

**Poverty and Philanthropy: Strategies for Change**

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Gordon Berlin  
MDRC

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Contact Information:

Gordon Berlin

President

MDRC

16 East 34<sup>th</sup> St. – 19<sup>th</sup> floor

New York, New York 10016-4326

212-349-8610

212-532-8453 (Fax)

[Gordon.Berlin@mdrc.org](mailto:Gordon.Berlin@mdrc.org)

## Introduction

Poverty rates in the United States have remained stubbornly consistent for the past 35 years, despite significant efforts to reduce them (and some success in lessening child poverty in 1990s). Developing philanthropic strategies to combat poverty should begin with a clear understanding of the causes behind the problem. This paper begins by tracing economic and social trends that help explain the persistence of poverty, as well as by describing some of the unintended consequences of public policies that have exacerbated the challenges facing poor families. It then discusses four overarching strategies that seek to address one of the most powerful contributors to poverty: stagnant wages for low-income workers, particularly among men, young men, and men of color.

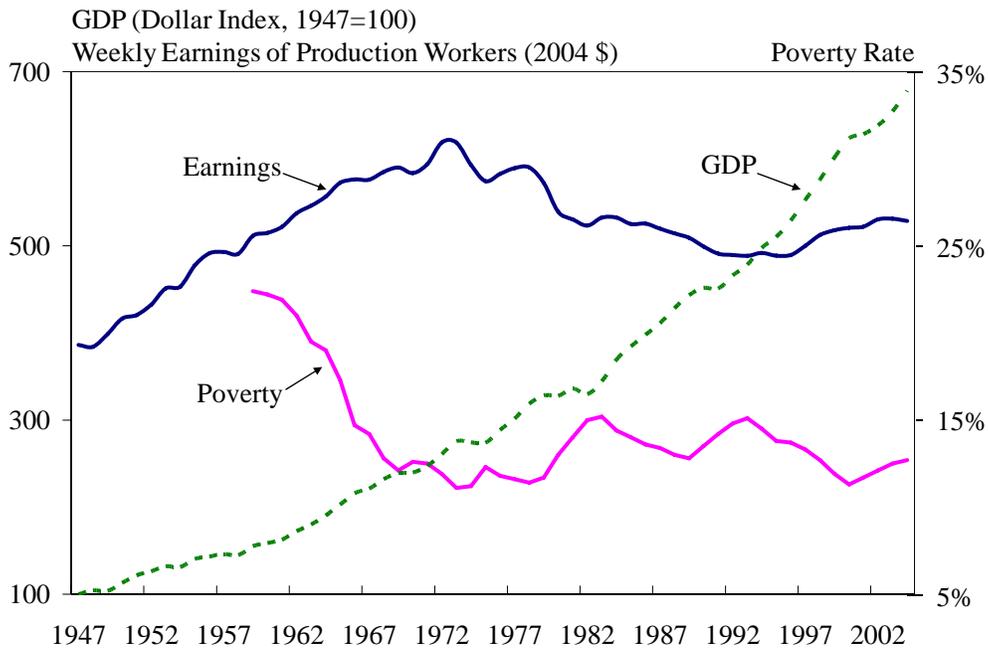
The first two of the four strategies — **A New Economic Contract for the Working Poor** and **Address the Youth and Young Adult Employment Crisis** — represent the major recommendations of this paper. The latter two strategies — **Criminal Justice Reform and Reentry Programs** and **Invest in Asset-Building and Credit Reform for the Poor** — would provide critical support to the first two strategies. Each overarching strategy in this paper contains several components and highlights a “Signature Project” that would represent a bold investment by the Mott Foundation and the broader philanthropic community.

## Defining the Problem

### Social, Economic, and Normative Trends

The United States’ poverty rate has remained virtually unchanged for 35 years — at about 12.5 percent overall and substantially higher for African-Americans, Hispanics, and single-parent households. Yet gross domestic product, a measure of overall economic growth, has tripled over this same period. Why didn’t economic growth reduce poverty? There are four principal explanations: (1) widening inequality as the returns to economic growth, which used to be shared with the bottom half of the income distribution, now accrue primarily to the top one percent; (2) a 35-year decline in inflation-adjusted average wages and earnings that has had particularly devastating effects on those workers with a high school diploma or less (Figure 1 compares trends in earnings, poverty, and GDP); (3) a persistent and pronounced decline in employment rates among men, and particularly among teenagers, and a related decline in full-year, full-time work; and (4) explosive growth in single-parent households as a result of a 40-year upward trend in divorce and a 30-year increase in out-of-wedlock childbearing.

**Figure 1: Trends in Earnings, Poverty, and GDP, 1947-2004**

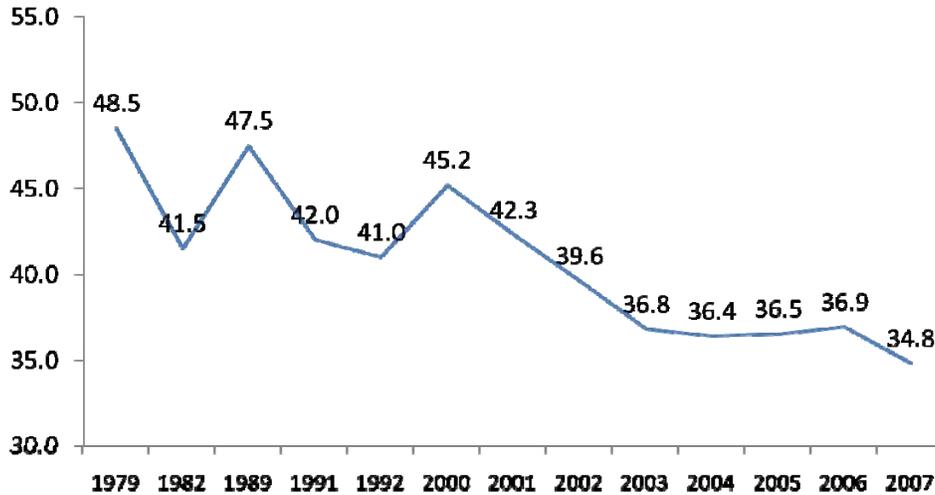


Sources: Bureau of Labor Statistics, U.S. Census Bureau, U.S. Dept of Commerce

A few startling statistics illustrate the dimensions of the nation's poverty crisis:

