, notably men not living with children. The challenges faced by this group of disadvantaged workers are considerably more difficult. The bulk of this population works, but in jobs that pay relatively little. For others in this group finding a good job can be very difficult. The good news is that, given adequate resources, we know from evidence and experience that well-targeted public policies can help these workers find appropriate jobs.

The Troubling Persistence of Poverty

In 2006, the U.S. Census estimated that 36 million Americans, or 12.3 percent of the population, had incomes that put them below the poverty line. (The poverty line depends on family size; for a nonelderly single person in 2006 it was $10,488, and for a family of four it was $20,444.) The poverty rates for black and Latino populations were twice as high as the poverty rates for white people. Still two-thirds of the total people in poverty are white, by virtue of being the largest group in the population. Children disproportionately live in poverty; this is especially true of black children, whose poverty rate is a staggering 33 percent. The elderly have the lowest poverty rates. Poverty is also highly correlated with family composition, with a relatively low poverty rate for married couples and an extremely high poverty rate for families with a female head of household and no husband present (28.3 percent overall, rising to 36.9 percent for Hispanic households and 39.2 percent for black households).

The decline in the official poverty rate in the 1960s and early 1970s (see Figure 1) was particularly dramatic for the elderly, who went from the highest poverty rates to the lowest poverty rates, largely because of the legislated increases in Social Security benefits in the 1960s and 1970s. Poverty rates for all groups, and especially single mothers, declined in the mid- to late-1990s, but some of these gains have been reversed since 2000.

Over time, the geographical character of poverty has shifted from concentrated poverty in urban areas towards poverty in suburban areas. Although the poor account for 18.8 percent of the urban population and 9.4 percent of the suburban population, these relative magnitudes have been shifting (Berube and Kneebone 2006). Between 1990 and 2000, the number of people living in high-poverty neighborhoods—defined as a poverty rate of 40 percent or higher—decreased by 2.5 million, or 24 percent. This decline in concentrated poverty occurred among all racial and ethnic groups, including black Americans (Jargowsky 2003). Over the same time period, poverty rates declined at a slower rate in the suburbs and have begun picking up again since 2000 (Berube and Kneebone 2006).

TABLE 1

People in Poverty by Selected Characteristics, 2006

	Number (millions)	Percentage
Total	**36.5**	**12.3**
White	24.4	10.3
Black	9.0	24.3
Asian	1.4	10.3
Hispanic origin (any race)	9.2	20.6
Under 18 years	12.8	17.4
18 – 64 years	20.2	10.8
65 years or older	3.4	9.4
Married couple	2.9	4.9
Female householder, no husband present	4.1	28.3
Male householder, no wife present	0.7	13.2

Source: U.S. Census Bureau 2006b, Tables B-1, B-2, and B-3.

BOX 1

The Difficulty of Measuring Poverty

The official poverty rate suffers from a number of measurement problems. Policymakers should place a high priority on improving the poverty metric to better understand the condition of American families and the efficacy of public policies.

The official poverty rate understates the extent of poverty today. In 1995 the National Academy of Sciences released an influential report (Citro and Michael 1995) proposing twelve alternative measures of poverty with alternative definitions of family income and thresholds for poverty. The latest Census report estimates show that all twelve of these alternative measures would produce a higher poverty rate than the official current rate, in some cases more than two percentage points higher. In part, this finding reflects the commonsense observation that it is impossible to raise a family of four on $25,000 annually without a constant struggle to pay the bills.

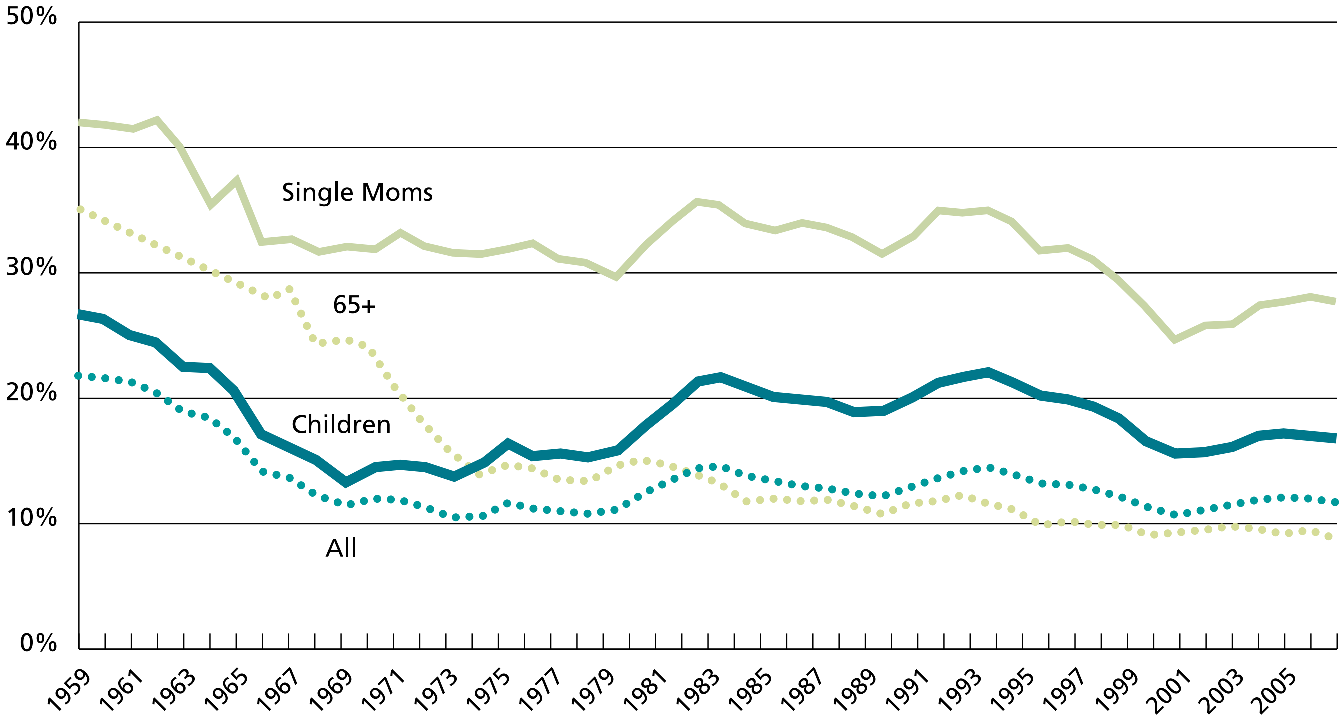
At the same time, the official poverty rate is overly pessimistic about the trend it is intended to capture: the percentage of people living in absolute poverty, meaning those whose standard of living falls below a specific level fixed in the 1950s. The official statistics show that the percentage of people living in poverty was higher in 2000 than in 1973, despite fact that the absolute standard of living of the poorest Americans has improved over this period (Mayer and Jencks 1995). That improvement includes ownership of material goods like air conditioners, televisions, and access to better health care. There are several reasons for this bias in the trend in the official poverty rate. First, the definition of income used for the poverty statistics does not include refundable tax credits like the earned income tax credit (EITC). As discussed in Part I of this strategy, the EITC has been greatly expanded since its inception in the mid-1970s and today is the second largest antipoverty program in this county. (Social Security, which is included in the official poverty data, is the first.) Second, the poverty line is adjusted annually by the Consumer Price Index (CPI) to reflect a higher cost of living. In the past, however, the CPI greatly overstated increases in the cost of living.* While a more consistent and accurate CPI (officially known as the CPI-U-RS, or "CPI using current research studies") is used for a great deal of economic data including income statistics, it is not used for the poverty line since statute requires this figure to be calculated by the original CPI.

