

# The Brookings Institution

Metropolitan Policy Program

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## Laboratories of Capitalism: How States Get the Market Right for Working Families

Federal Reserve Bank of Cleveland 2005 Policy Summit – The Ownership Society





## Laboratories of Capitalism: How States Get the Market Right for Working Families

I

What's the context for state innovation? How are low-income families fairing in the ownership society?

II

What are the different types of state innovations that benefit low-income working families?

III

What are the promises and perils of this state innovation?



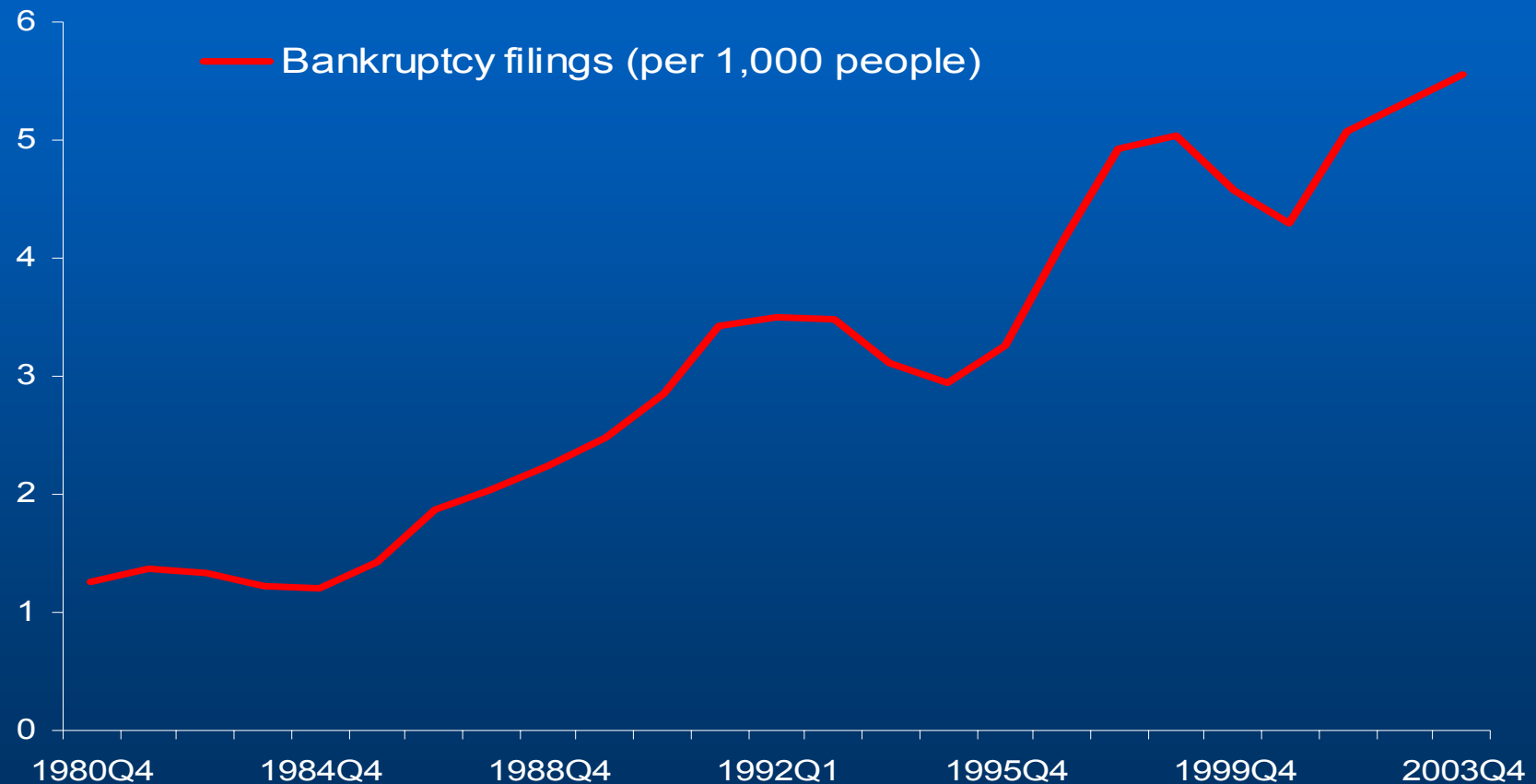
## How are low income families fairing in the ownership society?



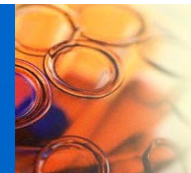
A seesaw comes to mind...



