

New Hope: Fulfilling America's Promise to "Make Work Pay"



MILLIONS OF LOW-INCOME AMERICANS work full-time but still live in poverty. And many more can't find work at all. In a discussion paper for The Hamilton Project, Hans Bos, Greg Duncan, Lisa Gennetian, and Heather D. Hill propose a national program to address this problem by offering work supports to people who work full-time but are still poor or near-poor. The program would require participants to commit to full-time work and then reward them with an income-conditioned bundle of benefits including earnings supplements, health insurance, child care assistance, and 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, the authors intend the program to be a social contract rather than a welfare program.

The proposal is patterned after New Hope, a small, experimental program in Milwaukee that was designed by community activists, endorsed by the Milwaukee business community, and operated for three years in the mid-1990s. New Hope was rigorously evaluated, and the evidence shows that it had important benefits for low-income working families—not only in the form of higher earnings and lower poverty, but also improved health outcomes for the families as well as educational achievement and behavior improvement for their children. The authors emphasize that while a New Hope policy could lift full-time workers out of poverty, it is not a replacement for America's social safety net programs like the Food Stamp Program, particularly for adults who are unable to sustain full-time work.

THE CHALLENGE

For millions of low-income Americans working full time, the promise of “making work pay” is far from reality. In 2005, about 3.7 million households included a full-time worker who earned too little to lift the family over the poverty line, a mere \$19,350 for a family of four. Altogether, 5.2 million children were in families that lived below the poverty line even though an adult worked full-time. Millions more cannot find work at all.

In addition to offering low wages, low-end jobs typically come without employer-subsidized health insurance or other benefits. Nearly 18 percent of full-time workers had no health insurance in 2006. And more than 3 million children with at least one parent working full-time had no health insurance in 2005.

For many working poor, time can be just as scarce as money. Balancing a family and a job is hard enough for middle-income and even high-income parents. For the working poor, it can be all but impossible. Many of them work irregular hours that leave them at home while their children are in day care or school and put them in the workplace when they are most needed at home. Others, to support their families financially, work second and even third jobs—thus cutting further into the amount of quality time that they can have with children and spouses.

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Current government programs provide some relief for families with children: the earned income tax credit (EITC) subsidizes low-wage work; Temporary Assistance to Needy Families (TANF) provides assistance to adults who are living with children and looking for work; and the state children’s health insurance program (SCHIP) and Medicaid jointly provide health care to poor and near-poor families and children. Currently, these programs are fragmented and do not offer a comprehensive set of supports like New Hope in a single program. Furthermore, few states extend any work-related benefits to adult men and women who are not living with children.

A NEW APPROACH

A decade ago, in the mid-1990s, a program called New Hope experimented with a combination of earnings supplements and work supports, such as health care and child care, designed to lift families with low-wage earners out of poverty. Specifically, all families below 150 percent of the poverty line were eligible. New Hope guaranteed family incomes above the poverty line for workers in the program who could document at least 30 hours a week on a job. For those who could not find private-sector work, New Hope offered temporary community-service jobs. For those who did not get health insurance or child care as employee benefits, New Hope subsidized them. Each family was assigned a caseworker who helped members secure New Hope and other government benefits.

By stipulating that participants must document full-time work to qualify for benefits, the New Hope model functions as a social contract rather than a welfare program. The program “makes work pay,” but in a way that demands responsibility from participants.

When the effects of New Hope were rigorously evaluated, the program proved to be a great success. New Hope was purposely designed as an experiment. Applicants for New Hope were randomly divided into two groups, with 678 applicants chosen to participate in the program for three years and the other 679 applicants assigned to a comparison group. New Hope families were evaluated for the number of barriers to employment they faced, including a spotty employment history, no high school degree, an arrest record, or multiple children or very young children. Participants, their children, and their children's teachers were surveyed two, five, and eight years afterwards. On just about all counts, the experimental group scored higher than the comparison group even though they started out the same.

The heart of the policy case for New Hope rests on the program's proven experimental impacts on family well-being and children's achievement. Across all of the people offered the chance to participate in the New Hope program—including single men—work increased and poverty rates fell. Children performed better academically and behaved better in school. The strongest impacts were seen among families with only one or two significant barriers to employment.

New Hope's Record

Earnings. Compared with those in the control group, New Hope participants' employment-based earnings over the three years rose nearly 5 percentage points more. Adults with one or two significant barriers to employment were the big winners. Compared with the control group, their employment rate was 9 percentage points higher and their annual earnings, \$2,500 greater—nearly 30 percent. In the case of those facing only one barrier at the outset, the employment and earnings gains persisted up to five years after the program ended.

New Hope combines the values of a strong work ethic—the belief that individuals should make a contribution to society through work—with the recognition that even full-time work is sometimes not enough to support a family.