In addition, trends in poverty need to be interpreted with some caution. The population today is different from the population in the past. The arrival of low-income immigrants who may be better off in the United States than they were before they came to America are reflected in the official statistics as an increase in the poverty rate. In addition, if family income volatility has increased, as appears to be the case, then the official annual poverty rate could increase at the same time that persistent poverty or poverty measured on an expenditure basis decreases (Dynan, Elmendorf, and Sichel 2007; Eberstadt 2006).

Finally, a revised poverty measure should reflect the fact that what really matters to families is relative poverty, not absolute poverty. A variety of empirical evidence shows that people's sense of well-being is determined less by their income than by how their income compares to those around them (Daly and Wilson 2007). One hundred years ago families did not need a phone or electricity; today no family could get by without these items, so the poverty rate should appropriately include the income required to support them. As a society grows richer, in other words, what constitutes a minimum acceptable income concomitantly increases as well. To the extent a country's increased wealth accrues overwhelmingly to those at the top, the rest of society is relatively poorer, and a revised poverty measure should reflect that reality. In recognition of the relative nature of poverty, the European Union and the United Kingdom set the poverty line at 60 percent of the median family's income. If the United States adopted such a standard, the poverty threshold would be $42,187 for a family of four in 2005, twice the official poverty line (U.S. Census 2007).

* Between 1973 and 2000, the cost of living according to the official CPI increased 388 percent. The CPI-U-RS shows an increase of cost of living of only 356 percent. An even more accurate measure of the changes in the cost of living, the personal consumption expenditures price index, which takes into account shifts in people's purchasing patterns, , increased 332 percent.

FIGURE 1
Poverty Rates for Selected Groups, 1959–2005



Source: U.S. Census Bureau 2006b, Table B-1, B-2, B-3.

TABLE 2
Poverty Rates With and Without Government Spending, by Country

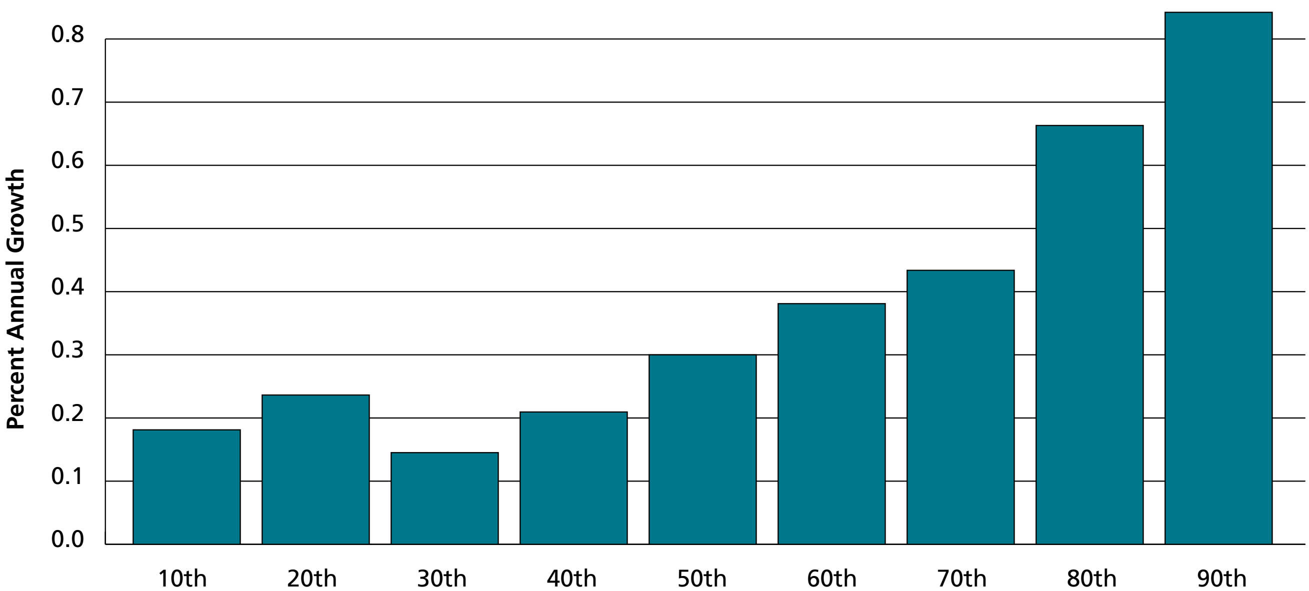
	Poverty (%)		
	Market income[a]	With taxes and social insurance[b]	With means-tested benefits[c]
United States	23.1	19.3	17.0
Ireland	29.5	21.2	16.5
Italy	30.0	13.7	12.7
United Kingdom	31.1	23.5	12.4
Canada	21.1	12.9	11.4
Germany	28.1	10.6	8.3
Belgium	34.6	8.9	8.0
Austria	31.8	9.1	7.7
Netherlands	21.0	9.6	7.3
Sweden	28.8	11.7	6.5
Finland	17.8	11.4	5.4
Average	27.0	13.8	10.3

Source: Smeeding 2006, Table 4, 79.
Notes: Poverty rate defined as percent of persons living in households with adjusted income below 50 percent of the median income in that nation.
a. Market income includes earnings, investment income, private and public pensions, child-support payments, and other private transfers.
b. Includes taxes and social insurance.
c. Includes EITC, food assistance, and housing allowances.

The percentage of people living in poverty in the United States is also high relative to other high-income countries (Table 2). It is notable that America's poverty rate based on market income is below average for high-income countries. But when taxes, broad-based social insurance and means-tested benefits are factored in—social safety net policies that tend to be more generous in other industrialized countries—the United States has the highest relative poverty rate of this group.

The failure of the United States to make sufficient progress against poverty is not only a failure of social programs but also a reflection of the failure of labor markets to generate sustained income gains for workers at the bottom of the income distribution. For the past several decades, with the exception of the mid- to late-1990s, the majority of the economic growth has gone to high-income households. At the same time, real wage growth has been anemic for the majority of workers, especially the bottom 40 percent who saw their real hourly wages grow at only a 0.2 percent annual rate from 1973 to 2005 (Figure 2). Not surpris-

FIGURE 2
Real Annual Wage Growth by Percentile, 1973 to 2005



Source: Calculations based on EPI 2007.

ingly, the exceptions to this general trend have been during periods of strong economic performance, such as 1995 to 2000 when workers at the 10th and 20th percentiles saw their wages grow by more than 2.2 percent annually, a higher rate than all but the top 10 percent of workers. Similarly, in the 1950s and 1960s wages grew strongly across the board.

In recent years rising inequality, not slow overall growth, has been the biggest source of the failure of low-wage workers to make meaningful gains. The principal solution is to ensure that growth is broad-based by helping to extend a hand to workers at the bottom rungs of the ladder while reducing overall inequality. But this priority should not lead us to lose sight of the fact that over longer periods of time, and across numerous countries around the world, higher productivity growth is an essential ingredient in creating higher living standards. Moreover, although there are sometimes tradeoffs between promoting productivity and reducing inequality, some of the most promising policies make progress in both dimensions by lifting up more workers through policies to make work pay, prepare our people for success, and help people rebound from hardship.

Part I: Reward and Facilitate Work

It has frequently been observed that the best antipoverty program is a job. This is a motivation for supporting policies that foster strong economic growth and strong job expansion. But relying on job creation is not enough. There is no guarantee that a job will pay a wage sufficient to fulfill the widely accepted goal that no one working full time should be obliged to raise his or her family in poverty. A person who works full time at the minimum wage of $5.85 per hour will make only $11,700 per year— 28 percent less than the poverty line for a family of three. To address this problem, policymakers need to do more to *reward work*, primarily by expanding the EITC, but also through broader tax reform by allowing people to keep other benefits as they find jobs and save for the future.