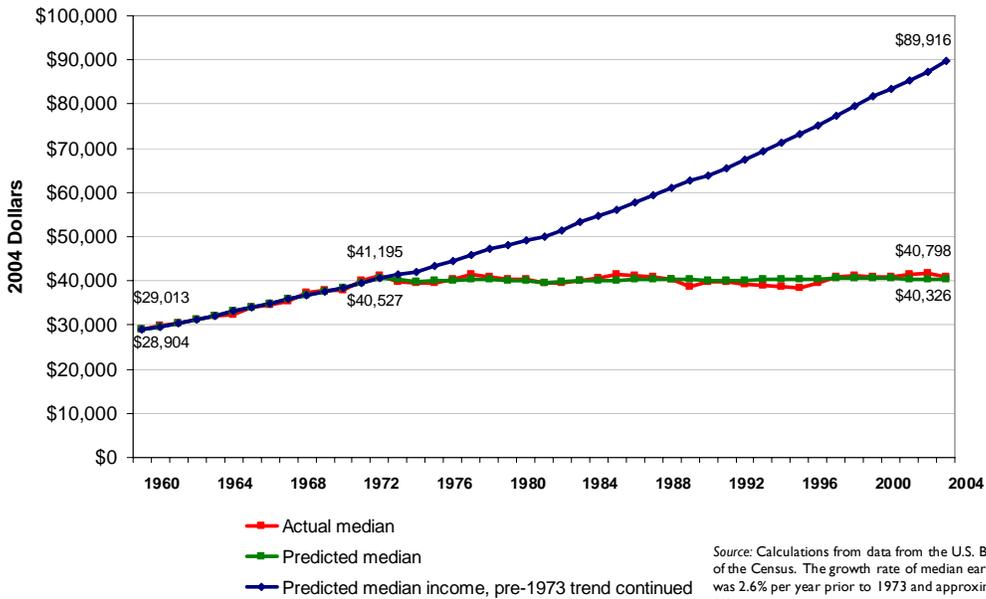
- The gap between rich and poor is now approaching levels not seen since the late 1920s (Greenstein, 2008).
- After rising by 60 percent between 1947 and 1973, average real earnings of all nonsupervisory workers have fallen by 20 percent. Put another way, the typical full-time, full-year male worker's earnings peaked at \$41,000 in 1973 (in current dollars); today, that same average worker's real earnings hover around \$40,000; if earnings growth had tracked economic growth, the average male worker would be earning roughly \$90,000 today (see Figure 2).
- Teen employment rates have been trending lower for two decades, with the summer of 2008 marking the lowest teenage employment rate in 60 years —33 percent in June/July 2008, down from 45 percent since 2000 (see Figure 3).
- In 1960, 6 percent of births to women under age 30 occurred out of wedlock; today 50 percent of births to women under age 30 occur out of wedlock, and roughly one of every two marriages will end in divorce.
- Increased incarceration rates are also connected to poverty. For the 50-year period from the 1920s to the mid-1970s, the nation's incarceration rate remained virtually unchanged at about 110 out of every 100,000 Americans; by 2004 there were 500 inmates per 100,000 U.S. residents (see Figure 4).

**Figure 3: Collapse of Youth Labor Market, Teen Employment Rates (16- to 19-Year-Olds)**

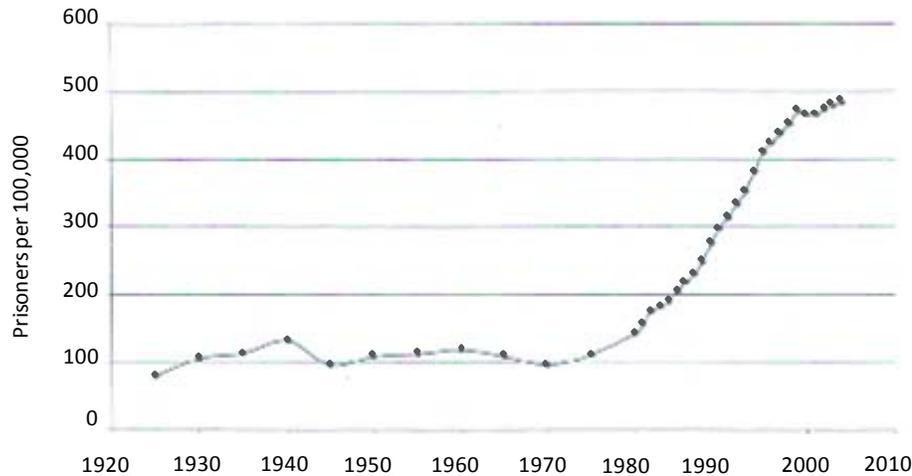


Source: Andrew Sum, Center for Labor Market Studies, Northeastern University

**Figure 2: Actual and Predicted Median Earnings Male Full-Time, Year-Round Workers (Estimates by Sheldon Danziger)**



**Figure 4: Persons in State or Federal Prison per 100,000 U.S. Residents, 1925 to 2004**

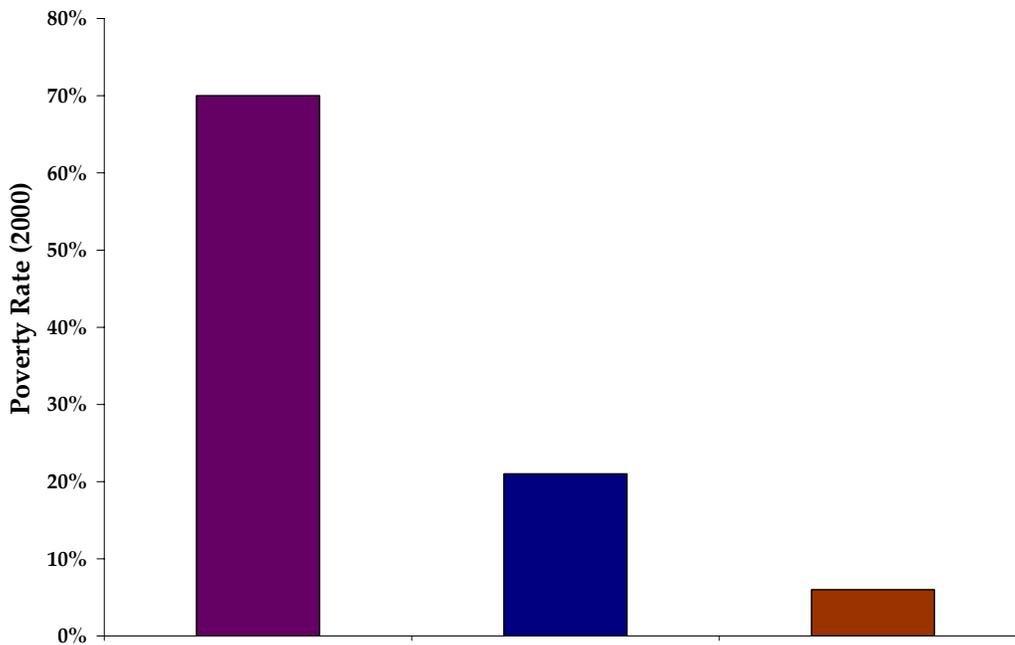


Steven Raphael and Michael Stoll. IRP Discussion Paper no. 1328-07. May 2007

These trends are shocking — for their magnitude, their duration, and, on the economic ledger, their stark contrast to the 25-year period of 1947 to 1973, when virtually all of these labor market-related indicators were improving. And these are not isolated developments. Instead, they are intertwined with each other and with race and class: populations of color have been disproportionately affected, often times with devastating consequences. For instance, blacks are twice as likely as whites to be unemployed, three times as likely to have a child out of wedlock, and seven times more likely to be incarcerated.