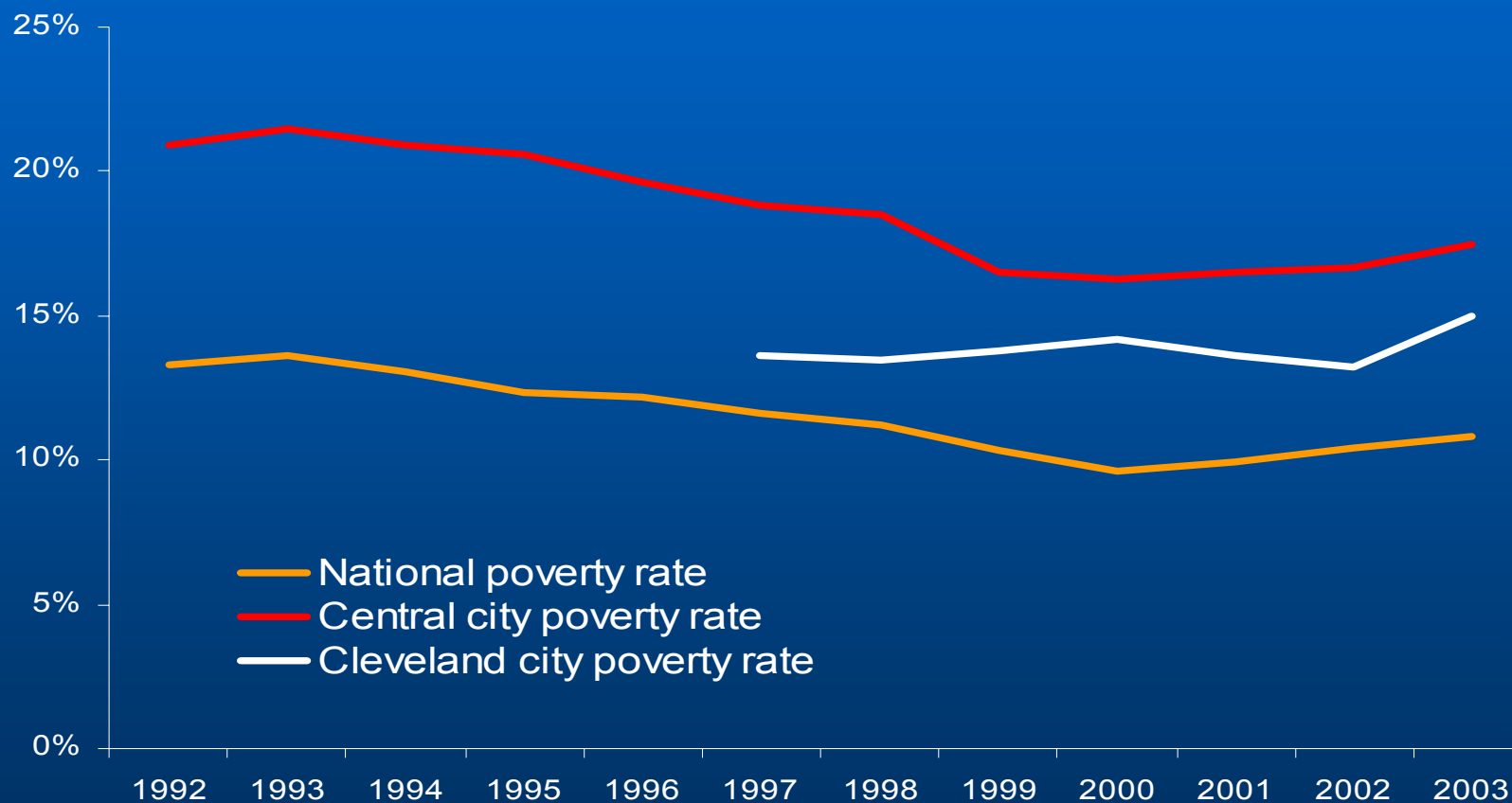
## Homeownership is up, but so are foreclosures and bankruptcies