Nevertheless, many disadvantaged workers still have a particularly difficult time finding a job, especially one that pays well and utilizes their full potential. Thus, another important focus for policy is to *facilitate work* through a range of services such as job search assistance, training, and child-care supports. The discussion below presents a few ideas for advancing worker training and assisting individuals facing employment barriers to find a job. It also presents one model that bundles a variety of services together to make it easier for disadvantaged families to navigate the often complex systems intended to assist them.

A key question for policymakers is how to strike the right balance between rewarding and facilitating work. Two advantages of rewarding work through the EITC and other measures are that virtually all of the money spent goes to low-income families—with very little lost to the leaky bucket of administrative costs—and that there is very strong evidence that these programs provide a substantial incentive for people to join the workforce. In contrast, most programs to facilitate work, like job search assistance or training, have much higher administrative costs and thus have a much smaller share of the direct expenditures going to benefit workers. If they are well-designed, however, these programs too have potentially large benefits if they enable someone to work who would not otherwise have been able to work, or to help someone find a better, higher-paying job that leads to a better career path. To date, the evidence around programs to facilitate work is less clear. An important task for policymakers will be to develop better evidence about the best ways to deliver broader services and about their effectiveness compared to straightforward proposals to reward work.

The most effective antipoverty policy is to help people find a job that pays enough to support a family in dignity.

Finally, it should be noted that another key element of any antipoverty strategy is to *encourage work*, or at least to not actively discourage work. The Personal Responsibility and Work Opportunity Reconciliation Act, signed into law by President Clinton in 1996 and commonly known as "welfare reform," moved dramati-

TABLE 3

Gain to Working in 1988 and 1999 for a Single Mother with Two Children

	Not working	Working full time at minimum wage	Net gain to working
1988	$8,612 (Medicaid eligible)	$10,937 (Not Medicaid eligible)	$2,325
1999	$7,967 (Medicaid eligible)	$15,018 (Children under 16 Medicaid eligible)	$ 7,051

Source: Adapted from Blank and Ellwood 2002, Table 11.1, 755.

cally in this direction by imposing time limits for the receipt of government benefits together with a work requirement. While policymakers should study further options designed to encourage work, at this stage expanding measures to reward and facilitate work have much more potential to reduce poverty and help more families share in economic growth.

Rewarding Work

The centerpiece of any effort to reward work is the EITC, a refundable tax credit for low- and moderate-income workers, particularly those with children. The EITC commands bipartisan support. President Ronald Reagan once called the tax bill that included the EITC "the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress." A number of leading Democratic policymakers and candidates for president have recently proposed expanding the EITC. Many conservative commentators and policymakers also endorse the general approach. For example, *The New York Times* columnist David Brooks wrote, "We should raise the earned-income tax credit to lessen [low-income families'] economic stress."[1]

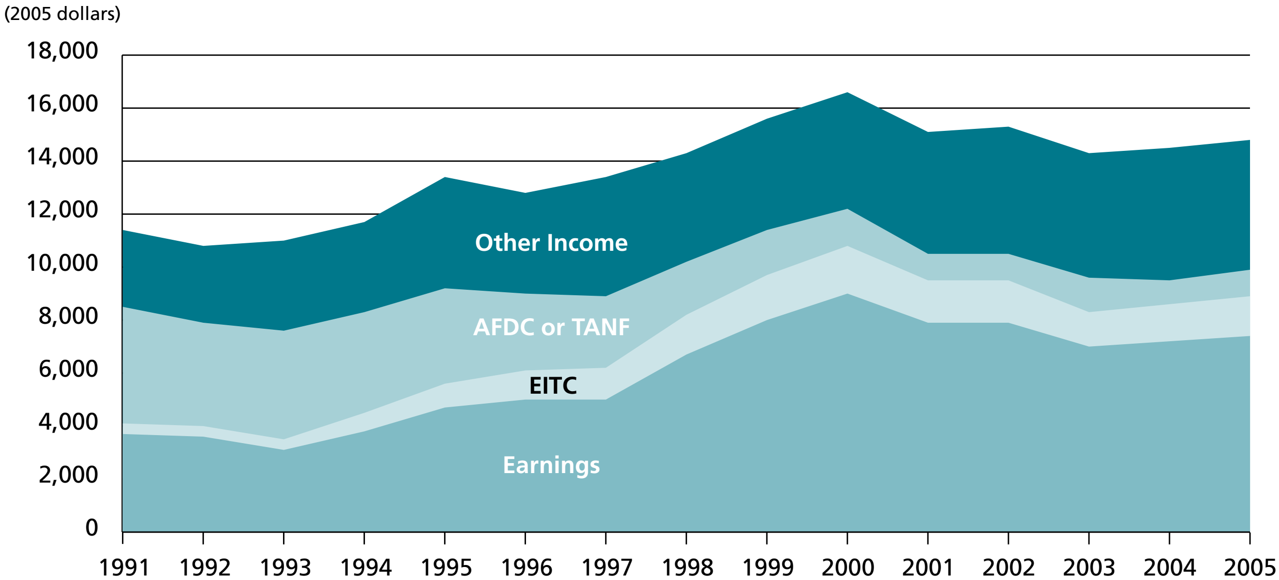
The history of the EITC defies the saying that a "program for the poor is a poor program." Originally enacted in 1975, the EITC was expanded in many subsequent tax bills, including the 1986 tax reform, various tax cuts, and—most importantly—in the 1990 and 1993 deficit reduction legislation. Today, a household with two or more children receives a subsidy of 40 cents for every $1 earned up to $11,790, for a maximum subsidy of $4,716. As the earnings of households rise, the EITC phases out until it is eliminated at an income of $37,783 (or $39,783 for married couples). A single worker with one child receives a maximum EITC of $2,853, and a childless worker (a worker not living with children) receives a maximum EITC of $428, a small measure introduced in the 1993 EITC expansion.

Economic theory would predict that by raising the return to work, the EITC would result in more people entering the labor force; these predictions apply especially to women, whose labor supply decisions are more sensitive to wages than are men's decisions. The evidence shows that this is indeed the case; several studies have found that expansions in the EITC were one of the major causes of the increase in labor force participation by low-income mothers (Eissa and Liebman 1996; Hotz, Mullin, and Scholz 2006; Meyer and Rosenbaum 2001).

Theoretically, the EITC should also decrease the incentive to work more hours once the phase-out is reached. For example, a single parent with two children loses $0.21 of the maximum credit for every $1 earned above $15,390. Combined with income taxes and payroll taxes, that can lead to a marginal tax rate of more than 50 percent—in other words, for every extra $1 that single parent earns above $15,390, he or she is allowed to keep less than $0.50. But such disincentive concerns have not materialized. A survey of the literature by Nada Eissa and Hilary Hoynes (2005) indicates that the EITC increases labor force participation but does not lead to a reduction in hours worked in the phase-out range. The exception, however, is married women, for whom there

1. David Brooks, "Both Sides of Inequality," *The New York Times*, March 9, 2006.

FIGURE 3
Sources of Income for Low-Income Female-Headed Households with Children,1991 to 2005



Source: Adapted from CBO 2007, Figure 6.

Notes: "Low-income" is defined as the bottom fifth of the income distribution of female-headed households. Other income consists of Social Security, Supplemental Security Income, child support, unemployment compensation, workers' compensation, disability benefits, pension or retirement income, educational assistance, financial assistance from outside the household, and other cash income.

is a very small decline in labor force participation and hours worked. The lack of response in hours worked by the 75 percent of EITC recipients who are single may be due to the lack of worker control over hours worked or a poor understanding of the EITC structure.[2]

The expansion of the EITC was part of a broader set of measures to make work pay. Also important were the increase in the minimum wage enacted in 1996, and measures to make it easier for families to retain valuable benefits when family members started to work. Especially important among these measures is publicly subsidized health insurance through Medicaid or the State Children's Health Insurance Program (SCHIP). At the same time, support for families with no working member was somewhat reduced. The result was a dramatic shift in the relative benefits of working compared to the benefits of not working (Table 3).