In the end, low earnings and single-parenthood interact to exacerbate poverty (see Figure 5). Family heads who work little or who work for low wages are much more likely to be poor than those who work full-year, full-time and at better wages. Similarly, single-parent families are more likely to be poor than two-parent families — five times more likely. In fact, single-parent families are doubly hurt: (1) they have only one earner when most two-parent families have two, and (2) they are more likely to have low education levels and thus to command low wages. Moreover, the cycle is cruelly reinforcing: those with low wages are less likely to work, less likely to marry, and more likely to be caught up in the criminal justice system, while children who grow up in single-parent poor families are less likely to complete high school, attend college, or work as teens. These characteristics predispose them to be less likely to work as adults and more likely to have a child out of wedlock, beginning the cycle anew.

**Figure 5: Poverty is Related to Work and Family Structure**



Source: U.S. Census Bureau

The interaction between earnings and criminal justice has been particularly pernicious. Raphael and Stoll (2007) estimate that changes in the wage structure account for as much as 13 percent of the increase in incarceration over the last three decades or so, while Grogger (1998) associates a 10 percent increase in wages with a 2.5 percentage point reduction in potential money-making through criminal activity. Low education, color, and incarceration have been a particularly brutal mixture. Western (2008) explains that most of the growth in the prison population has been concentrated among young men with a high school education or less, especially young black men. Nearly a third of young black men have been incarcerated (Edelman, Holzer, and Offner, 2006), and a shocking 60 percent of black male high school dropouts will likely spend some time in prison or jail before age 35 (Western, 2008). Imprisonment impairs employability. Ex-prisoners are legally barred from working in certain occupations, and many employers are reluctant to hire people with criminal records. And federal laws bar ex-offenders from public housing, public assistance programs like welfare and food stamps, and Pell Grants for postsecondary education. Still, some 700,000 ex-offenders return to mostly poor communities across the United States each year. By some estimates, more than half are parents. Both they and their children are likely to be poor.

In short, in the search for underlying causes, three decades of stagnant and declining earnings is a common thread that runs through virtually all of poverty's related ills. As average earnings fell, employment declined and inequality rose, crime rose (as the opportunity cost of crime declined), marriage rates fell (as men with a high school

diploma were no longer able to support a family of four above the poverty line), and single parenthood rose. To be sure, poverty has many causes and in most cases causality operates in both directions, yet there is little argument that the combination of the rising number of single-parent households and of falling earnings has played a central role (see Hoynes, Page, and Stevens, 2005; Danziger and Gottchalk, 2005).

### **The Good and the Unintended: Three Public Policies That Have Also Mattered**

Ironically, public policies have sometimes exacerbated these long-term economic, social, and normative changes, sometimes by failing to adapt to change, other times by helping to solve a problem but having an unintended consequence in a related area.

**Economic Policies.** Begin first with policies affecting the labor market and income inequality. Macroeconomic changes, including globalization and technological advances, have increased the return to higher education, while immigration has increased competition at the low end. In turn, these three forces have worked together to reduce the earnings of workers with a high school diploma or less.

As these changes occurred over the last three decades, public policies failed to adapt. By the 1950s and 1960s, a new set of institutional arrangements had been forged that worked to protect and enhance the incomes of workers at the bottom (Levy and Temin, 2008) — including collective bargaining, a minimum wage tied to median wage levels, normative caps on the pay of CEOs and other top employees, and relatively high tax rates on the wealthy. These policies began to unravel in the 1970s. The share of the workforce covered by collective bargaining agreements began to fall, a process that was accelerated by the 1980 recession’s rapid loss of manufacturing jobs (which had particularly devastating effects on African-Americans). In addition, the real value of the minimum wage began to erode as Congress grew ever more reluctant to hold the line against inflation or to maintain the tie to median wages. The 1990s and 2000s saw a dramatic rise in CEO pay and major reductions in top tax rates, developments that exacerbated inequality. At the same time, free trade agreements spurred a bigger world-wide economic pie, but promises to compensate the losers by taxing the winners never materialized. In short, as the institutions that helped to direct economic prosperity to the low-end declined in importance or disappeared, a new set of institutions and structures were not devised to replace them.

**The Social Welfare System.** Next, as the social welfare system for the nonelderly evolved, the need to justify social programs because of their benefits to children, who were readily identified as the “deserving” poor, unwittingly resulted in the creation of a system that mostly excluded single men and women. From the New Deal’s concern for widows and their children in Aid to Families with Dependent Children, to the Great Society’s safety net programs of Medicaid, food stamps, Head Start, and child care, and to the more recent creation of SCHIP health care for children and child tax credits and the Earned Income Tax Credit (EITC) for working poor families with children, single adults were expected to fend largely for themselves. And while these policies had a clear, unambiguously positive effect on reducing poverty among children and their families,

they also had an unintended consequence: a social welfare system that on the margins distorted the incentives to work, marry, and have and support children. For example, a working single parent with two children earning \$16,000 a year and receiving the maximum EITC of roughly \$4,700 would lose her EITC supplement if she married a man with similar earnings. In addition, our newly married couple would likely lose food stamps, housing subsidies, and other income supports for which she might otherwise qualify. Similarly, a young woman without children, working alongside a single parent with two children, would receive the same low pay but not be eligible for any of the benefits that help to make work pay at the low end. Yet changes in the labor market have affected *all* workers, not just those with children. Young men with high school diplomas or less education have been particularly hard hit by the secular decline in wages and earnings, but they have escaped the notice of most social programs, with the exception of criminal justice and child support.

**Criminal Justice.** Mandatory sentencing laws enacted in the 1980s, in what now appears to have been an overreaction to the crack epidemic and related alarm about a rise in crime, were the primary drivers of an astonishing increase in the number of Americans in prison — now at some 2.3 million — by some measures the highest incarceration rate in the world. At the start of 2008, 1 in 100 adults in America was held in prison or jail, according to the Pew Center on the States. Indeed, Raphael and Stoll find that *policy changes* explain 80 percent or more of the explosion in the prison population. These include (1) an increase in the type of offenses that resulted in incarceration, (2) the establishment of minimum sentencing requirements that leave little or no discretion for judges, (3) the addition of “three strikes and you’re out” mandatory imprisonment rules, and (4) curtailment of parole as an early-out option for good behavior.

Retribution replaced rehabilitation as the system’s focus, which typically meant fewer educational and vocational opportunities for prisoners while incarcerated, and strict monitoring upon release as the focus of parole officers — leading to high rates of reincarceration. Indeed, about two-thirds of ex-prisoners are rearrested and half are reincarcerated within three years of release, with over one-third of those sent back as a result of a parole violation (Bloom, Redcross, Zweig, and Azurdia, 2007). Involvement with the criminal justice system has devastating effects on future employability. If these policy changes had a significant effect on reducing criminal activity, they might be justified. However, efforts to estimate the impact of “get tough” policies have come up wanting.

In summary, the underlying causes of poverty and its persistence can be traced to the interaction between family structure, namely the unrelenting rise in single parenthood, and the 30-year decline in earnings resulting from low wages and rising unemployment, particularly among men. Key public policies sometimes unwittingly exacerbated one or more of poverty’s underlying causes, even when helping to ameliorate a related aspect of the problem.

