

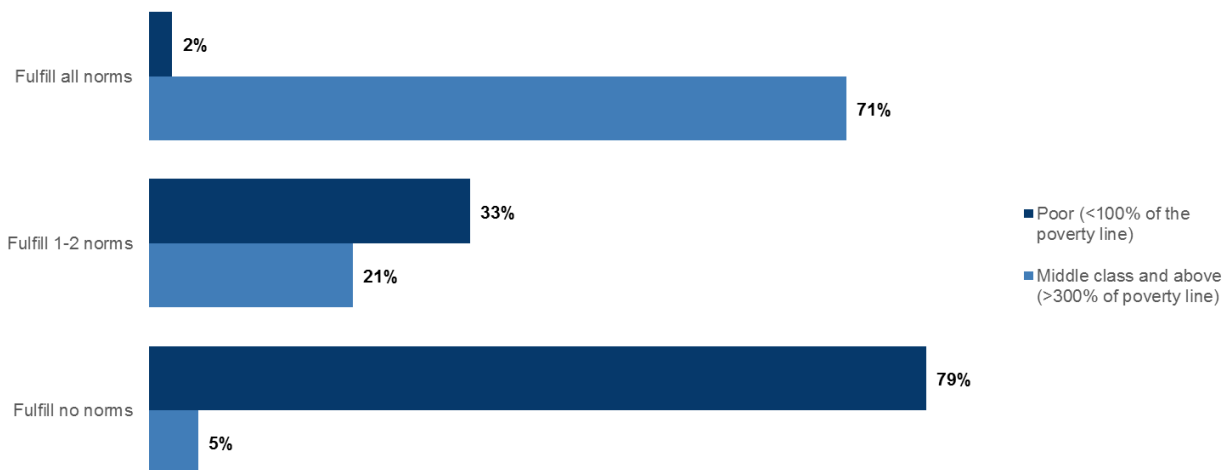
An Agenda for Reducing Poverty and Improving Opportunity

Isabel Sawhill and Edward Rodrigue

America's lack of social and economic mobility is now well documented, and both parties acknowledge the need to expand opportunities for hardworking Americans of modest means. The next president, however, needs to offer more than rhetoric—he or she must propose and fight for policies that allow government to foster greater mobility.

In an earlier analysis, Ron Haskins and Isabel Sawhill found three “norms” of American life—graduating from high school, belonging to a family with at least one full-time worker, and having children while married and after age 21—correlated closely with economic success. We call this the success sequence. Individuals who follow it almost never live in poverty. In Figure 1, we have updated this analysis. Only 2.4 percent of Americans who follow the success sequence live below the poverty line, while over 70 percent enjoy at least middle-class incomes, defined as 300 percent of the poverty line or more. For Americans who—for a host of reasons—don't follow the sequence, the picture is reversed.

Figure 1: Percent of Each Norm-Group in Poverty



Source: Author's tabulations of 2013 March CPS

Note: Statistics refer to calendar year 2012, since survey respondents are asked about income in the previous calendar year; data only include families with heads age 25-64 who do not report receiving disability payments.

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How can a new set of policies give people a fair chance to succeed in the classroom, the workplace, and the home? Economic success requires people's initiative, but it also requires us, as a society, to untangle the web of disadvantages that make following the sequence difficult for some Americans. There are no silver bullets. Government cannot do this alone. But government has a role to play in motivating individuals and facilitating their climb up the economic ladder. Here are the three arenas of mobility that candidates should focus on, and some suggestions to get them started.