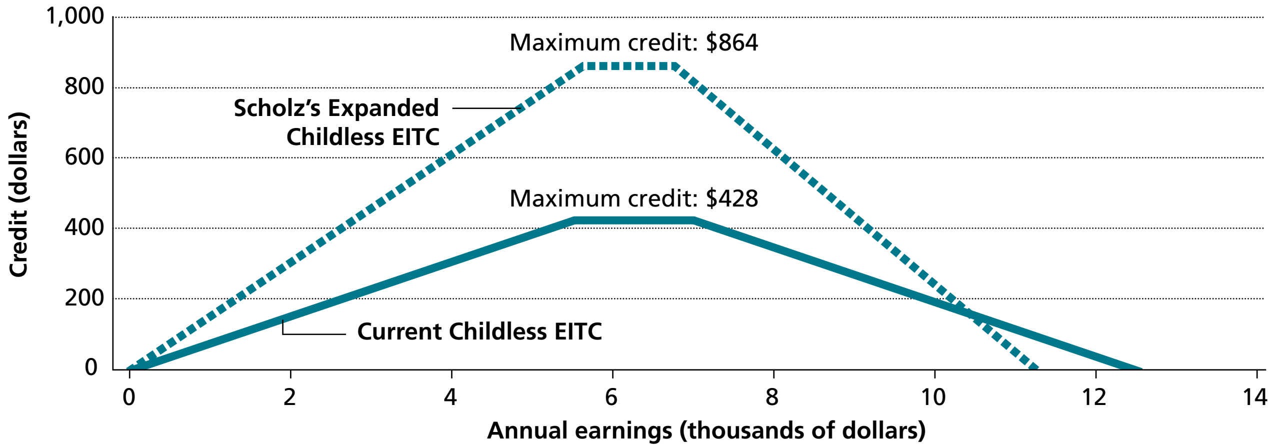
As a result of this increased incentive to work, the percentage of women in the labor force increased in the 1990s. Between 1993 and 2000, the proportion of single mothers in the labor force rose from 58 percent to almost 75 percent, the employment rates of never-married mothers rose from 44 percent to 66 percent (Haskins 2006), and the employment rate of black women without a high school diploma increased from 35 to 45 percent (Scholz 2007).

The combination of EITC expansions, welfare reform, and a strong economy drastically changed the situation of female-headed households with children. Figure 3 shows that overall income for the lowest quintile of female-headed households increased from $10,700 in 1991 to about $15,600 in 2000, a 46 percent increase. Incomes fell back to $13,700 in 2005 but are still well above their 1991 level. Most of this increase in income can be attributed to earnings. EITC payments also increased as a proportion of income, while welfare payments through Aid to Families with Dependent Children (AFDC), and later TANF, decreased. The same trend is evident for all low-income households with children, though to a lesser extent. Note that other benefits, like food stamps, declined over this period, in part

2. The lack of an effect of the EITC on hours worked is often considered a positive feature. In fact, it may be the opposite: people who would be better off working a bit less end up not realizing that is the case because of the opaque structure of the tax credit.

FIGURE 4

Comparison of Proposed and Existing EITC for Single Childless Workers Over Thirty*



* For childless workers under thirty who are not full-time students, the credit rate under the proposal would be 25 percent rather than 15.3 percent, to a maximum credit of $1,388. The proposal doubles for childless married couples, for whom the maximum EITC is $1,728.

because of reductions that were made in order to pay for the 1996 welfare reform.

Further progress can and should be made to build on the successes in the 1990s. Some of the most important are (1) extending benefits for childless workers and establishing wage subsidies, (2) extending benefits for families with three or more children, (3) improving the EITC to reduce the error rate, and (4) implementing broader tax reforms to increase progressivity and efficiency.

(1) Expand the EITC for childless workers and establish wage subsidies. The expansion of the EITC and other successful policies in the 1990s were aimed at adults living with children, but they did little for childless workers. The CBO estimates that, for the lowest quintile of childless households, real income did not increase between 1991 and 2005—the same period for which real income of the lowest quintile of households with children increased by 35 percent (CBO 2007). Low-income men, in particular, fared badly under these policy reforms. During the 1990s, when low-income women with children were entering the labor force by the millions, the work rate among less-educated men fell. In sharp contrast to the 10 percentage point increase in employment rates among black women without a high school diploma, the employment rate among men in the same group decreased by almost 10 percentage points (Scholz 2007).

These failures not only directly impact the workers, but also indirectly impact the families. Many of these "childless" adults are men who have children but do not live with them. Many more are men who will one day have children. Young childless men are also more likely to commit crime than other poor individuals, adding to the culture of violence and drugs that permeates many poor neighborhoods. Encouraging childless adults to join the workforce and increasing their earnings would help families substantially. There is no reason to expect that childless adults would not respond to the same set of economic incentives that lifted women with children out of poverty.

The current EITC for childless adults is too meager to elicit changes in behavior. Many proposals to improve have been put forth by academics and members of Congress, including a recent proposal by Ways and Means Committee Chairman Charles Rangel (also Furman 2006; Greenstein 2005). In a Hamilton Project Discussion Paper, Karl Scholz (2007) continues the call for reform and expansion of the childless EITC. The Scholz proposal would increase the subsidy rates of the EITC for childless adults, eliminate the current restriction on benefits for those between 18 and 24, and provide an additional credit to workers under 30. Under the Scholz proposal, the childless EITC would supplement earnings at a rate of 15.3 percent, exactly offsetting the payroll taxes paid by employers and employees.

The maximum credit would rise from the current level of $428 to $864.

Scholz also proposes a wage subsidy, beginning with certain economically depressed urban areas. The wage subsidy would increase a worker's wage by half of the difference between the actual wage and a target wage of $11.30 per hour. If the wage were $7.30 per hour, for example, the worker would receive $2 per hour in the form of a subsidy.

Scholz proposes to provide the wage subsidy directly to the worker because there is limited evidence for wage subsidies to employers. One piece of evidence we have comes from the Work Opportunity Tax Credit (WOTC) enacted in 1996. Although some anecdotal evidence found WOTC effective, academic studies have demonstrated that they failed to increase employment or earnings of their target population.[3]

One of the potential benefits of a wage subsidy, as compared to the EITC, is that it would not phase out as a person worked additional hours. As a result, it could potentially be more economically efficient. Conversely, though, there are questions about whether such a program would be administrable, or in fact would be subject to too much fraud to make it viable. There is also a concern that the large reduction in the wage subsidy as hourly wages increase could be a disincentive to undertake higher-paying work. Overall, Scholz concludes that the potential upside of a well-designed program makes it well worth proceeding with a small-scale introduction of wage subsidies. If they worked effectively, these wage subsidies could eventually be expanded nationwide.

Scholz's two proposals combined would redistribute $10.4 billion to low-income individuals. He estimates that they would also bring 850,000 individuals into the formal labor market and decrease crime by over one million incidents, saving society enough money to cover at least 8 percent of the proposal's cost.

(2) Expand the EITC for families with three or more children. The poverty rate for children in families with three or more children is 24 percent, twice the 12 percent poverty rate for families with one or two children. Among the general population, 37 percent of children are in families with three or more related children, while fully 55 percent of all children living in poverty are in such families (CPS 2006).