Source: Fellowes and Katz (2005), The Brookings Institution



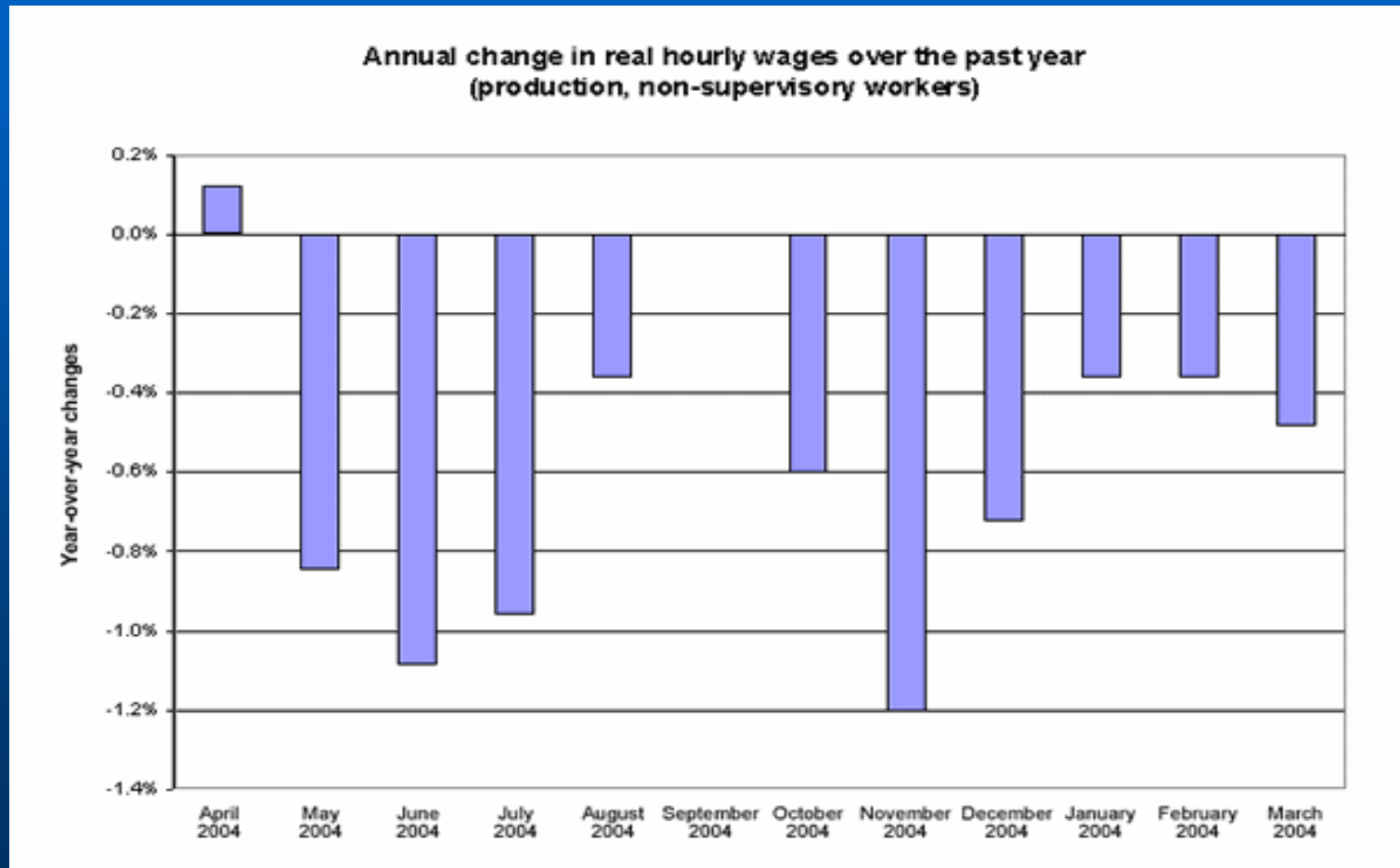
## Welfare rolls are down, but the poverty rate is trending up