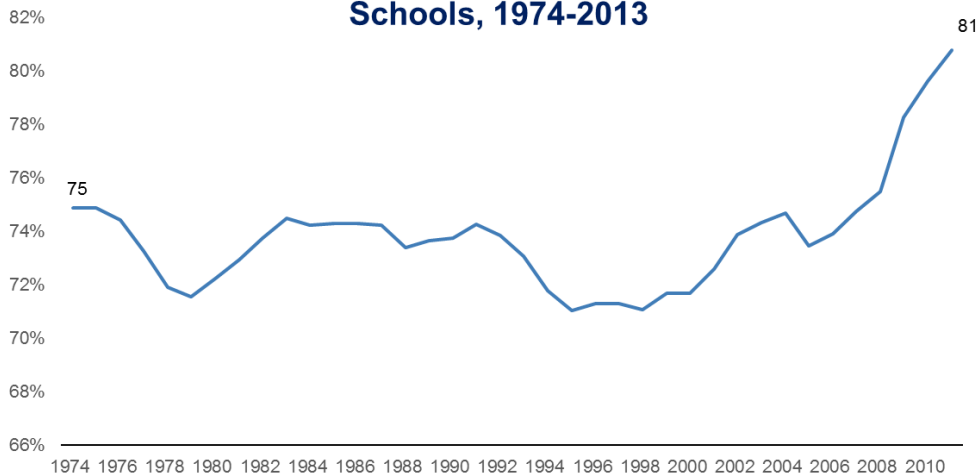
Education

Improving High School Graduation and Achievement

High school graduation rates, for the country as a whole, have improved in recent years and are now at reasonably high levels, as shown in Figure 2.¹ In the [urban districts of the](#)

[nation's 50 largest metropolitan areas](#) however, only 59 percent of students that started high school in 2005 graduated four years later; in the suburbs, the figure was 77 percent. Figure 3 shows the urban-suburban graduation gap in the ten largest cities by population, plus Cleveland and Baltimore (two major cities with some of the largest gaps) for comparison. The next president will need to address these areas of concentrated poverty (which have migrated to the suburbs as well) to further improve educational achievement.

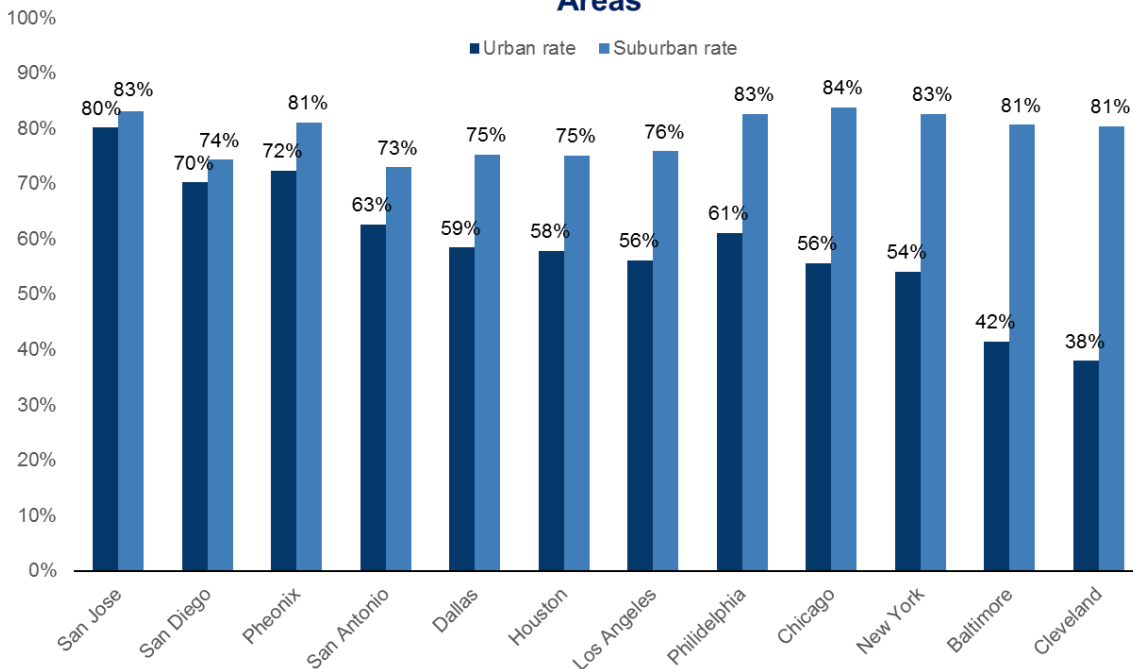
Figure 2: Average 4-Year Graduation Rate for Public Schools, 1974-2013



Source: National Center for Education Statistics

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Figure 3: Urban and Suburban Graduation Rates Within Metro Areas



Source: Editorial Projects in Education Research Center, 2009

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A high school diploma is no guarantee that students have learned the skills needed for a career or for college. Twenty percent of all college freshmen in 2008 had to take at least one [remedial course](#). [Only 26 percent](#) of ACT test-takers in 2014 met college readiness benchmarks in English, reading, math, and science.