The structure of the EITC is poorly designed to address this pattern of child poverty. According to the official federal poverty line, a family with a third child would require an additional $4,202 to escape poverty. Families with more children face larger child-care expenses if the parent or parents work. Indeed, middle-class families get larger tax breaks when they have more children since the principal child-related provisions in the tax code, the Child Tax Credit and the dependent exemption, are provided on a per child basis. They are grounded in the philosophy that each additional child reduces a family's ability to pay taxes, or increases its needs, by the same amount. In contrast, the EITC does not increase

Adding a third tier to the EITC, which would increase the value of the credit for families with three or more children, is one of the most cost-effective ways to reduce poverty.

for families that have three or more children. Furthermore, the Child Tax Credit itself is only refundable in a limited manner, and thus does not provide additional assistance for families with three or more children until their income exceeds the poverty line. Adding a third tier to the EITC, which would increase the value of the credit for families with three or more children, is one of the most cost-effective ways to reduce poverty. Such reforms to increase the EITC for families with three or more children were proposed by President Clinton in

3. Research has shown that employers do not consider the WOTC in hiring decisions, but instead check which employees are eligible and apply at the end of the year. As a result, it does little to increase employment or wages for low-income workers, and instead functions as a windfall for the companies that employ them.

2000 and by Greenstein (2005), Hoffman and Seidman (2003), and Furman (2006).

(3) Simplify the EITC and reduce the error rate. The EITC is relatively complex. IRS Publication 596, which explains the EITC, is fifty-six pages long. The GAO found that 14 percent of eligible taxpayers with children did not claim the EITC in 1999, although this estimate is imprecise (GAO 2001). This represents a higher take-up rate than most public programs, but is likely lower than the take-up rate for dependent exemptions and other aspects of the tax system. Furthermore, the EITC suffers from some errors and overpayments, although these errors have probably been reduced in recent years and the current magnitude is not known. Finally, according to the IRS (2003), 68 percent of EITC recipients use paid preparers, a higher fraction than for the population as a whole. Seeking to simplify the EITC has the potential both to make it easier for beneficiaries and to reduce error rates.

In addition to encouraging and rewarding work, a potentially complementary set of policies would facilitate work, helping to connect disadvantaged workers with jobs.

(4) Reform the tax code to increase progressivity and efficiency. Finally, policymakers should not just limit their attention to the EITC and wage subsidies. There is a strong tax policy case to be made that reforming the tax code—by expanding the refundability of tax credits and switching from tax deductions to tax credits—could improve both the efficiency and the progressivity of the tax code.

Most tax credits, such as the Hope credit for college and the Child and Dependent Care Credit, are not refundable and thus do not benefit families that have no income tax liability. Other tax credits, like the child credit, are only partially refundable. Finally, tax deductions such as the ones for mortgage interest, contributions to tax-preferred savings accounts, and contributions to employer-provided health insurance, are all of more value for families in higher tax brackets—and of no value for families who earn too little to be eligible to pay income taxes. A deduction of $1 is worth 35 cents to someone in the highest marginal tax bracket but only 10 cents to someone in the lowest tax bracket. A credit, by contrast, provides the same subsidy regardless of one's tax bracket, and a refundable credit does so even if the credit exceeds one's total tax liability.

Expanding the refundability of tax credits and shifting some tax deductions to refundable credits would not just increase the value for low-income families—also, it would potentially increase the efficiency of these policies in a number of ways, including by providing larger subsidies to households that will actually change their behavior as a result of the tax preferences (Batchelder, Goldberg, and Orszag 2006).

Facilitating Work

In addition to encouraging and rewarding work, a potentially complementary set of policies would *facilitate work*, helping to connect disadvantaged workers with jobs. There is a large set of policies that facilitate work, ranging from training and job search assistance to subsidies for child care and transportation. To date, policy in the area of facilitating work is at a much smaller scale than rewarding work: a little more than $3 billion[4] goes for employment and training programs, compared to $42.4 billion on the EITC alone in 2005. Some disparity is justified for the reasons discussed above, including the flexibility associated with in-kind benefits, the relatively low administrative costs, the knowledge that the incidence of the benefits goes to the affected workers, and the mixed evidence for many training programs.

The potential upsides to facilitating work, however, are large. Well-funded training programs, for both dislocated and incumbent workers, can raise worker wages

4. This figure includes $3 billion in funding for the Workforce Investment Act. There are other limited sources of funding for what might be considered facilitating work, including the Higher Education Act and TANF (Holzer 2007).

and yield a significant return for the employer and for government (Hollenbeck and Klerk 2007). Fortunately, there are a few rigorously evaluated, successful models that can be used as a basis for scaling up work in this area. We focus on four particularly promising areas for reform. One new Hamilton Project discussion paper proposes expanding training programs for disadvantaged workers (Holzer 2007). A second will focus on the hard-to-reach group of ex-offenders. Third, child support enforcement could be reformed to be more effective and also to mitigate its disincentive to work. Finally, a new Hamilton Project discussion paper builds on a rigorous evaluation process to propose bundling various supports and services into a one-stop model, including access to community service jobs (Bos et al. 2007).

(1) Training for disadvantaged workers. In a discussion paper for The Hamilton Project, Harry J. Holzer (2007) of the Georgetown Public Policy Institute and the Urban Institute argues that low-income workers face substantial barriers to employment advancement. He identifies three groups in particular. First are the working poor—adults who are consistently employed but who have low earnings. Most efforts to assist the working poor are focused on industry-specific training that can lead to better jobs and higher earnings. Second are at-risk youth and high school students who are not planning to pursue college degrees. They could benefit from apprenticeships and career and technical education, formerly known as vocational education, in which high schools and community colleges train students for jobs in specific sectors of the economy. Third are hard-to-employ individuals, such as ex-offenders and persons with disabilities. They may benefit from special efforts to support their employment. Workforce intermediaries can provide transitional jobs, along with intensive case management to prepare these individuals for full-time employment. These individuals may also benefit from services such as job placement assistance, child-care subsidies, wage supplements, and referrals for substance abuse rehabilitation or mental health care.

Holzer proposes a new federal funding stream to identify, expand, and replicate the most successful state and local worker advancement initiatives. The federal government would offer up to $5 billion annually in matching funds for increases in state, local, and private expenditures on worker advancement initiatives. The federal funds would only match new spending above the current $3 billion in federal funding spent on worker advancement. Initially, this program would require states to compete for federal grants, encouraging innovation and the use of best practices of other states. Holzer argues that the program would increase the lifetime incomes of low-wage workers significantly, while developing and disseminating high-quality data on successful program design. Holzer estimates that his proposal could produce $1.60 in benefits for every $1 spent.

To date, policy in the area of facilitating work is at a much smaller scale than rewarding work: a little more than $3 billion goes for employment and training programs, compared to $42.4 billion on the EITC alone in 2005.

(2) Facilitating post-prison employment. A forthcoming Hamilton Project discussion paper from Harvard sociologist Bruce Western will identify methods to facilitate work among one of the subsets of individuals with multiple barriers to work: ex-offenders. The incarceration rate has increased every year for the past thirty years. At the same time, the number of prison releases has increased every year as well. In 2005, 698,000 prisoners were released from state or federal prisons—five times the number released in 1977. The average education level of men leaving prison is less than 11th grade. Ex-offenders must overcome the low skills they went into prison with as well as new barriers that time in prison creates, including loss of social networks, the stigma of a criminal record, and diminished skills resulting from time incarcerated. Programs that seek to address these barriers could increase the employment and earnings of this group, as well as reduce recidivism rates.