Source: Fellowes and Katz (2005), The Brookings Institution



# Unemployment is falling, but wages have consistently lagged inflation



Source: Economic Policy Institute

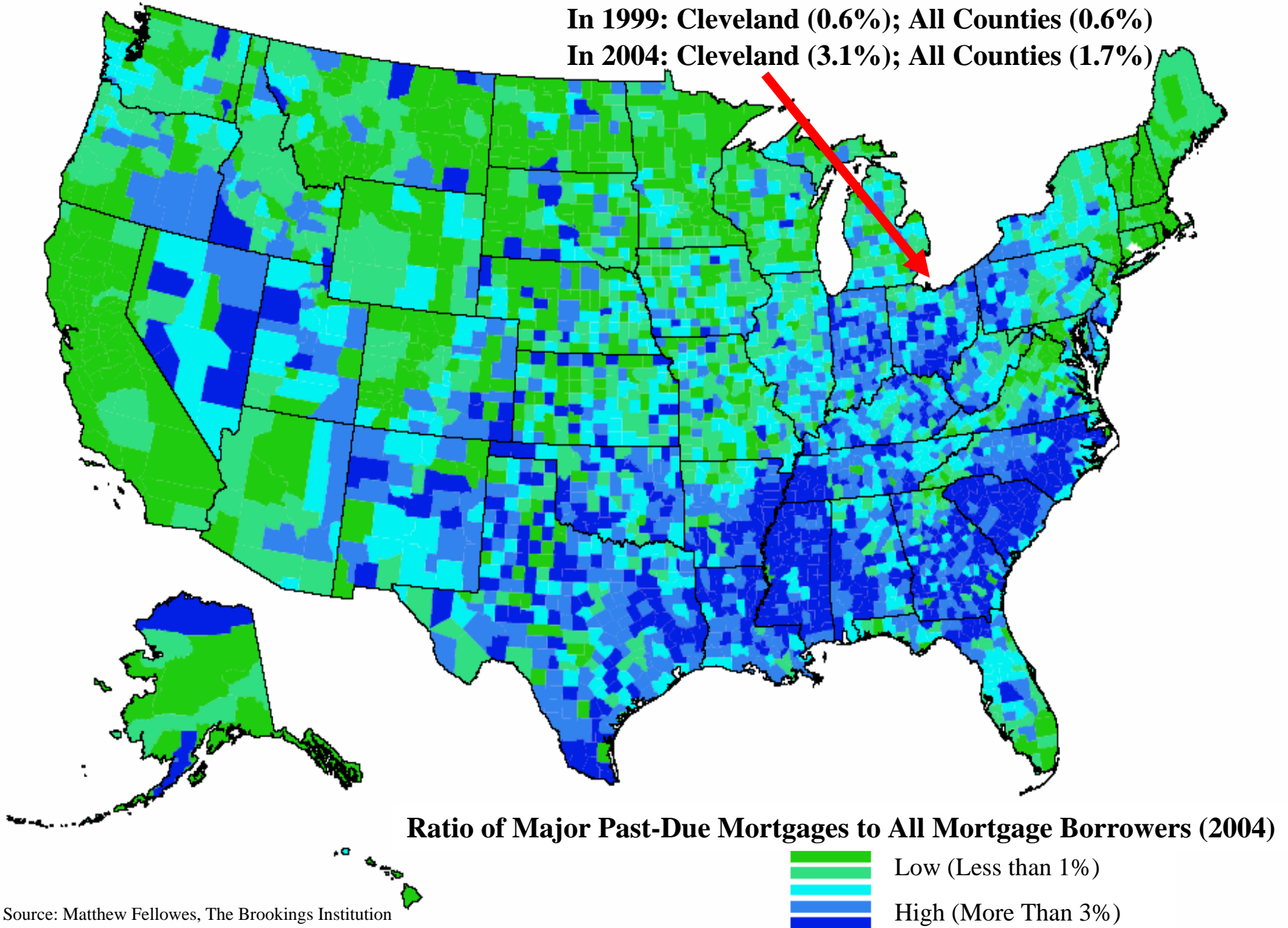


**Bottom line:** An increasing number of low-income families work and own assets like homes; but at the same time financial insecurity has significantly increased.

This threatens the ownership society unevenly across the country



**In 1999: Cleveland (0.6%); All Counties (0.6%)**  
**In 2004: Cleveland (3.1%); All Counties (1.7%)**



Source: Matthew Fellowes, The Brookings Institution

Note: data displayed by county, major past due mortgages are 120 days + past due





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There has been some state innovation within the traditional envelope of working family policies

## 1. Broaden access to jobs

**Includes:** Workforce development, spatial access to jobs, economic development, education..

**Example:** Greater Cleveland Growth Association

## 2. Make work pay

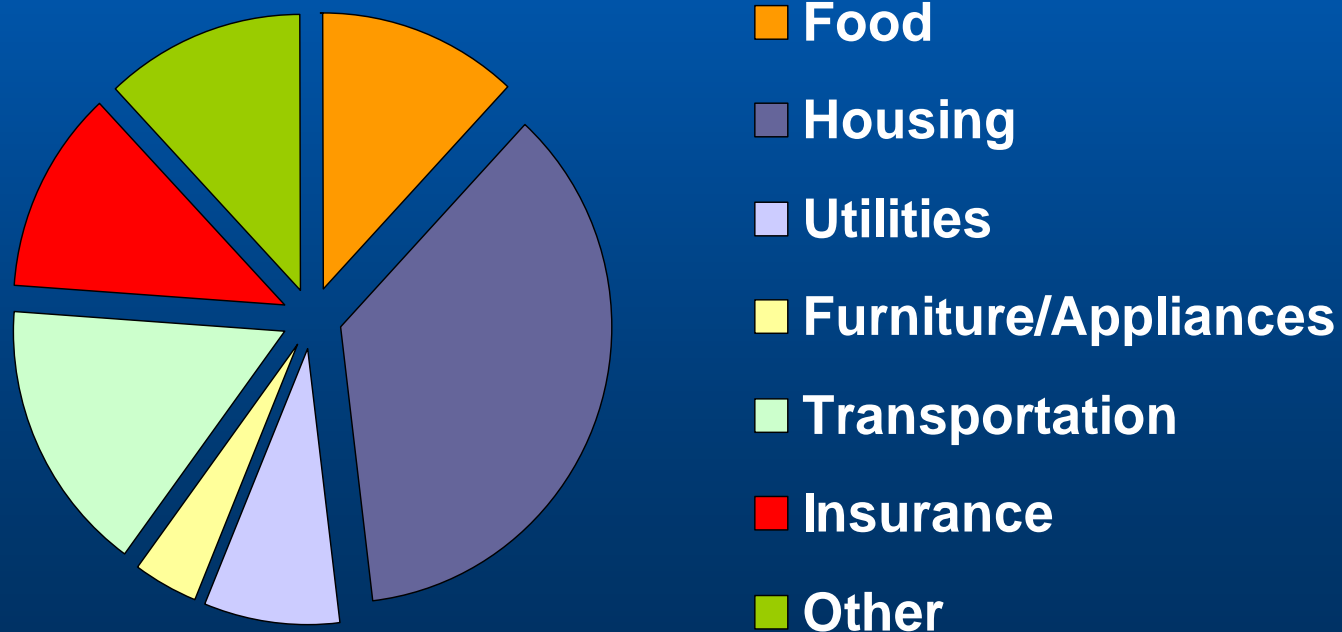
**Includes:** Minimum wage laws, access to federal benefits (e.g., EITC), asset development, worker benefits..