Poverty. Taking into account the employment-based earnings and the earnings supplements, poverty rates declined for New Hope participants. For participants with young children, poverty rates were 17 percentage points lower than the control group in the first year, 12 percentage points lower in the second and third years and 8 points lower two years after New Hope ended.

Classroom achievement. Impressive as were the income and poverty results, New Hope's greatest success was not with the adults but with their children. Two years into the program, teachers ranked the average New Hope child higher in achievement than the average of the other children in the class. Boys especially showed considerable gains in classroom performance.

Children's behavior. Teachers reported much greater gains in “positive social behavior”—obeying rules in school, being admired and well-liked by other students, and being self-reliant—among New Hope boys than comparison group boys. The New Hope boys also had fewer disciplinary problems. Behavioral impacts among girls, in contrast, were

Key Highlights

The New Hope Model

New Hope was an experimental demonstration in the 1990s that—in return for full-time work—offered the following bundle of services to low-income families in Milwaukee:

- earnings supplements
- health coverage
- child care
- community service jobs

New Hope demonstrated success through a variety of measures even after the program had ended:

- The employment rate increased by 5 percentage points
- Earnings rose by 5 percentage points
- Poverty declined by 8 percentage points
- Children, especially sons, of New Hope participants were rated higher by teachers on classroom achievement and positive social behavior

Building on Demonstrated Success

The New Hope authors propose expanding New Hope on a national level in the following sequence:

- The first five states would compete for funding and would be required to commit to random assignment. The program in each state would run for five years at a cost of \$10 million per state per year.
- After evaluation of the five-state program had been completed, New Hope would be scaled up nationally, reaching 4.2 million households.

not significant. Interestingly, New Hope's positive impact on children was unrelated to the increase in family income. A likely explanation is that children benefited from working parents using New Hope wage supplements to work fewer hours and spend more time with their children.

A National New Hope Program

The authors propose scaling up New Hope on a national level. They would start with five-year experiments in five states. States would compete for the opportunity, giving policymakers a chance to pick the most promising proposals and to put together a diverse collection of approaches. As was the case in Milwaukee, states would be required to commit at the outset to random assignment of families to New Hope or to a control group that receive no special services. The experimental group and the control group would have about 3,000 families each for an estimated cost of \$10 million per state per year, two-thirds of which would be paid by federal tax revenue.

At the conclusion of the five years, the program would then be expanded nationally based on evidence about what program models were most efficacious. Like the original New Hope program, the national model would continue to bundle work supports together and deliver them through one-stop centers, such as exist in the workforce development system, health maintenance system, county public assistance agencies, or non-profits. The specific services offered primarily involve (1) earnings supplements, (2) health coverage, (3) child care subsidies, and (4) subsidized community service jobs.

Earnings supplement. The proposed New Hope program would supplement participants' earnings in two ways: a direct earnings supplement aimed at increasing the hourly wages of low-income workers, and an additional allowance for children. For

families with one full-time worker, the earnings supplement is simply the additional salary that the worker needs to lift the family out of poverty, after accounting for taxes owed and the EITC. The earnings supplement would decline as workers' income increases. The supplement would drop to zero at 125 percent of the poverty line.

Two-earner families would qualify for the wage supplement if one earner worked at least 30 hours a week and the other worked 15. The supplement would drop to zero if total wages exceeded the smaller of \$35,000 or double the poverty line.

Health insurance. All participants that qualified for an earnings supplement would also be eligible for comprehensive health insurance if they were not already insured through their job or a public program such as Medicaid or State Children's Health Insurance Program (SCHIP). Recipients would pay \$10 to \$150 a month, depending on family size and income. The program would pay the difference for families whose workplace-based insurance was more expensive than their New Hope insurance would be.

Child care. The most costly component of the original New Hope program, the child-care subsidy would be considerably cheaper now that most states use federal funds from Temporary Assistance for Needy Families or other sources to subsidize child care and many have established pre-K schooling. As with health insurance, the child-care benefit is available to all families qualifying for the earnings supplement. The benefit phases out at family income of double the poverty line or \$30,000, whichever is greater. Depending on their earnings, recipients pay from \$50 per child per month to the full cost of their child care.

Community service jobs. Participants unable to find jobs after eight weeks of searching would be given a chance at community service jobs. These jobs include office support, property maintenance, con-

The impact of New Hope was striking: Earnings increased. Work increased. Poverty rates fell. Children performed better academically and behaved better in school.

struction, child care and food service. Participants would have to go through an application process and could be fired for cause. Community service jobs are a valuable way to build an employment history for participants with behavioral or legal impediments to employment, such as criminal records, failed drug tests, or poor credit records. In the New Hope program of the 1990s, about one-third of participants took community service jobs at some point during the program's three years.