(3) Child support enforcement. Child support withholding can have an adverse impact on employment rates among low-income men. Along with imprisonment, evidence shows that another reason for nonwork by low-skilled men in the 1990s was that they were deterred by the prospect of automatic wage deduction to pay their child support obligations (Holzer, Offner, and Sorensen 2005). In 2003, about 1 million absentee fathers owed child support to economically disadvantaged families, yet paid either nothing or less than they owed (Mead 2007). Addressing this disincentive to work is difficult, because policymakers understandably do not want to lower child-support obligations. Lowering these obligations would provide a further incentive for these men to avoid employment until the obligations were reduced, and so would reward noncomplying fathers at the expense of mothers and children. At the same time, many fathers fall hopelessly behind on their support payments because their obligations are not reduced while they are in prison or unemployed. In the 1990s, various demonstrations showed promising results that offered low-income nonpaying fathers reduced support orders, provided they paid those orders and participated in a work placement program. These programs increased both the rate of payment and amount of payment by participants, and policymakers should expand on the use of such effective models. Two such programs were the Parents' Fair Share demonstration (Doolittle et al. 1998 and Martinez and Miller 2000), and the Children First Program in Wisconsin (Blasco 2000).

> New Hope required participants to commit to full-time work and then rewarded them with a bundle of benefits including earnings supplements, health insurance, and child care assistance.

(4) Bundling services together and providing community service jobs. In their recent Hamilton Project Discussion Paper, Hans Bos, Greg Duncan, Lisa Gennetian, and Heather Hill (2007) address the challenges of the individuals with multiple barriers to work. The program they propose combines many elements that are bundled that simultaneously reward and facilitate work, with the bulk of the cost going to facilitate work. The program is modeled after New Hope—a small, experimental program in Milwaukee that was operated for three years in the mid-1990s. The program required participants to commit to full-time work, and then rewarded them with a bundle of benefits including earnings supplements, health insurance, child-care assistance, and short-term community service jobs for those unable to find employment in the private sector. By stipulating that participants must document full-time work to qualify for benefits, New Hope functioned as a social contract rather than as a welfare program. Like the social contract more broadly (Bordoff 2007), it required participants to take some responsibility for their own well-being in exchange for assistance and protection against key risks.

New Hope was purposely designed as an experiment to allow its impact to be measured. Employment rates for participants increased by 5 percentage points, poverty decreased by 8 percentage points, and the classroom achievement of the children of the participants increased significantly—more so for boys than for girls. Teachers also reported better behavior among male children of participants. Given the goal of preventing poverty among children whose parents are poor, the results for children are especially promising. Based on the success of the program, Bos and his colleagues propose scaling up the New Hope model into a national program.

New Hope seeks both to facilitate work through child-care assistance and community service jobs and to reward work through its earnings supplements. The model also raises the question of how policies should be implemented. Is it enough to offer programs such as the EITC through the tax code, and to offer child-care assistance through social service offices? Or should these programs be bundled, similar to the New Hope model? New Hope was successful on many fronts, but the program was also expensive. Administrative costs amounted to $1,717 per participant per year, or 52 percent of the total cost per participant because of the intensive case management and depth of services provided.

In the original New Hope program, only 5 percent of eligible residents participated. With stronger dissemination of program information, the authors predict that the take-up rate would be about 25 percent, with a maximum of 40 percent based on the current take-up rate of child-care subsidies. Part of the low participation rate may be due to the unwillingness or inability of some to work thirty hours a week. Another reason may be that not all eligible families need or want the entire package of services that New Hope provides.

Even if programs such as New Hope only benefit a small proportion of low-income individuals, if the results are positive, then the initiative may still be worthwhile despite its expense. New Hope makes an admirable effort not to replace other government programs, but rather to fill in where government assistance has ended—when Medicaid is not available or the child-care subsidies offered through TANF are not enough. Most importantly, New Hope aims to facilitate work and ensure that the work pays.

Part II: Prepare People to Succeed

Beyond the specific new proposals to raise workers out of poverty, a much broader set of public policies are needed—from education and training to shoring up the safety net—to raise the living standards of all Americans, including the poorest. The first step is to provide Americans with the tools to secure higher-paying, high-skilled jobs. The key policy is to invest in education in order to create a highly skilled workforce that can prosper in the global economy. Technological change has increased the returns to skill, and thus low-income workers need to have the skills to move into higher-paying jobs. Better-educated workers are also less likely to fall into poverty when they hit economic difficulties because they spend less time without work after displacement and are more likely to be reemployed at comparable wages and at jobs that offer health insurance (Hipple 1999; Needels, Corson, and Nicholson 2001; Swaim and Podursky 1989).

In particular, helping young children from disadvantaged families get on the right track has the highest potential returns of any education policy. While intelligence and potential to succeed are distributed equally throughout the population, opportunity to cultivate these talents is not. Instead, a child's economic position is heavily influenced by that of his or her parents (Isaacs 2007). Creating more opportunity for children from low- and moderate-income families is the most promising way to help those children express the full range of their potential talents and capacity for productivity.

The most important step to prepare children to succeed is preschool. The evidence shows that a child's early years are particularly important for cognitive development and that investments in these years are likely to pay for themselves many times in the coming decades. It is much cheaper and more efficient to prevent large disparities in the first place than to try to remedy them as children get older. Nevertheless, there is relatively little public money for preschool, and fewer than 50 percent of three- and four-year-olds are enrolled in any form of preschool (U.S. Census Bureau 2006a). Many preschool programs, including Head Start, do not focus sufficiently on preparing children for school. The only way to remedy this problem is with a significant public investment in high-quality preschool. As Nobel Prize–winning economist James Heckman has said, "It is a rare public policy initiative that promotes fairness and social justice and at the same time promotes productivity in the economy and in society at large. Investing in disadvantaged young children is such a policy" (Heckman and Masterov 2006, 2).

In a recent Hamilton Project discussion paper, Jens Ludwig and Isabel Sawhill propose one model that they term "Success by Ten." Their proposal would provide intensive, high-quality preschool for all children in families who fall below the poverty line; the preschool program would be modeled on the successful Abecedarian Project in North Carolina. Compared with a control group, the children who enrolled in Abecedarian—all of whom were born to low-income, at-risk women—achieved significantly higher IQ scores (close to the national average), were 2.5 times more likely to go to college, and had much lower rates of unemployment as adults. The total benefits of Abecedarian were estimated to be about twice its costs (Ludwig and Sawhill 2007).

Follow-through as children move from kindergarten through twelfth grade is also very important. Unlike preschool, the largest potential gains in K–12 education will not come from new investments, but from improving today's investments. For instance, even the most ambitious proposals for new spending are dwarfed by the $483 billion that federal, state, and local governments already spend annually on K–12 education. Three Hamilton Project discussion papers have examined different aspects of the problem. One aspect of Ludwig and Sawhill's Success by Ten proposal shifts Title I spending to a reading program called Success for All that has been demonstrated to be effective. Robert Gordon, Tom Kane, and Doug Staiger (2006) argue that the single most important part of the education process is the teacher. They propose eliminating the current process of making tenure almost inevitable even for ineffective teachers, expanding the pool of eligible teachers based on evidence that certification is poorly correlated with teacher effectiveness, and offering bonuses to high-performing teachers who are willing to teach in high-poverty schools. According to Gordon and his colleagues, students of high-performing teachers score 10 percentile points higher than students of the lowest-quality teachers. That difference, accumulated for four years, could alone eliminate the 34-point achievement gap between black and white students.

Another Hamilton Project proposal, specifically targeted at reducing the skills gap, concentrates on reversing the trend of achievement losses that occur over the summer for children in families with low socioeconomic status. The authors, Molly Fifer and Alan Krueger (2006), call for offering Summer Opportunity Scholarships to low-income children in kindergarten through fifth grade to assist them in attending a six-week summer school program or some other type of enrichment program.