**Example:** Cleveland only claims 70% of its food stamp benefits



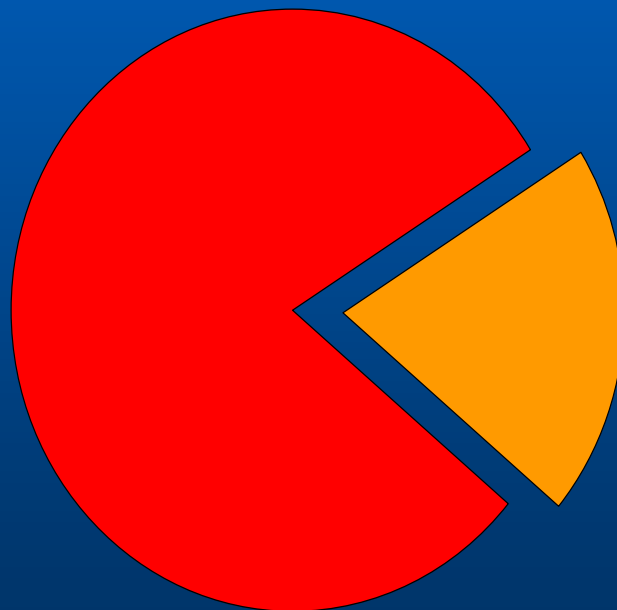
But, there's also a 3<sup>rd</sup> set of strategies emerging, which hold out a potentially powerful set of opportunities

### 3. Reduce the costs of living





Low-wage families pay higher prices than higher income HH for nearly every basic necessity

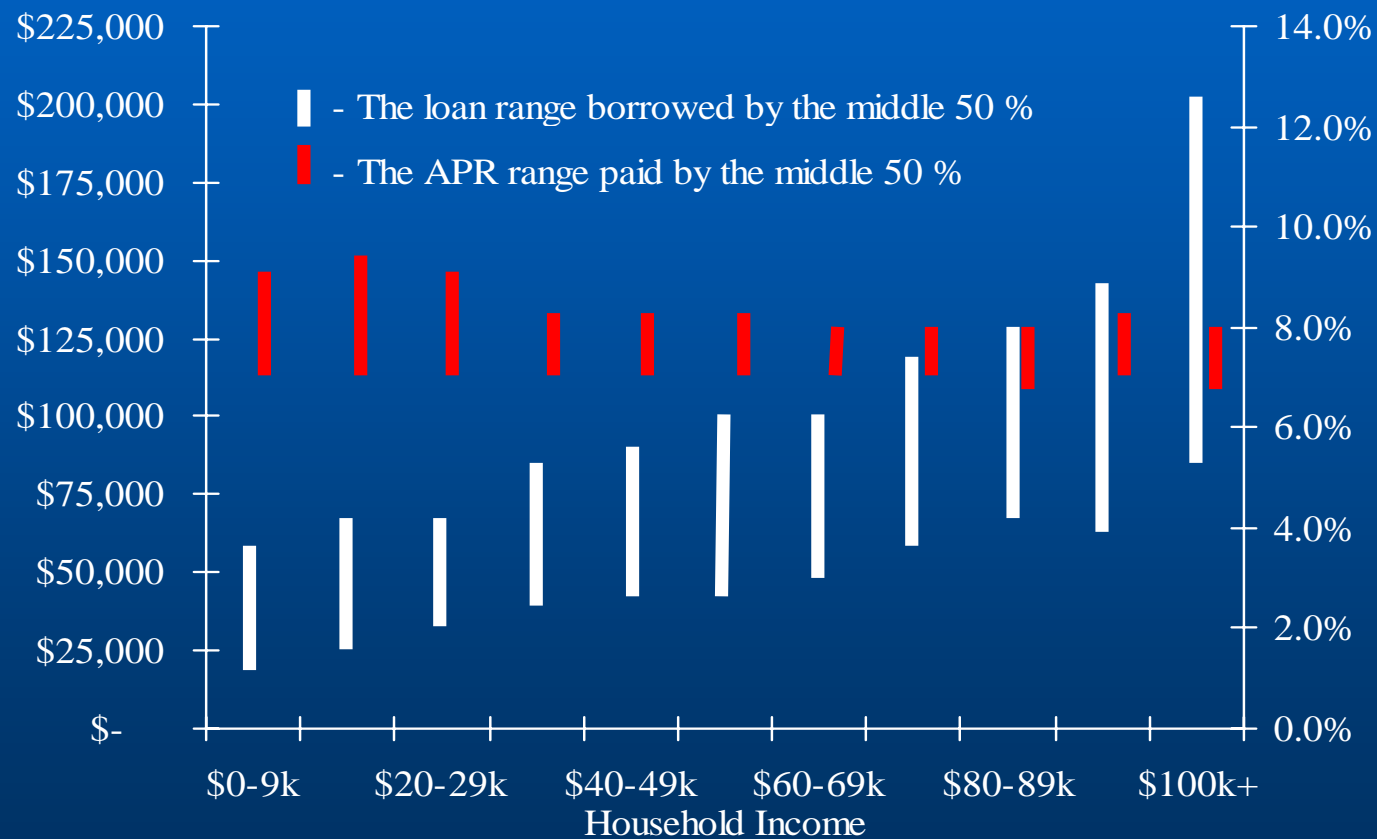


■ Fixed Price

■ Price Premium for Low-Income Families



## For example, low-income families pay higher prices for mortgages



Source: Fellowes and Katz (2005), The Brookings Institution



Potentially thousands of dollars in extra income can be put back into the pockets of low-income working families for investments in educations, homes, and retirements.