The authors estimate that nationally 16.8 million families and single adults would be eligible for New Hope benefits. Four million of the eligible families have children under 13 years and would therefore qualify for the child-care subsidy. About 9.6 million—57 percent—would be eligible for health insurance. The authors estimate that one-quarter of the eligible population—4.2 million people—would choose to participate.

Costs and Benefits

New Hope's costs are relatively easy to measure. Taxpayers would pay \$1,629 in direct benefits per participant per year: just \$284 for the earnings supplement but \$875 for health insurance and \$470 for child care. Administrative costs would be substantial: \$1,717 annually for each participant. This includes

the cost of intensive case management and administration of community service jobs. Minor indirect impacts on other benefit programs, including reduced food stamp payments, brought total costs to \$3,308 per participant per year.

New Hope participants benefited by the same \$1,629 paid by taxpayers for earnings supplements, health insurance and child care. After accounting for the miscellaneous indirect impacts, New Hope provided a benefit of \$2,088. To this estimated benefit, Duncan and colleagues add the educational achievement gains of New Hope children, measured by the increased value of their expected future earnings. They estimate this benefit at \$1,295 per child per year.

In addition, they calculate the payoff to society of behavioral improvements in children—especially boys—from New Hope families in the form of reductions in drug abuse and serious crime. Using standard methods, the authors calculate that saving 1 of every 16 New Hope boys from future antisocial behavior would pay for the entire taxpayer costs of the program.

Duncan and his co-authors propose that the initial stage of the revived New Hope program—with five states chosen to test the program in an assortment of labor markets for five years—comprise 6,000 families in each state, half selected randomly to participate in the program and half in a control group. At \$3,300 per participant per year, the cost would be about \$10 million per state per year—about \$250 million altogether. They propose that the federal government, to encourage state participation, cover two-thirds of the cost. The authors assume that a national New Hope program would attract about one-quarter of the eligible population—4.2 million households—and bring total annual costs to \$14 billion.

Questions and Concerns

The expected 25 percent participation rate is low. What about the people that New Hope doesn't help?

In Milwaukee some adults who qualified for New Hope benefited enough from current government programs that they did not express a need for the intensive services offered by New Hope. However, of the half of eligible adults who expressed interest in the program, many were not working and had no work experience, inhibiting their participation in New Hope. Even among those who participated, one-fifth faced multiple barriers to employment and therefore did not benefit significantly from the program. The populations that face significant hurdles to finding and maintaining full-time employment may benefit from more intensive services or job training outside of New Hope.

Would New Hope undermine current programs such as the EITC, TANF, Medicaid and SCHIP?

Just as some people may need more help than New Hope can offer, others are already benefiting from current government programs such as the EITC, TANF, Medicaid, and SCHIP. These government programs should not be cut to fund an expanded New Hope program. Such a reduction in existing services could hurt people that do not fit into New Hope's model, in particular persons with disabilities or others who face significant barriers to employment. Families that cannot sustain full-time employment still need access to services such as SCHIP and Medicaid. And earnings supplements such as the EITC should continue to be available without the more stringent requirements New Hope imposes.

The goal of New Hope is not to replace these programs but rather to step in where current government programs leave off. No current program offers

such a comprehensive set of benefits or extends so many work-related benefits to adult men not living with children. Nor does any current program have such a strong voluntary partnership between caseworkers and participants. New Hope counselors help participants take advantage of existing government programs and only offer extra help when current programs fall short.

Does offering community service jobs discourage private-sector employment?

The community service jobs are intended as employment of last resort: they would pay the minimum wage and offer no sick days, holiday pay or vacation pay. Participants can only take these jobs for six-month periods and must have spent eight weeks looking for work to receive them. Given these restrictions, it is unlikely that community services jobs would act as a deterrent to private-sector work.

CONCLUSION

In its original run, New Hope received support from both liberals and conservatives, including members of the business community in Milwaukee. The plan combines a strong work ethic—the belief that individuals should make a contribution to society through work—with the recognition that even full-time work is sometimes not enough to support a family.

The authors of the plan are confident that the implementation of New Hope in five trial states would gain community support and bring about positive results for a diverse range of program participants. As an anti-poverty program, they say, New Hope has the advantage of relying on work rather than welfare. New Hope thus makes it possible for even the poorest wage earners to achieve an American ideal: making a living wage for an honest day's work.

Learn More About This Proposal

This policy brief is based on The Hamilton Project discussion paper, *New Hope: Fulfilling America's Promise to "Make Work Pay"*, which was authored by:

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- **Better Workers for Better Jobs: Improving Workers Advancement in the Low-Wage Labor Market:** This paper proposes a new federal funding stream to identify, expand, and replicate the most successful state and local worker advancement programs. The funding stream would encourage innovation and knowledge sharing through a competitive grant process.
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