## What Can Philanthropy Do?

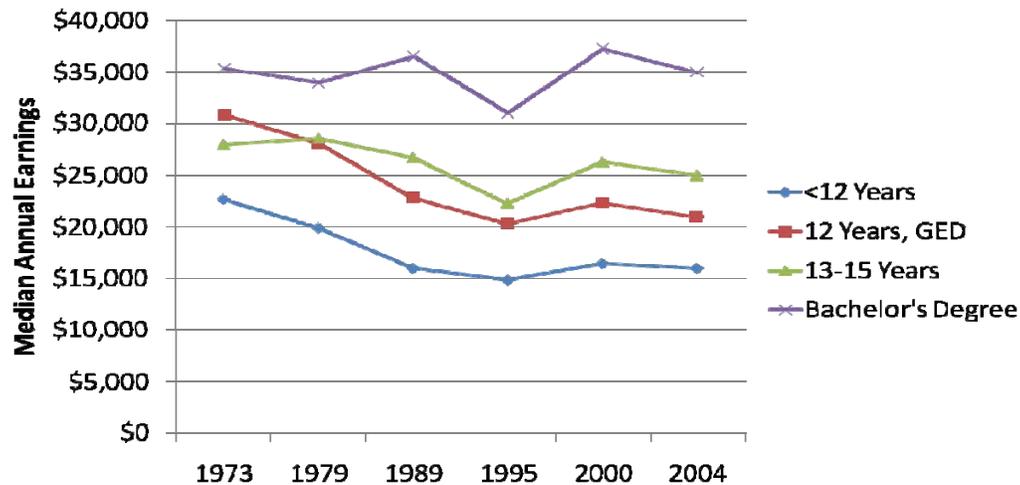
If low earnings and single parenthood are the principal drivers of poverty, low earnings and the unemployment, underemployment, and low wages it signals might be viewed as instrumental causes: they are relatively well targeted — that is, the poor have low earnings, the non-poor generally do not — and, more importantly for this discussion, philanthropy can do something about low earnings. By contrast, changes in family structure, while influenced by earnings, are predominantly driven by society-wide normative changes, like divorce. Neither government nor philanthropy is well-suited to tackling these kinds of social forces. Solving the earnings crisis will require both changes in existing public policies and the creation of new policies. In both cases, understanding what actually works will be critically important.

To reduce poverty, something must be done about low earnings. But what? Two overarching sets of strategies present the best opportunities — one focused on supporting today's low-wage workers and the second on building the skills of the next generation of workers:

- First, build a new set of structures and institutions that would help to secure employment and a fair share of economic growth for those at the low end of the earnings distribution. A new labor-market-focused social contract would do for low-wage workers what collective bargaining, the minimum wage, and other policies to protect low-wage workers did in the pre-1973 period. But it would have to be designed for the 21<sup>st</sup> century's labor market and focus on those left behind — low-wage workers with a high school education or less, poor singles and second-earners who don't receive the existing Earned Income Tax Credit, young adults without adequate work experience, reentering prisoners, and populations of color.
- Second, because better education means higher earnings (see Figure 6), make long-run investments in education reform to increase the number of high school graduates with the academic and other skills needed to succeed in work and postsecondary education. These investments should focus on key transition points all along the education pipeline: preschool and the transition to kindergarten and first grade; the transition from learning to read to reading to learn in the early elementary years; the difficult ninth-grade transition into high school; and the transition to work and college, focused particularly on community colleges, which are the gateway to higher education for nearly half of all college-goers and a majority of poor and first-generation college students.

Both sets of strategies are critically important to addressing poverty, and, in fact, they would reinforce each other if pursued simultaneously. In this paper, however, I focus on the first set of strategies and look to other papers in this volume to propose a complementary set of educational reforms.

**Figure 6: Education Matters:  
Trends in Median Real Annual Earnings of Employed 20- to 29-Year-Old Men, 1973-2004 (2004 Dollars)**



NOTE: The CPI-UXI index was used to convert the nominal annual earnings data for each year into their constant 2004 dollar equivalents.

## Elements of Strategic Grantmaking

Before I sketch out a coordinated set of ideas for tackling poverty that the Mott Foundation might want to consider, I briefly offer a few thoughts on creating a grantmaking strategy and some questions one might use to evaluate its success. Individually, and as a whole, the ideas presented here attempt to satisfy several criteria for strategic grantmaking — defined as a group of grants that make full use of philanthropy’s multiple tools to build evidence about what works, to create the program capacity and infrastructure necessary to make a difference at scale, and to leverage public and private funding that would enable the foundation to exit the field at some future point. To make a difference, to leave a legacy, foundations need to accomplish all three goals.

A set of steps and questions to guide the development of a strategy and against which to evaluate these ideas might include:

- ❖ Define the problem, its underlying causes, and key leverage points.
- ❖ Identify the policy target: reform an existing policy or system, augment a public or private funding stream, or create new policies?
- ❖ Identify key stakeholders, their roles, and their interest in fulfilling those roles.
- ❖ Determine what stage of development the field is in:
  - Do policymakers and the public understand the problem and its import?
  - What is known about what has and has not worked to fix the problem?

- What is the state of program delivery infrastructure and what has been tried at scale?
- ❖ What is the right mix of grantmaking activities given the field's current state?
  - Basic research to enhance understanding about the problem?
  - Capacity building, technical assistance, and infrastructure building at the program and systems level to improve quality and effectiveness and outreach?
  - Demonstration projects to test new approaches and evaluations of existing approaches to build evidence about what works?
  - Advocacy to build awareness, create a climate for action, and connect research, capacity building, and demonstration results?
- ❖ Develop an exit strategy for the philanthropy.

### **Strategy I: A New Economic Contract for the Working Poor**

Low-wage work is here to stay. The Bureau of Labor Statistics projects that nearly half of all jobs in 2016 will pay low wages. Yes, the fastest growing jobs will require higher education and skills, but many of today's and tomorrow's jobs will pay low wages, and the proportion of jobs requiring a college degree will inch up only slightly between 2006 and 2016. And the resulting low wages will make it difficult for families and individuals to escape poverty, even as they provide disincentives to work effort and family formation and increase the economic attractiveness of criminal activity. A new economic contract for the working poor would bolster work supports for low-wage workers, whether single or married and whether raising children or not, and would focus on helping workers advance up the career and economic ladder.

**The Earned Income Tax Credit.** To address the problem of low earnings for families with children, policymakers increased the generosity of the Earned Income Tax Credit (EITC) in the 1980s and 1990s. At more than \$40 billion in annual expenditures, it is now the nation's largest antipoverty program. Operated as part of the tax system, the credit is refundable — meaning its benefits are paid out even when the eligible individual doesn't owe any income tax — and it is built around work: benefits are only paid to workers and the amount paid depends on one's earnings. In 2008, the maximum benefit for a family with two or more children is \$4,824, for one child \$2,917, and for a single individual with no children \$438. For parents with children, these maximum amounts are paid when annual earnings range between roughly \$10,000 and \$16,000. The average family receives about half of the maximum either because it earns too little to get the full credit or because it earns too much and the credit amount is phasing down as earnings rise.