- **\$100s** more to buy the same car a higher income HH buys
- **\$100s** more to borrow the same amount of money for an auto loan
- **\$100s to \$1,000s** more to insure the same car and driver
- More to buy food in their neighborhood
- **\$100s** more to access the same amount of money
- **\$100s** more to borrow the same short-term loan amount
- **\$100s** more to establish the same type of utility service
- **\$100s** more to borrow the same amount of money for a home loan
- **\$100s** more to insure the same value of a home
- **\$100s** more to buy the same appliances and furniture



To do this, state and local leaders contend with three major causes of higher prices

## Higher Risk



## Market Abuses



## Information Deficits





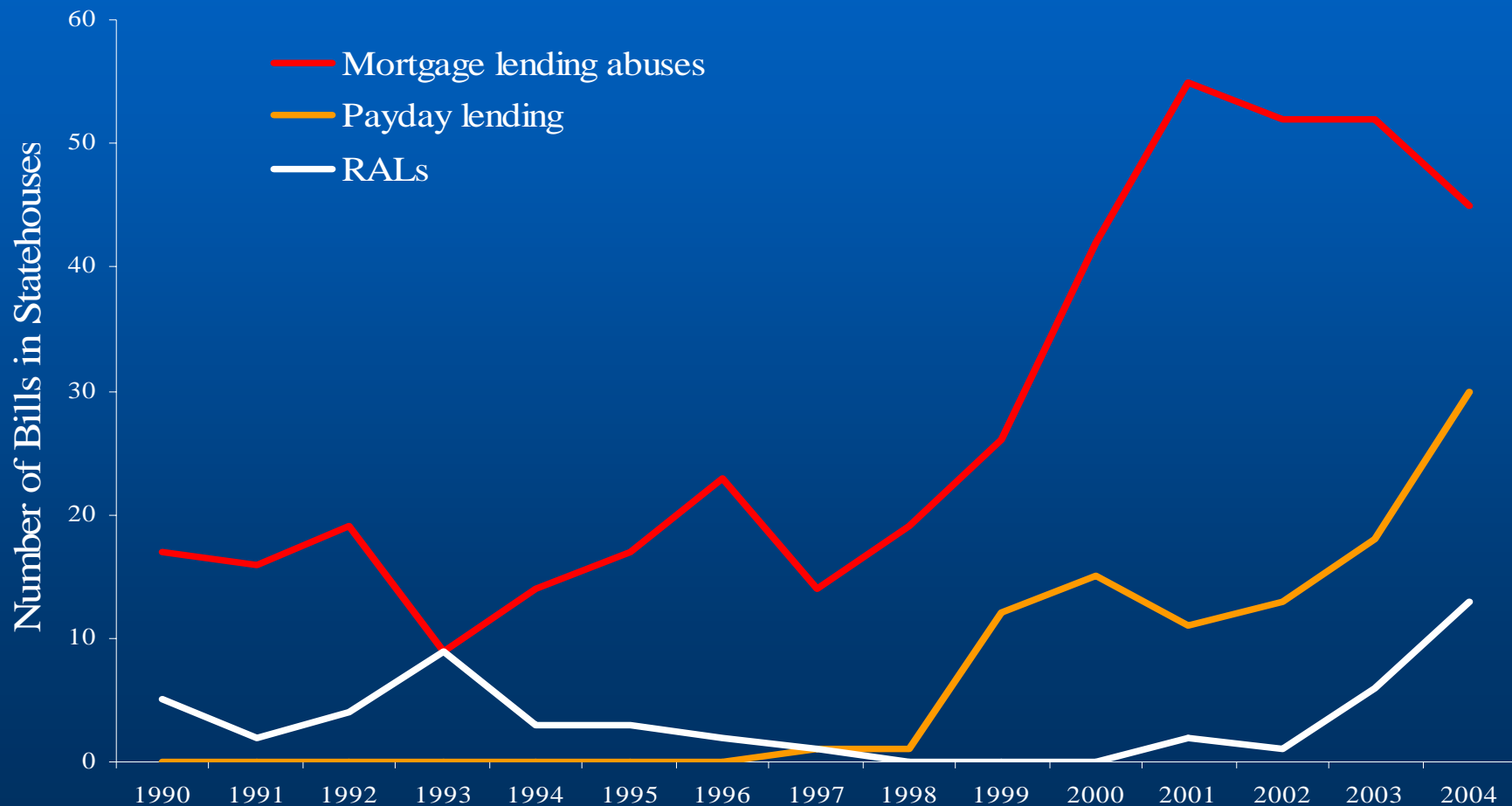


States and market entrepreneurs have taken a number of steps to address these problems. This activity now makes states look a lot like **Laboratories of Capitalism**.