How do we help students complete high school with the skills needed to pursue their goals? Raising graduation rates will require not just new kinds of high schools, but investment in children at all stages of life: home visiting, early childhood education, and new efforts in the primary grades.ⁱⁱ Home visiting programs improve parenting and connect families to adequate medical care. The effects ripple well into adolescence.ⁱⁱⁱ Similarly, [research suggests that low-cost interventions](#), like providing parents with books and texting them reminders to read to their children, can have substantial effects on child literacy skills.

The evidence around preschool expansions is [somewhat mixed](#), but we should experiment further and evaluate the results. Any successful initiative must pay for well-trained teachers, small classes, and proven curriculum; programs should [target low-income children](#), who stand to benefit most.

Sustaining early gains requires renewed investment in elementary and middle schools. Success for All (SFA) and Social-Emotional Learning (SEL) are examples of [proven models](#) that improve elementary school performance through greater individual attention and innovative curriculum.

With respect to high school, several reforms have proven effective. Specific examples include Small Schools of Choice and Career Academies. Small Schools of Choice (SSC) was an initiative started in 2002 in New York City to replace large, troubled public schools with schools that have about 100 students per grade. Using a lottery-based evaluation, the research group [MDRC found](#) that SSCs increased average graduation rates by almost 10 percentage points, from 62 to 72 percent—at lower cost per graduate. That’s equivalent to 44 percent of the graduation gap between white students and students of color in New York.

Career Academies (CA) is a model developed nearly 40 years ago that has been adopted by more than 8,000 schools today. It gives students smaller classes and more personalized instruction, but it combines these elements with technical curriculum and apprenticeship opportunities with local employers. MDRC studied nine CA programs across the country. Eight years after graduating from high school, participating young men earned an [average of \\$361 more per month](#) relative to the control group men.

Expanding these kinds of effective programs would substantially narrow the opportunity gap and, based on increased tax revenue and reduced use of the social safety net, would almost surely pass a cost-benefit test from the perspective of the taxpayer. The next president should expand these programs, or similar ones, with rigorous evidence of effectiveness.

Improve Post-Secondary Education

Although our analysis suggests that high school graduation combined with full-time work can keep most people out of poverty, some postsecondary education is increasingly vital for employment and earnings. Presidential candidates should present ideas on how to help young people from poor families attend and graduate from post-secondary institutions. An initial problem is that the nation’s tax-based educational financing programs are not focused on the neediest. The Pell program, which provides grants to low-income post-secondary students, on the other hand, is relatively well targeted; most spending goes towards students who would

otherwise struggle to attend college. A new president could reduce education-related tax breaks for the well-off and use the savings to increase the maximum Pell grant, which covers 30 percent of the average cost of attending a public 4-year college, [a record-low share](#). Similarly, the Free Application for Federal Student Aid (FAFSA) form is unnecessarily complicated; it could be reduced to two questions—adjusted gross income and attendance status—to radically [simplify the process](#) and to provide cash-strapped families with an immediate estimate of the aid they can expect.

Finally, if we're going to increase income-targeted aid and participation, we need to spend smarter; college financial assistance could be tied to performance both in high school and in college. The principle is to provide assistance conditional on an individual's willingness to study hard, and [some research suggests](#) this would have a modest effort-inducing effect as well. In most Northern European countries (whose high school students routinely out-score U.S. students on international assessments), college attendance is more heavily subsidized than in the U.S. but also more conditional on a student's academic performance and college readiness.