An extensive body of evidence indicates that the EITC reduces family poverty, poverty among children, and the poverty gap. There is also strong evidence from the "Make Work Pay" experiments — New Hope in Milwaukee, Minnesota's Family Investment Program, and the Canadian Self-Sufficiency project — indicating that earnings supplement programs increase work and income and reduce poverty among single-parent families and that the added income from work leads to improvements in young children's school performance (for a review of this literature, see Berlin, 2007). But the EITC provides

little or no support to low-earning single men and women. And because the credit amount is based on a family's joint income, rather than individual income, it penalizes marriage in those circumstances when both adults are working, while also discouraging work among second-earners in two-parent families.

One capacity-building strategy for reducing earnings-related poverty would be to increase the take-up rate of the EITC by further supporting successful outreach campaigns — although with 80 percent or more of those who are eligible receiving the EITC, these strategies will help to maintain the status quo more than they can help improve current incomes. Another strategy would be to advocate for increases in the generosity of the current family-focused EITC, but that would also exacerbate the current inequities between those with and without children.

**The Minimum Wage.** First enacted in 1938 in response to the Great Depression, the minimum wage places a floor under the wages of most workers. Pegged at about half the median hourly wage of nonsupervisory workers throughout the 1950s and 1960s, its value had fallen to less than a third of the nonsupervisory wage by 2007, its lowest level in fifty years. After failing to act for a decade, Congress and the President agreed in 2007 to increase the minimum wage to \$6.55 in July of this year and to \$7.25 in July 2009. But even with these increases, a person working full-year, full-time will still be earning \$14,500 a year, below the poverty threshold of \$16,705 for a family of three and far below the \$21,100 level for a family of four. Because the minimum wage does not automatically adjust with inflation and any increase requires the Congress to act, inflation is continually eroding its underlying value, making it an unreliable vehicle for addressing poverty. Moreover, because the EITC is inflation-adjusted, there is some risk that its increases will reduce the normal pressure on private-sector employers to raise wages. Finally, the minimum wage has the added downside of not being very tightly targeted: a majority of those who work at the minimum wage live in families with above-poverty incomes.

One philanthropic strategy related to the minimum wage would be to support research and advocacy aimed at instigating and informing a debate about more regular increases in the minimum wage, including the pros and cons of establishing an inflation-adjusted floor pegged at one-third to one-half of the median hourly wage.

**Other Work Supports.** Welfare, food stamps, child tax credits, child care subsidies, Medicaid, and SCHIP constitute the rest of the social safety net. Take-up rates in Temporary Assistance for Needy Families (TANF), food stamps, child care, and the two health insurance programs could all be improved. The TANF system for very poor families with children is particularly troubled — only 48 percent of those eligible in 2002 received benefits, down from 86 percent in 1992, under the previous welfare system (Parrott and Sherman, 2006). As a result, the number of very poor families with neither earnings nor public support is on the rise.

To increase benefit take-up, a grantmaking strategy could focus on systems change and capacity-building: streamlining eligibility systems to reduce the amount of application

paperwork, making use of existing data systems to confirm eligibility as well as presumptive eligibility, and developing continuous eligibility approaches that relied upon annual, rather than more frequent, eligibility redetermination processes. Demonstration projects to test these strategies and compare the benefits to the costs in terms of increased benefits to ineligibles and others are needed.

The work described above is designed to shore up the *existing* work-based safety net. But that system is at best an interim response to the sweeping economic changes now confronting low-wage workers. To build the new institutions and policies necessary to support low-wage work in the 21<sup>st</sup> century, a new generation of policies will be needed. A first step is recognizing that the changes now affecting the low-wage labor market affect *all* low-wage workers, not just those workers who happen to be in families with children.

**Signature Project: A Demonstration to Radically Remake the Earned Income Tax Credit for All Workers.** One way to transform the nation's work-based safety net would be to (1) retain the current family-based EITC, (2) replace the existing (and tiny) \$438 EITC for singles without children with a significantly more generous credit — up to a maximum credit amount of \$2,000, and (3) eliminate all marriage penalties in both the existing credit and this new credit for singles (see Berlin, 2007). The enhanced EITC would make work pay for singles without children. It would make work pay for second-earners in two-parent families currently receiving the existing family-based EITC. The family head would qualify for the child-based EITC based on his or her earnings, and now the second-earner would qualify for his or her own credit for singles. While this change seems radical at first blush, taxes are based on individual income in Canada and in European countries, not family income, so there is precedent and experience on which to work through the operational details.

Importantly, by eliminating the marriage penalties that now face low-wage workers, this new credit would reduce poverty for two-parent and cohabiting families, and it would make employment more economically attractive for singles, while increasing the opportunity cost of criminal involvement. Most important of all, it would make the incentives to work, marry, bear children, and support children the same for the poor as for the rest of us. If the net result was more two-parent households, the effect on child and family poverty could be significant. But what would the response actually be? Correlational evidence suggests that young African-American male workers are very sensitive to changes in wages and earnings — that is, as wages rise, work effort increases. Evidence from the New Hope project also lends support; the small sample of single men responded positively to New Hope's work incentives (Miller et al., 2008). And when earnings were rising during the roaring economy of the 1990s, the employment rates of African-American males also rose.

Nevertheless, there are many unknowns. To determine the net difference an enhanced EITC structure of this kind would make, and whether the benefits would exceed the costs, a consortium of foundations could rigorously test such a model at scale in one or two locations. Key questions the demonstration could answer include: What is the take-up

rate? Does the offer draw people who are not working into the labor market? Does it reduce job-leaving? Do full-time workers cut back their work effort? How does it help two-parent families? What impact does it have on African-American men and women? What impact does it have on marriage? What is the effect on criminal involvement?

Encouragingly, there is growing support for addressing the low-earnings problems of singles and men. More than a dozen proposals for an enhanced EITC for singles have been offered by prominent academic labor economists, think tanks, and members of Congress. But without stronger evidence, any action Congress takes in the next few years will likely result in a welcome but still modest increase in the credit for singles. By looking ahead five years or so, the Foundation could lay the groundwork for a major rethinking of the critically important EITC, turning it into the cornerstone for a 21<sup>st</sup> century labor market policy. In short, there is a clear policy target.

**Upward Mobility.** Upgrade training and other employment advancement strategies that help low-wage workers move from low-skill, entry-level jobs to better-paying middle-skill, mid-level jobs are also needed. One approach calls for employers and workers to invest in the worker's human capital through classroom-based postsecondary, technical, and occupational training in public and private institutions during paid or unpaid time off — as often happens with more highly paid workers. Financial incentives for both employers and workers to raise skills through formal training — such as tax incentives for employers and stipends or scholarships for workers — might provide part of the answer. A second approach involves employer-based, on-the-job skills training designed by the employer to meet specific labor needs. Bureau of Labor Statistics data strongly suggest that this will be the major advancement route for most workers, but it is not clear how or whether this will be effective for workers with few skills or for employers who offer few advancement opportunities. A third approach would be to work with employers to identify career ladders within a firm or industry sector that, coupled with either on-the-job training or formal classroom training (as some service unions have done in the health and home care field by supporting nursing training), could provide the route for advancement for low-wage workers. Yet another approach would try to ensure that low-wage workers received the full complement of existing financial work supports for which they are eligible — the EITC, food stamps, etc. — while they engage in formal or on-the-job training for higher-level jobs. But the vast majority of employment programs in the country focus on moving the unemployed into work, not on the advancement of currently working people, and most advancement strategies for low-wage workers operate on a very small scale, and few are being rigorously tested.