Here are some examples:



Statehouses and the private sector have taken a number of steps to reduce **market abuses**. For example:



Source: Matthew Fellowes, The Brookings Institution



Statehouses and the private sector have taken a number of steps to reduce **risks of doing business** with low-income HH

Among other strategies, they have moved to:

1. Subsidize higher risks



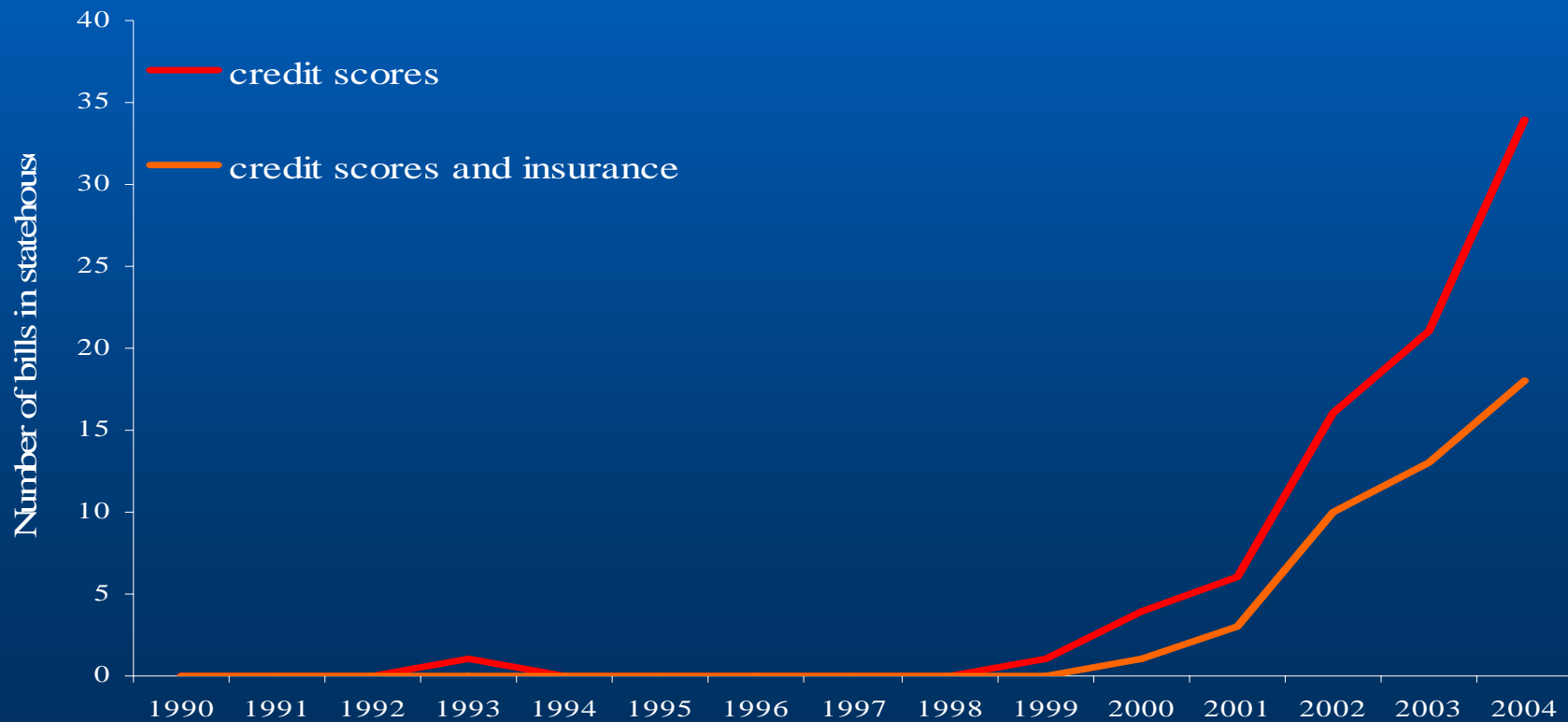
2. Pool risks among consumers





Statehouses and the private sector have taken a number of steps to reduce **risks of doing business**.