Another option is to give more generous state and federal funding to schools with higher graduation rates and greater enrollment of low-income students. Ohio, Indiana, and Tennessee, among other states, have moved in this direction.^{iv} In a similar vein, institutions could be made to pay part of their students' defaulted federal loans back to the government—another way to hold schools accountable for poor student outcomes.^v

Working Full Time

Of the three pillars (education, work, family), working full-time is by far the most important for reducing poverty, and every candidate needs to have concrete jobs proposals. Closing the jobs gap (the difference in work rates between lower and higher income households) [has a huge effect](#) on the number of people in poverty, even if the new workers hold low-wage jobs. [An analysis by Sawhill and Karpilow](#) shows that nearly a fifth of nonelderly household heads in the bottom third of the income distribution did not work at all in 2011. When asked why they weren't working, male household heads gave a variety of answers, but only 31 percent said it was because they couldn't find work. Among female household heads, that proportion was 20 percent. Nearly a third of non-working heads lived in households with no reported income that year (suggesting that they had savings or received help from others), while 58 percent relied mostly on government programs such as unemployment insurance and public assistance. Using simulations based on the March Current Population Survey, we found that work-based interventions had the largest effect on income for families in the bottom-third of the income distribution.

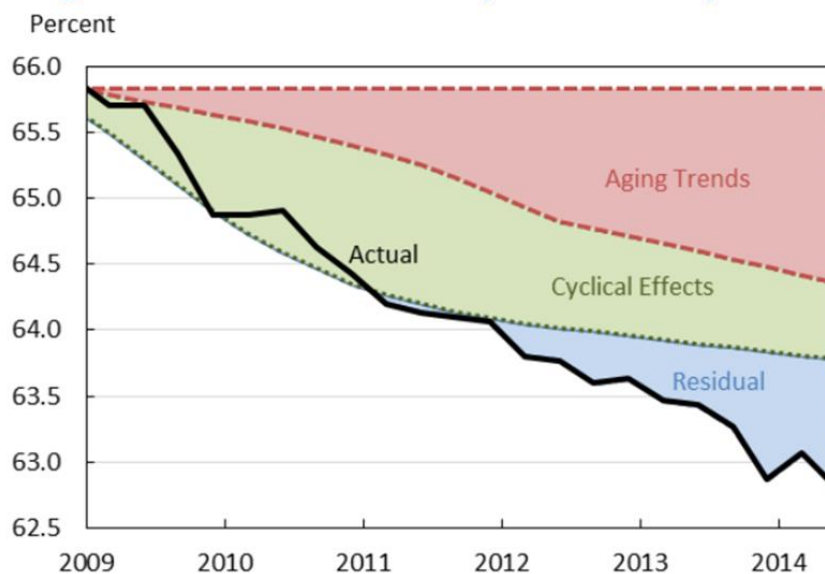
At the individual level, work connects people to mainstream institutions, helps them learn new skills, provides structure to their lives, and provides a sense of self-sufficiency and self-respect.

At the aggregate level, work is one of the most important engines of economic growth. The addition of immigrants and of women to the labor force over the past half-century has fueled GDP growth and the rise in our collective standard of living.

Much of the recent decline in labor force participation can be attributed to the aging of the population (see Figure 4). Another portion is due to a lack of adequate demand (cyclical effects). The third element is a residual that may reflect growing structural unemployment

related to the deterioration of skills and experience or the failure of education and training to keep pace with the rising demand for skilled workers.

Figure 4: Labor Force Participation Decomposition



Source: Executive Office of the President, “The Labor Force Participation Rate Since 2007: Causes and Policy Implications” (Washington: EOP, July 2014).

Here are four ways the presidential candidates might propose to get more people working. First, nothing is more important for reducing poverty than maintaining full employment. Using data from 1979 to 2011, Jared Bernstein of the Center on Budget and Policy Priorities, and Dean Baker of the Center for Economic and Policy Research, [find that](#) workers at the 20th percentile of the wage distribution receive a 10 percent wage increase for every 10 percent decrease in the unemployment rate. Many of these lower-wage workers are marginally attached to the labor market. A full employment economy pulls them into jobs and allows them to build work histories and skills.