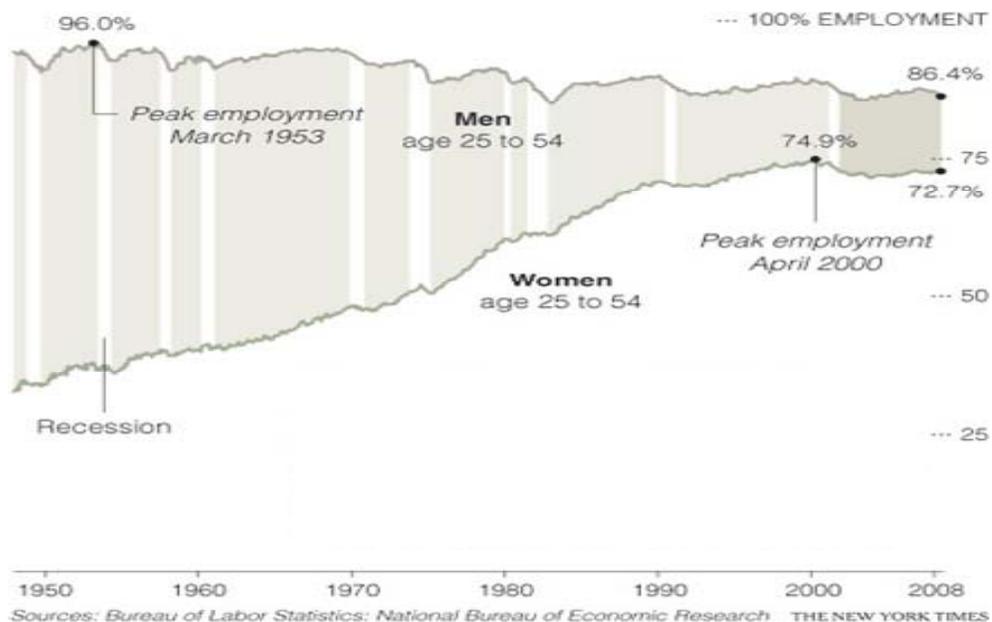
**Sectoral Strategies.** For more than two decades, visionary philanthropists have been promoting sector-specific strategies that work with employers and that target specific industries and regional economies to create new and better opportunities for low-wage workers (Conway et al., 2007). These strategies attempt to exploit employers' needs for skilled workers in industries like machine tools, where a generation of skilled craftsmen and -women are retiring. They combine efforts to improve the skills of workers — the supply side — with efforts to enhance the efficiency of employers — the demand side. They might redesign jobs to improve job quality, while also restructuring the workplace.

While there are a number of bright examples of successful sectoral strategies, the institutions and structures that would be required to take these initiatives to scale remain to be built. Because of their employer and demand-side focus, sectoral strategies provide an important complement to the work described above. Indeed, comprehensive sectoral strategies embrace and incorporate employer-based outreach for work supports and skill enhancement via upgrade training.

## Strategy II: Address the Youth and Young Adult Employment Crisis

Men's employment rates have declined by about 10 percentage points since the mid-1950s (see Figure 7). Teenagers' employment rates have plummeted to their lowest level in 60 years, while the employment rates of young adults 18 to 29 have continued to cascade downward. Among 18- to 29-year-olds not enrolled in school, nearly one in four are not currently working, and one in six did not work at all in the previous year. That adds up to seven million young people who were not working at the time of the March 2007 Current Population Survey interview, and some five million-plus who did not work at all in 2006. African-American and Hispanic youth have been especially hard hit, even more so for those with a high school diploma or less. Roughly 62 percent of black 18- to 29-year-olds who have not completed high school are unemployed, and nearly half did not work at all in the previous year. The comparable numbers for Hispanic youth are 45 percent unemployed now and 38 percent unemployed for the entire year; for whites, it's 45 percent and 32 percent, respectively. These numbers are devastating. And they do not even include incarcerated young people.

### Figure 7: Employment Rates, 1950-2008



To successfully negotiate the transition from school to work and from youth to adult, young people need at least three kinds of experiences — school, work, and community service. As the data cited above demonstrate, American youth are falling short on work experience. As the labor market changes and as the youth-to-adult transition lengthens, school is becoming the primary alternative for young people. But many young people are not ready for college or other forms of postsecondary education. Moreover, those educational experiences are most productive and helpful when they include opportunities for job-shadowing, internships, and summer and part-time jobs. But the focus on academic preparation has become so intense, particularly in the wake of No Child Left Behind, that career and technical education has been pushed out of most school settings.

The question is how to create a youth opportunity structure that provides the work, education and training, and service opportunities that can successfully engage young people. It is a problem of both models and systems: there is little clear evidence about what program models work for disconnected young people, and, outside of our postsecondary institutions, there is a dearth of systems to serve young people. The trail is littered with youth programs that have not been particularly effective. JobStart and New Chance produced effects on GED receipt but no employment and earnings gains, and the Center for Employment Training replication and Summer Training and Education Program (STEP) results were generally discouraging. The most recent long-term evaluation of the Job Corps, historically the flagship of youth programs, found that most of the programs' initially positive effects faded over time, leaving no difference between the Job Corps group and a control group.

A next generation of youth programs now exists — YouthBuild, National Guard Youth ChalleNGe, and the service corps models, like City Year and the state and city conservation corps — but only the service corps models have completed evaluations. Those results from a first-round study were encouraging (particularly earnings gains for African-American males), as are the very early results from a rigorous study of ChalleNGe.

Young people take increasingly diverse pathways to adulthood. As they lose their footing on those paths — by dropping out of school or by graduating high school but not heading to work or further schooling — a system of effective programs is needed to reengage disconnected youth and provide alternative routes back onto the mainstream pathway to adulthood.

Much of the youth employment system that had existed as part of the Comprehensive Employment and Training Act (CETA) programs of the 1970s is gone. Even the substantially smaller set of programs that operated under the auspices of the Job Training Partnership Act — for instance, the federal summer jobs programs, as well as funding for second chance community-based programs — have been dismantled. The combination of funding reductions and regulatory restrictions has severely limited the availability of subsidized work experience and training stipends, which in the past was an important hook for reengaging disconnected youth.