Beyond K–12, evidence shows that a college education is an investment that pays off handsomely—for those that can afford the initial cost of attendance. A recent Hamilton Project discussion paper by Susan Dynarski and Judith Scott-Clayton (2007) seeks to increase college enrollment by cutting out some of the red tape surrounding the process of financial aid for college. They argue that the system of financial aid should be simplified enough so that the information can be put on a postcard that would be easily distributable to all students. Students would know how much aid they qualify for, and many would discover that they can afford college after all. The authors propose College Grants on a Postcard, and estimate that the program could increase college enrollment among eligible grant recipients by 7.4 percentage points. Other approaches should be considered, including expanded income-contingent loans to provide students with more security as they take out their initial loans for higher education.

Helping young children from disadvantaged families get on the right track through high-quality preschool has the highest potential returns of any education policy.

A key part of a comprehensive strategy to build human capital and prepare people to succeed is also an effective network of community colleges and vocational training programs. For youth in low-income urban areas, Career Academies help students transition to jobs by combining academic and technical curricula with partnerships with local employers. A rigorous evaluation, using randomized, controlled field trials, found that such programs can yield significant improvements in employment and earnings (Kemple 2004). In addition, evidence shows that a community college education has positive effects on earnings among young workers. Those who complete associate degrees often earn between 20 and 30 percent more than individuals with no more than a high school diploma (see Bailey and Morest 2006; Marcotte, Bailey, Borkoski, and Kienzl 2005; see also the Community College Research Center).

Finally, there is potential for efforts that go beyond traditional education. Strengthening marriage and reducing nonmarital births can be particularly effective—provided there are effective, evidence-based methods of accomplishing these goals. A Brookings study (Haskins and Sawhill 2003) shows that if the same share of children lived with their married parents today as did so in 1970, poverty would fall more than 25 percent without any additional government spending. Without the one-third decline in teen pregnancy since 1991, the number of children under age six living in poverty would be 8.5 percent higher than it is today (O'Neill, Murray and Primus 2005). Reducing the trend toward single-parent families would not only reduce the number of children in poverty, but would also better prepare those children to succeed in the future (Thomas and Sawhill 2005). Reversing these trends is not easy, but programs that are potentially promising include sexual education and premarital education to improve marriage quality and lower the risk of divorce (Amato and Maynard 2007). Effective prenatal care and responsible behavior by pregnant women can reduce the number of low-birth-weight babies (Conley, Strully, and Bennett 2003). Finally, helping workers succeed today in finding better jobs and in saving for the future will help expand the opportunities for their children.

Part III: Provide a Robust Safety Net and Help People Rebound from Economic Hardship

Even with sound policies to reward and facilitate work and to prepare people for success, not everyone will succeed. Some will be unable to work, some will fall on temporary hardship, and some will fall into persistent, permanent poverty. Thus the third part of the strategy is to provide a robust safety net and help people rebound from economic hardship.

In some cases, a safety net requires making a delicate trade-off between creating the right incentives to work and providing an economic cushion. In many cases, accepting some disincentives may be warranted to ensure that no one lives in utter destitution, especially when it comes to necessities such as food, shelter, and health care. There are, however, many areas where a well-designed safety net can help the economy by helping people rebound, improving the flexibility of the labor market, encouraging more risk taking, and increasing political support for growth-enhancing policies.

There are many elements to such a safety net, and this strategy briefly refers to four of them: universal health insurance, retirement security, income security, and other critical elements of the safety net.

Universal Health Insurance

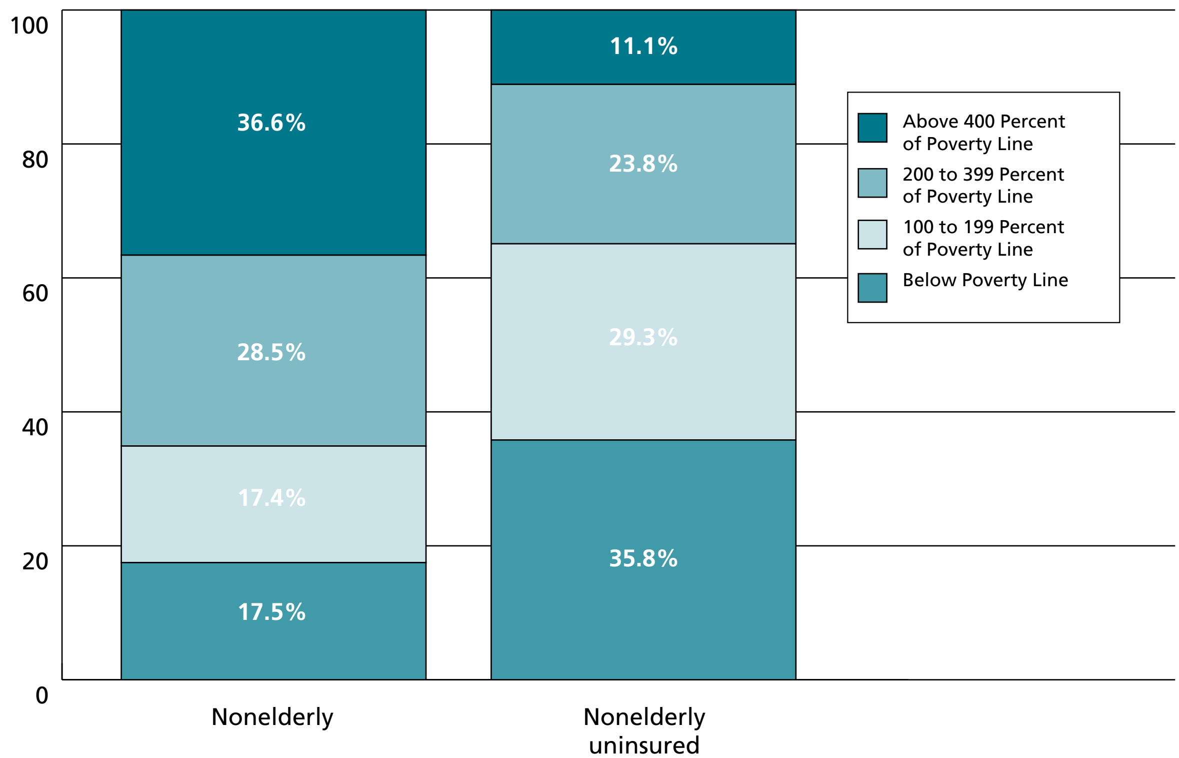
The biggest failure of America's safety net is its failure to provide universal health insurance. In 2006, 47 million Americans were uninsured, according to the official census estimate. Two-thirds of the uninsured had incomes below 200 percent of the family poverty line even though that group makes up only a little more than one-third of the nonelderly population (Figure 5). Low-income adults, and especially low-income childless adults, have a hard time because they are generally ineligible for Medicaid and other public programs. Lack of universal insurance leads to worse health outcomes for low-income people. Researchers have found that people who lack health insurance are less likely to seek preventive care and services for chronic and acute conditions (Lambrew 2007). Low-income families are especially hurt by the risks associated with high-deductible policies and policies with incomplete coverage. Illness can be a financial disaster for uninsured families, and even those with insurance are seeing premiums consume a larger and larger share of their income—indeed, the growth in health costs is a significant reason why wages have been stagnant, as wage growth is eaten up by rising compensation.

Many higher-income families are also uninsured or justifiably concerned about losing employer-provided coverage. Ultimately, the shortcomings of the health system affect the economy as a whole, impeding the flexibility the economy needs to thrive and grow by locking workers into jobs and undermining support for growth-enhancing policies (Madrian 1994; Furman and Rubin 2007).

Universal health coverage would reduce these economic risks, significantly enhance the living standards of low-income Americans, and potentially have economy-wide benefits as well. There are many ways to achieve this goal. The Hamilton Project has recently released proposals for four possible approaches, ranging from allowing all Americans to buy in to Medicare, to a system that focuses on strengthening the private market (Anderson and Waters 2007; Butler 2007; Emanuel and Fuchs 2007; Gruber 2007). Pending truly universal insurance, well-designed expansions of Medicaid and the

FIGURE 5

Composition of the Nonelderly Population and Nonelderly Uninsured, by Family Poverty Level, 2006



Source: Kaiser 2007, Table 10.