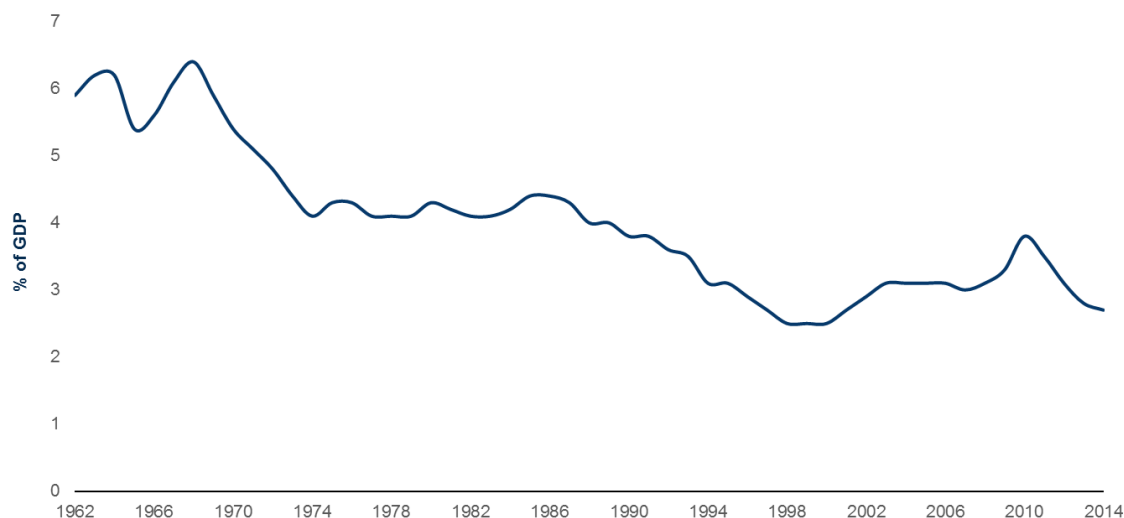
There is considerable uncertainty about the “natural rate of unemployment”—the rate beyond which stimulative monetary or fiscal policy would only create more inflation. The experience of the late 1990s—when wages rose at the bottom of the distribution in response to a falling unemployment rate—suggests how much could be achieved with a more stimulative set of labor market policies.

On monetary policy, the Federal Reserve should not undermine the recovery out of a misplaced fear that inflation is just around the corner. Inflation creates some inefficiencies, can feed on itself, and harms creditors and those on fixed incomes. However, the risks of too little stimulus are greater than the risks of too much, because in the face of a new recession both monetary and fiscal policy would have little leeway to restore economic growth in today’s low-interest and high debt environment.

On the fiscal front, most economists agree that we need short-run stimulus when the unemployment rate is high and longer-term restraint aimed at reducing the ratio of debt to GDP. Today’s low-interest environment represents a rare opportunity for government to borrow

cheaply and invest in physical capital projects, like a smarter energy grid, that would [boost employment](#) and provide other social returns. Similarly, the president should invest in the nation's human capital and in basic research, after decades of falling investment (see Figure 5).

Figure 5: Federal Investment Spending as % of GDP, 1962-2014



Source: Office of Management and Budget
Note: Includes total investment outlays for major public physical capital, R&D, education, and training; includes both military and nonmilitary spending.

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A second set of policies the presidential candidates could propose would be making work pay. Perhaps the most important policy here is to raise the minimum wage and increase the EITC. [A proposal by Sawhill and Karpilow](#) would raise the EITC for families with very young children, eliminate the marriage penalty, and redirect some benefits from larger to smaller families and to single individuals. These provisions both incentivize work and encourage marriage and responsible child bearing. A reform with these elements—combined with an increase in the minimum wage to \$10.10—would reduce poverty by seven percentage points at virtually no cost to the government because a higher minimum wage reduces reliance on public programs. We could also provide an EITC bonus to those who work full-time as a way to encourage more hours of work; [the UK has done this with some success](#).