Through sheer will and ingenuity, some mayors have cobbled together funding to build systems of interconnected youth programs to link education, workforce development, foster care, housing, juvenile justice, and other youth-serving organizations and funding streams. Their primary goals are to enable different systems to integrate and coordinate services, provide multiple entry points for youth, create management and data systems to track progress, foster seamless transitions from one program to another along an education-and-career continuum, minimize service duplication, and create a safety net for youth who fall through the cracks. But these efforts are working within severe funding constraints, and most are still struggling to effectively tackle the single most challenging issue facing youth programs: how to successfully engage disconnected young people and bring them into the system.

A grantmaking learning agenda built around both systems-building and model-building could help advance the understanding of what works to engage young people. It might also provide insight into how best to catch young people as soon as they get off track and before they get in trouble with the criminal justice system. Evidence-building is especially important in the youth field because the self-selection issues are so severe: only the most motivated young people voluntarily come forward to participate in programs. But these are the same young people who are likely to have found another way to succeed on their own and by definition are no longer disconnected. Even among young people who drop out of school, most will eventually return to complete a high school diploma or GED. Are the intensive programs like YouthBuild and the city conservation corps effective? How about the much more costly residential programs for disadvantaged youth? How could these programs be strengthened? A grantmaking strategy that helped to build this evidence base and that supported capacity-building could shore up the youth service and conservation corps programs. This strategy could include discretionary or matching funding to cities that have committed to building youth systems along the lines described above, to enhance existing programs, to fill in gaps, and to assure seamless transitions.

**Signature Project: Rewarding and Linking School and Work with a Job Guarantee.**

School dropout and youth unemployment are two sides of the same coin, and both spell future labor market problems for disadvantaged youth. Although there is some controversy about how high school dropout rates are calculated, there is general agreement that the rates are too high, especially in urban high schools. White high school students are much more likely to graduate (78 percent) than black (55 percent) or Hispanic (53 percent) students. On the youth employment side, while there was no difference in black/white male employment rates in 1955, black employment rates began to decline precipitously soon after, falling below 30 percent while white employment rates held around 50 percent, opening a 20 percentage point gap. While the story was a bit different for teenage women — the black rate held steady while the white employment rate rose — the end story was similar, a 25 percentage point gap. These gaps persist today — a 16 percentage point difference when white and black teens of both sexes are compared.

Recognizing that both youth employment and education matter, MDRC, local governments, and the U.S. Department of Labor collaborated in the 1970s to design the Youth Incentive Entitlement Pilot Projects (YIEPP) demonstration (Gueron, 1984). Seeking to both reduce school dropout rates and eliminate the black/white gap in employment rates, YIEPP offered 16- to 19-year-old young people from low-income families in 17 sites minimum-wage jobs, part-time during the school year and full-time during the summer, on the condition that they remain in or return to high school and meet academic and job performance standards. Participation rates were high (56 percent overall and 63 percent for black youth), demonstrating that jobs are an important inducement. The YIEPP program eliminated the black/white employment gap, but did not have an effect on return-to-school or graduation rates. Sadly, when a new administration took office, the YIEPP research was prematurely ended, leaving policymakers with no clear answers about the long-term effects of the job guarantee. From a program perspective, the job guarantee involving some 76,000 young people in 17 cities across the country was successfully implemented, but the link between the employment programs and schools and the enforcement of the school performance standards was more challenging.

To address the dual problems of the deteriorating youth labor market and high dropout rates, grantmakers should consider building on the YIEPP experience to mount a demonstration project in high-poverty school districts that tested a reengineered job guarantee for 16- to 19-year-olds conditioned on school attendance and performance. A network of community-based alternative schools, multiple pathway options, and charter schools would need to be in place or expanded to accommodate youth who had previously dropped out. In addition to rethinking how best to structure and deliver the school condition, the model might also provide additional financial rewards for school attendance, homework completion, grades, and test scores that reinforced and added clarity to the school condition. Similar rewards could be included for especially good work performance. Students who graduate could be eligible for performance-based scholarships as an incentive to pursue postsecondary education and a pathway to better jobs.

This demonstration would build on the powerful employment effects from the earlier Youth Entitlement demonstration, the encouraging results on persistence in college from a performance-based scholarship demonstration at two New Orleans community colleges, and the promise and potential of conditional cash transfer (CCT) programs that now operate at scale in Brazil, Mexico, and elsewhere. New York City's Opportunity NYC is testing an American version of CCTs that rewards a range of school behaviors, including attendance, grade promotion, test scores, passing Regents exams, and earning credits towards a New York City Regents High School Diploma.

Key questions to answer would focus on the long-term impact on educational attainment and achievement and on post-program employment and earnings. The primary objective would be to provide clear evidence on the benefits and costs of a job guarantee (with the potential add-on of performance-based scholarships for those who successfully graduate high school) on the future life prospects of disadvantaged 16- to 19-year-olds. If we

tackle both sides of the coin — school failure and youth unemployment — would the results justify the costs?

Another interesting variation would be to build a job guarantee into an existing program like Career Academies. Career Academies, which now have a 40-year history, are schools-within-schools organized around a career theme. There are now 3,000 Career Academies operating in high schools throughout the country with various networks supporting them. Career Academies are organized as small learning communities, combine academic and technical curricula around a career theme, and provide work-based learning opportunities through employer partnerships.

The results from an MDRC random assignment evaluation involving nine Career Academies, 1,400 students, and 12 years of follow-up indicate that Career Academies produced large and sustained earnings gains, without reducing postsecondary enrollment and completion rates. The gains were particularly large for males, who earned on average \$30,000 more than their control group counterparts over the eight-year post-high school follow-up period. The Career Academies also fostered the transition from adolescence to adulthood with impacts on the percentage of young people living independently with children and a spouse or partner. The employer partnerships and work-based learning opportunities are the most plausible explanation for the large earnings gains, demonstrating the value and power of work experiences (Kemple, 2008).

A variation of the job guarantee idea would be to provide Career Academy students with paid work experience, part-time during their junior and senior years and full-time in the summer. Jobs would be related to the career theme of the Academy. While employer partnerships and work-based learning are embedded in the Career Academy model, not all students currently receive jobs. This could be part of an overall effort to strengthen and expand the 3,000 Career Academy high schools by building on the findings from the MDRC evaluation.

### **Strategy III: Criminal Justice Reform and Reentry Programs**

Some 2.3 million Americans are in jail or prison today, up from 340,000 in 1970 (Edelman, Holzer, and Offner, 2006), and expenditures on corrections have risen from roughly \$7 billion in 1982 (Travis, Solomon, and Waul, 2001) to well over \$60 billion today (Raphael and Stoll, 2007). As described above, a kind of perfect storm — crack cocaine, a demographic jump in the youth population that led to a youth-driven spurt in crime, a political context that made being tough on crime the ticket to office — all led to policy changes that increased incarceration rates and made retribution over rehabilitation the prevailing philosophy.

Admittedly, it might seem odd to argue that one part of the solution to poverty is criminal justice reform. But a key part of the poverty problem is the unemployment and low wages of minority males, and criminal justice involvement is one cause of the poor employment prospects for minority males. To make substantial progress against poverty overall, employment and earnings among these men have to improve.