State Children's Health Insurance Program (SCHIP) have the potential to help millions of low-income children, most of whom are already eligible for the program but who do not receive coverage.

To help address the other problems facing low-income households in the health system, one promising idea is to relate cost sharing to income, including eliminating all deductibles and copayments for families below 150 percent of the poverty line (Furman 2007). Other priorities to address the health issues that disproportionately affect low-income families include improving preventive care (Lambrew 2007) and strengthening the prescription drug benefit (Frank and Newhouse 2007).

Retirement Security

A second critical element of the safety net is retirement security. The most important part of the retirement security safety net is Social Security, which is the source of more than half of the retirement income for more than half of retirees. It is also the nation's largest antipoverty program.

But private savings also play an important role in promoting retirement security, while doing double duty of helping provide families with a cushion to avoid hardship when economic difficulties arise. Low-income households, in particular, have difficulty finding extra money to save. A few relatively simple and budget-neutral reforms could help redress the problem. In a recent Hamilton Project discussion paper, William Gale, Jonathan Gruber and Peter Orszag (2006) propose one set of steps, including making automatic IRAs universal—essentially extending pensions to the 50 percent of workers who do not have them—and switching from deductions that disproportionately benefit high-income filers to refundable tax credits to ensure that low-income workers who pay little in income taxes (though they pay much more in state, local, and payroll taxes) have incentives to save. The Retirement Security Project, a joint venture of Brookings and Georgetown University, proposes additional steps to help low-income families save, including reforming the asset tests for programs like Medicaid and Food Stamps that serve as a penalty for low-income families to save (Greenstein, Neuberger, and Sweeney 2005). Finally, policymakers should also consider more ambitious plans to provide more generous matching tax credits to low-income families to help them save for retirement as well as potential future contingencies (Sperling 2005).

Income Security

Sometimes difficult circumstances can be temporary, especially when they are related to the loss of a job or the inability to find a new job with commensurate pay and benefits. In this case, broad-based social insurance has the potential to protect people from risks against which they cannot self-insure, like persistent unemployment or lower wages. In some cases, like long-term unemployment insurance, policymakers need to make a trade-off between protecting people against uninsurable risks and providing incentives for them to find employment. In other cases, however, policymakers can design programs that both help with risks and increase the dynamism of the economy.

In many cases of temporary job loss, families are able to use a combination of unemployment insurance and their own means to maintain their standard of living while taking the time to search for another good job. The changing nature of unemployment is making this scenario increasingly unlikely. Permanent job loss and long-term unemployment are now more common, and contingent and part-time work, the loss of which does not qualify the worker for unemployment insurance payments, are increasingly routine. Partly as a result, the percentage of the unemployed receiving unemployment insurance has fallen from an average of about 50 percent in the 1950s to an average of about 35 percent in the 1990s.

In addition, workers who are reemployed often face income losses. Those who are reemployed at a new job have earnings that average 13 percent less than their previous earnings. Workers with more experience generally face even larger earnings losses, and those losses tend to persist for many years.

The Hamilton Project has released two discussion papers that propose alternative approaches to strengthen and modernize unemployment insurance and establish a new wage insurance program to provide some protection against reemployment at lower wages (Kletzer and Rosen 2006; Kling 2006). In addition, future Hamilton Project work will focus on other training and job search programs that can help workers rebound from job losses and move up the career ladder.

Other Critical Elements of the Safety Net

Finally, there are a number of other critical elements of the safety net, including programs to help those that unable to work and who fall through the cracks of other programs such as the EITC. This strategy paper does not attempt to exhaustively list or analyze all of them, but it briefly discusses examples of some important outstanding issues: food stamps and public housing.

> There are many areas where a well-designed safety net can help the economy by helping people rebound, improving the flexibility of the labor market, encouraging more risk taking and increasing political support for growth-enhancing policies.

Food stamps started as a pilot program in the early 1960s, and was expanded in the early 1970s. Thanks to the Food Stamp Program and a combination of other programs, including the school lunch program and Special Supplemental Nutrition Program for Women, Infants, and Children (known as WIC), severe malnutrition-related health problems have almost disappeared in this country (Rosenbaum and Neuberger 2005). But hunger, measured by the government in terms of varying degrees of "food insecurity," is still a problem. According to U.S. Census data, between 2003 and 2005 12.6 million households, or 11 percent of households, were "food insecure," meaning their access to food was limited by a lack of money and other resources. A further 4.5 million households, or four percent, were rated "very-low food secure," meaning members of the household were forced to cut back or skip meals on a frequent basis (Food Research and Action Center 2007). In many cases food insecurity occurs because people are denied food stamps (e.g., legal immigrants who have been living in the United States for less than five years or able-bodied adults without children who are not working). In other cases, it is because many of the people who are eligible do not sign up. Either way, the fact that the portion of the poor population receiving food stamps fell from 73 percent in 1995 to 53 percent by 2001, and that almost 30 percent of households of single women with children are "food insecure," should be a source of concern for policymakers (USDA 2007).

Public housing is another important element of the safety net. Historically, the government has supported both public housing projects and vouchers for low-income families through the Section 8 program (now known as Housing Choice Vouchers). One key question for public policy is how much the neighborhood matters in addressing poverty and expanding opportunity. Some of the highest quality evidence on this question comes from the Moving to Opportunity demonstration, which offered housing vouchers to residents of public housing projects—including some experimental vouchers that could initially be used only in low-poverty areas.

The demonstration succeeded in helping participants move to safer areas with much lower neighborhood poverty rates. The results from the demonstration on economic opportunity have been mixed. On the one hand, the experiment did not succeed in increasing employment among participants (Kling, Liebman, and Katz 2007) or academic achievement among children (Sanbonmatsu et al. 2006). There was a net reduction in the social cost of crime from youth, although male youth in the experimental group had more arrests for property crimes than in the control group (Kling, Ludwig, and Katz 2005). The demonstration's largest impacts were positive effects on the mental health of the parents and the behavior and health of teenage girls (Kling, Liebman, and Katz 2007). These impacts were larger for groups that moved to lower-poverty areas (Kling, Liebman, and Katz 2007). Because the cost of providing public housing units and housing vouchers is quite similar and the impacts on most dimensions were small or offsetting, the large mental health benefits are the primary evidence. That evidence suggests that housing vouchers and encouraging moves to low-poverty areas may well be cost-effective public policy.

This discussion of policies to provide a robust safety net and help people rebound from economic hardship is not meant to be exhaustive. Instead it is meant to illustrate two general principles using some of the most important examples like health insurance and retirement security. One principle is to establish a basic safety net to ensure that everyone has some minimal standard below which they cannot fall. The second principle is that, although it is not always possible, the safety net should be designed as much as possible to help workers rebound. Policies like wage insurance or reforms that allow families to keep Medicaid after they return to work can help in this regard.

Conclusion

For decades, America has failed to make sufficient progress toward reducing poverty. The continued persistence of poverty among low-income workers defies America's promise that hard work will pay enough to raise a family in dignity. In response, several policy reforms are needed to provide for both America's continued economic growth and broad-based opportunity: helping people enter the labor force and rewarding their work; making the right long-term investments in our people; shoring up our social insurance programs; and increasing the progressivity of efficient tools like the tax code to share the gains of growth more broadly. Taking these steps will not only alleviate poverty, but will raise living standards for all Americans by enabling the poorest individuals to contribute more productively to our economy. Combined with other targeted policies to meet the unique needs of those living in poverty, such an approach can help many more Americans share in our nation's prosperity.

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