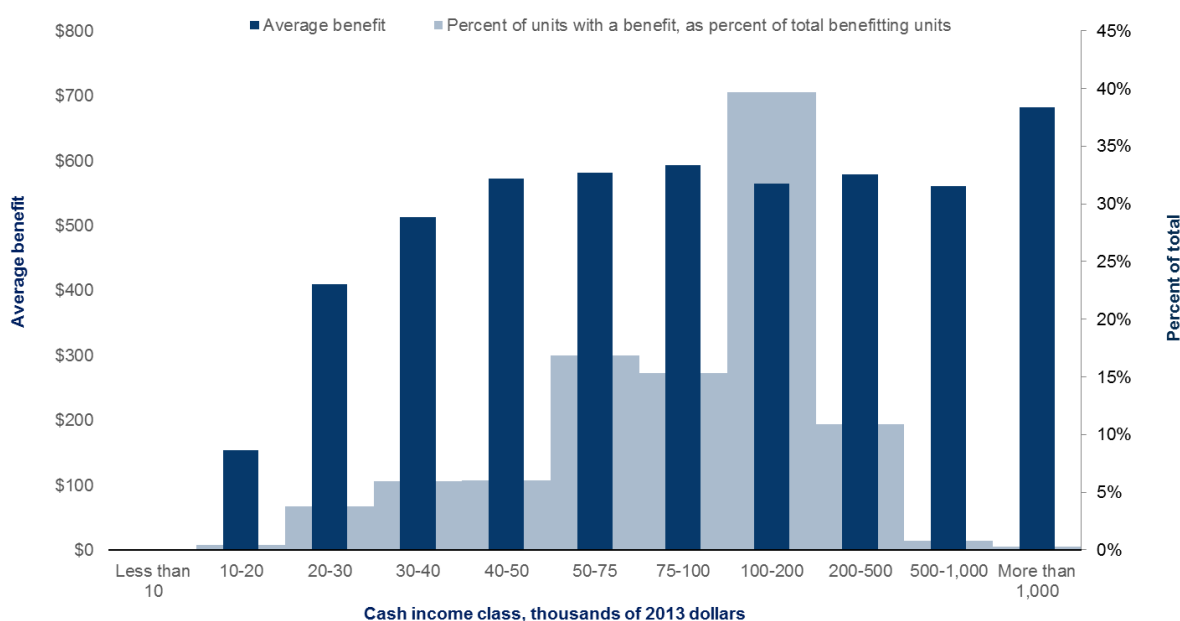
A second-earner deduction would also make work more rewarding by softening the blow of child care costs and other work-related expenses that affect two-earner households, while encouraging marriage.

A third policy for getting more people working is to make it easier for Americans to work and raise families. The next president needs to provide more childcare assistance and paid leave. For the average single mother with a child under age 5, [out-of-pocket childcare expenses](#) constituted 16 percent of family earnings over the period from 2012 to 2013. When these costs are mitigated, [many mothers respond](#) by entering the labor force.

Currently, our tax system tries to cover some child care expenses through the Child and Dependent Care Tax Credit (CDCTC). But because the [credit is non-refundable](#), much of the money goes towards families with incomes between \$100,000 and \$200,000 (see Figure 6). Making the CDCTC refundable and capping it at \$100,000 in income would make the program more equitable and facilitate low-income parents' labor force participation at little to no cost above current spending on the CDCTC.

Meanwhile, the U.S. is the only advanced country that does not provide paid family leave as a matter of national policy. In 2011, only 11 percent of private-sector workers had access to [paid family leave](#). The three states that have shown the way here—California, New Jersey, and Rhode Island—can serve as models for the rest of the country. Critics contend that paid leave will impose costs on employers, impede hiring, and reduce women’s incentive to work. Yet 90 percent of employers surveyed after California’s paid family leave law was implemented said it had either a positive or neutral effect on productivity, profit, morale, and costs. Subsequent research found that women were more likely to take leave during the first 6 months after birth, but by nine months the law increased the probability that a new mother worked by 5 to 6 percentage points, because some [California mothers were less likely to quit their jobs](#) and more likely to return to their old employer after giving birth.

Figure 6: Distribution of Child and Dependent Care Tax Credit



Source: Urban-Brookings Tax Policy Center Table T14-0084

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Finally, there will always be some people who want to work and can’t find jobs—even when the economy is at full employment. They may have a prison record, the wrong skills, or be new entrants to the job market. For people who can’t find a job on their own, the presidential candidates should consider transitional job programs that provide subsidized low-wage work in either the public or the private sector.

[Evaluations of these programs](#) have a mixed record of success, but some promising models stand out. Florida’s “Back to Work” program, for example, employed roughly 5,600 low-income people (mostly parents) from 2009 to 2010, by placing them directly into subsidized jobs in the private sector. [A quasi-experimental study](#) found that these individuals earned an average of \$2,000 more in the year after the program ended than a comparison group.