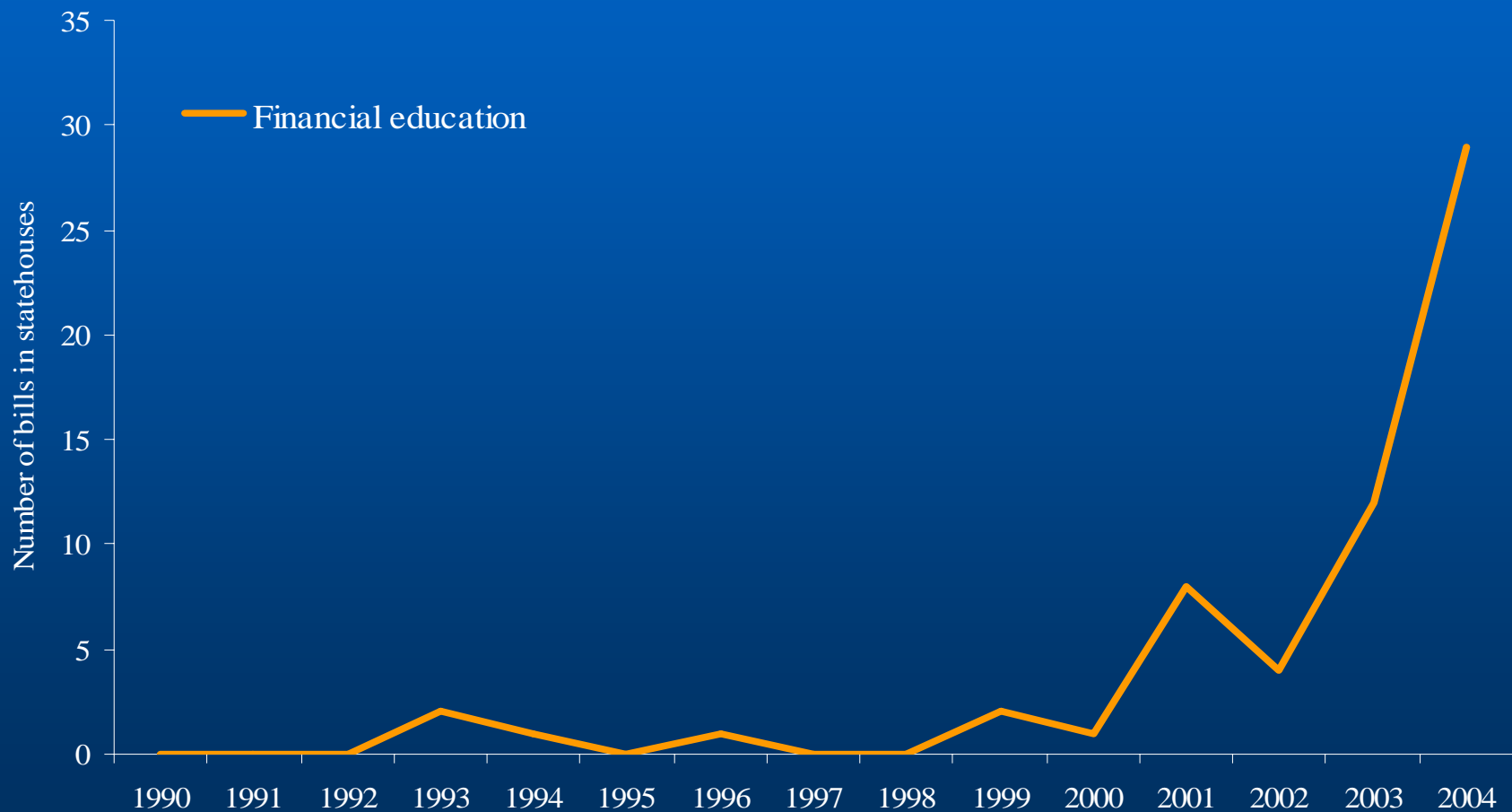
### 3. Examine how risk is measured



Source: Matthew Fellowes, The Brookings Institution



## Statehouses and the private sector have taken a number of steps to boost **market transparency**.



Source: Matthew Fellowes, The Brookings Institution



By reducing market abuses, lower risks for businesses, and boosting market transparency, states are experimenting with policy and market innovations that **lower costs of living** for low-income households

Together with strategies that **expand access to jobs** and **make work pay**, many states have significantly expanded the opportunities low-income families have to get ahead.



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It's generally too early to tell.

In the meantime, it's important to note that:

State innovation is predictably uneven

The federal government is trying to usurp state power in many areas



## Major Implication:

It is absolutely essential that efforts to help low-income families get ahead involve more than just new government programs;

Leaders must also harness the self-interest of entrepreneurs and area businesses.

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#### Urban Center Becomes Metropolitan Program

In a major promotion, the Center on Urban and Metropolitan Policy this month became the Brookings Metropolitan Policy Program—and the first new Brookings department established since 1948. The new status reflects the rising importance of metropolitan issues to the domestic and global challenges Brookings seeks to address.

▶ read an open letter from Brookings President Strobe Talbott

#### METROVIEW

**Deficits by Design Plague Metro**  
by Robert Puentes  
*The Washington Times*  
June 21, 2004

[News Index](#)

#### METROPOLITAN GROWTH

#### Mechanisms for Market-Based Land Use Control

Using case studies and a national survey, this paper examines transfers of development rights (TDRs) and other market-based land preservation techniques like mitigation banking and density transfer fees.

#### IMMIGRATION

#### Washington Goes Polyglot

Metro Washington's "limited English proficient" (LEP) population

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