While building a new opportunity structure as described in Strategies I and II is a first-line approach, a complementary focus on criminal justice is also needed. A comprehensive approach could include one or more of the following intervention points:

#### Prevention

- Create an opportunity structure of second-chance programs to tackle poverty, low wages, and the constellation of problems affecting black and Hispanic males as described above.

#### Sentencing and Drug Laws

- Work with the courts, judges, states, the National Governors Association, and the National Conference of State Legislatures to review existing drug laws and the pros and cons of mandatory sentencing policies. For example: Is substance abuse predominantly a public health problem requiring treatment or a criminal justice issue requiring imprisonment?
- Formally test alternative sentencing policies and programs to assess the benefits and the costs from the perspectives of releasees and of society, respectively.

#### Rehabilitation in Prison

- Revisit the use of prison and jail time to provide drug and alcohol treatment and related services and to make investments in education, training, and work experience, as well as in psychosocial adjustment and development pre-release.
- Develop demonstration projects to test work release and in-prison industries and savings plans to help cushion the financial demands of a return to society.

#### Returning Ex-Offenders

- Build the capacity of community-based programs to help with the transition from prison to community and to help solve family, work, housing, drug, and psychosocial adjustment problems.
- Reform of the probation/parole systems to favor a rehabilitation focus over a surveillance/monitoring and enforcement focus. This might include testing alternative sanctions short of long-term imprisonment for violations in combination with active assistance in finding and holding onto a job, all in conjunction with drug treatment, if needed.
- A litigation and rights strategy to redress laws that impede community transition, including the right to vote, to obtain public benefits if one has served his or her time, and to solve the employment discrimination problems ex-offenders face as a result of insurance liability restrictions and federal occupational restrictions.

A rethinking of criminal justice won't be easy; there is widespread perception, much of it apparently false, that incarceration is the cause of the reductions in crime the nation's cities and towns experienced in the last two decades (Western, 2008; Raphael and Stoll, 2007). Thus, a comprehensive strategy would support research about the increase in incarceration and its crippling costs, both human and fiscal; advocacy designed to increase public and policymaker understanding of these issues; systems change grants to

encourage and support state efforts at reform; and demonstration projects in each of the main venues from alternative sentencing to parole and probation reform.

**Signature Project: The Next Generation of Employment Programs for Reentering Ex-Prisoners.** Even if long-run reform requires changes to sentencing laws, the reality remains that each year 700,000 recently released prisoners reenter communities all across the country. Roughly two-thirds will be rearrested and half will be reincarcerated within three years. Thus, in one sense, the backdoor of the criminal justice system — the door out of prison into communities — turns out to also be a route back to the front door. If a better job could be done in facilitating community reentry, it could have a significant impact on the total size of the prison population. Because a large proportion of reincarcerations involve parole violations, remaking parole would also need to be a part of this effort.

A smattering of reentry demonstration projects are now underway, some spurred by the Department of Justice, others by foundations. Most rely on transitional job models that provide a day's pay for a day's work, job readiness assistance, and help finding an unsubsidized job. Early results from one experiment suggest large initial employment effects, but these impacts fade within six months of follow-up, indicating that the transition from subsidized transitional jobs to more permanent unsubsidized jobs could be improved. Encouragingly, transitional jobs seem to have a positive effect on short-term recidivism. Longer follow-up is needed to determine how long-lasting the recidivism reduction might be. A next generation of reentry efforts that built on these early results is needed. These efforts should systematically experiment with transitional jobs of longer duration, models that allow those whose unsubsidized jobs did not work out to return to a transitional job, and models that combine transitional jobs with drug treatment and other more intensive treatment and services, on-site supervision in private sector jobs, and wage supplements designed to help make work pay for men who take very low-wage jobs.

#### **Strategy IV: Invest in Asset-Building and Credit Reform for the Poor**

In recent years, Melvin Oliver, Michael Sherraden, and others have highlighted the huge disparities in wealth between blacks and whites and between the poor and others — differences many times larger than the educational, employment, and earnings disparities mentioned above. This has led to widespread interest in, and experimentation with, a variety of asset-building models that included matched savings, individual development accounts (IDAs), the use of tax refunds to start IRAs, and the promotion of new lending models to help low-income families own their own homes, the primary means of growing assets for most Americans. While the long-term homeownership story is still playing out, initial results from the collaboration between the Center for Community Self-Help and Fannie Mae have generally been thought to be positive, although the current meltdown in housing could deal it a serious blow. The IDA story is mixed: people do want to save, but the amounts they were able to put away are very small — typically a few hundred dollars — not at all sufficient to narrow the wealth gap.

A key lesson from this work is that asset-building is not feasible unless it begins with a major focus on earnings. Earnings are key to savings, even when those savings are matched. In turn, savings are key to building a credit history. Last is debt management. Reform on the debt side, principally ending predatory lending, is critical, including the practices of credit card companies that lure the poor deeper into debt and then tack on usurious fees and interest rate increases (in the 30 percent range) as debt rises and payments slip. The poor have few banking alternatives, and many rely on payday lenders to cash checks for a fee and to lend money at high rates.

**Signature Project: Expand the Existing Federal Credit Union System into a Nationwide Banking System for Low-Income Families.** Credit unions typically offer more favorable lending terms on mortgages and other big-ticket items and pay higher interest rates on savings. If the poor did not have to use payday lenders, if they could obtain credit cards that were designed to protect the consumer, if they could obtain reasonable interest rates on savings, and if they could borrow money at reasonable rates, the opportunity to save and invest would be enhanced. A strategic mix of research, advocacy, capacity-building, and demonstration grants to explore and experiment with alternative means of creating a reliable, non-predatory set of banking alternatives for the poor is needed. If this work demonstrates the feasibility of using an expanded form of the existing credit union banks to reach the poor, a program-related investment to begin building the capital base the bank would need to play this function could be attempted in several cities. The experience and accomplishments of the Center for Community Self-Help could provide a valuable platform from which to build this work. Indeed, some credit union banks have begun exploring trading their non-profit status for for-profit status, a direction that might undermine some of the characteristics that make the credit union bank such an attractive entity for the poor. Encouragingly, the Federal Deposit Insurance Corporation has been experimenting with a Small-Dollar Loan Pilot Program to explore how banks could offer small-dollar loans as an alternative to high-cost financial products, such as payday loans (see Burhouse, Miller, and Sampson, 2008). This program signals FDIC's interest in this set of issues.

## **Conclusion**

The long-term stagnation of earnings is one important reason that poverty has remained so impervious to economic growth. Declining earnings played a causal role in the decline in men's employment and a smaller but still important role in declining marriage rates and rising criminal activity. Public policies haven't done enough to address these problems, and sometimes they have unintentionally exacerbated them. The Mott Foundation, and the philanthropic sector generally, is in a good position to design, test, and advocate for a new set of policies that tackles the challenges posed by an economy that no longer rewards work at the low end. With sufficient investment, the philanthropic community can lead a national effort to both help workers struggling in low-wage jobs today and prepare today's children to be ready to succeed in the labor market of tomorrow. The strategies suggested here would draw on the full range of philanthropic tools to focus on the first part of this strategy: to learn what works to support low-wage workers and to take those lessons to scale.

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