And earnings are only one metric of success; a 2004-2005 work program for ex-convicts in New York City reduced recidivism among recently released individuals by 16 to 22 percent. Because incarceration is so expensive, [the program more than paid for itself](#), even though the employment effect faded after the intervention period.

These jobs also provide a way to identify which of the currently jobless are “truly unemployed” and how many are not interested in work. A transitional job offer could be tied to applications for extended unemployment insurance, for example, to reveal who has the greatest need for such assistance, while simultaneously screening out those who refuse to work and reducing program costs.

Marriage or a Stable Relationship before Children^{vi}

The third prerequisite to forging an opportunity society is stable families. Too many young adults are having children before they have formed enduring ties with another adult and some are parenting children with more than one partner. Increasingly, it takes two paychecks to join the middle class; those who have children too soon and without a committed partner frequently end up not just with less education and job experience, but also without sufficient means to support a child on their own.^{vii} They end up [experiencing less social mobility](#) and more poverty as a result; their children have poorer outcomes as well.

The solutions here are often nongovernmental and involve changing social norms around the importance of responsible, two-person parenthood.^{viii} Nonprofit and faith-based organizations have a role to play. Some have called for a new generation of government-sponsored marriage or relationship programs and for reducing marriage penalties in tax and benefit programs. But with some exceptions, these do not appear to be a cost-effective way to bring back the two-parent family.^{ix} More promising are efforts to make the most effective forms of birth control (IUDs and implants) more widely available at no cost to women. IUDs and implants provide a virtually fool-proof way for couples to delay parenthood until they are committed to each other for the long term and feel ready to be parents.

Conclusion

The poverty rate in the U.S. has been stuck at around 15 percent for years. For the most part, politicians don't like to talk about poverty but they do recognize the importance of helping low-income families climb the ladder into the middle class. Mobility rates out of poverty are not high. About 40 percent of children born into the bottom quintile remain there as adults—double the rate you would expect from chance alone.

Lack of access to quality education, joblessness, and family structure are three cause of poverty that the candidates need to address. Of the three, joblessness is the most urgent, but the others are critical to the nation's long-term health. We've suggested some steps that could be taken to improve opportunities for the poor in each of these three areas.

Many of our proposals would not only improve the life prospects of less advantaged children; they would pay for themselves in higher taxes and less social spending. The candidates may have their own blend of responses, but we need to hear less rhetoric and more substantive proposals from all of them.

ⁱ Readers should take these graduation statistics with a grain of salt; see long version of this paper and the following for more:

<http://www.npr.org/sections/ed/2015/06/09/412939852/high-school-graduation-rates-the-good-the-bad-and-the-ambiguous>

<http://www.npr.org/sections/ed/2015/06/12/411751159/the-story-behind-the-record-high-graduation-rate>

ⁱⁱ Karl Alexander, Doris Entwisle, and Linda Olson, *The Long Shadow* (New York: Russell Sage Foundation, 2014).

ⁱⁱⁱ For a review of studies, see the Department of Health and Human Service's "Home Visiting Evidence of Effectiveness" website: <http://homvee.acf.hhs.gov/models.aspx>

^{iv} Matthew Crellin, Darrell Aaron, David Mabe, and Courtney Wilk, "Catalyst for Competition: Performance-Based Funding in Higher Education: A case study of three states" (Boston: New England Board of Higher Education, 2011).

^v For more on these “skin in the game” proposals, see Micheal Stratford, 2015. *Risk Sharing, Yes. But How?*, <https://www.insidehighered.com/news/2015/05/21/bipartisan-agreement-risk-sharing-concept-only>

^{vi} For more details, see Isabel V. Sawhill, *Generation Unbound* (Washington: Brookings Institution Press, 2014).

^{vii} I estimate that the growth of single parent families since 1970 has increased the child poverty rate by 25 percent; Sawhill, *Generation Unbound*.

^{viii} Sawhill, *Generation Unbound*, ch. 3.

^{ix} Ron Haskins, “The Family Is Here to Stay—or Not,” *Future of Children* 25, no. 2 (2015): 129–53.