



THE HAMILTON PROJECT POLICY RESPONSE TO THE 2015 STATE OF THE UNION ADDRESS

January 21, 2015

“That’s what middle-class economics is—the idea that this country does best when everyone gets their fair shot, everyone does their fair share, and everyone plays by the same set of rules.” —President Barack Obama, 2015 State of the Union Address

In his 2015 State of the Union address, President Barack Obama stated: “The verdict is clear. Middle-class economics works.” With a strong focus on how policies that promote the expansion of opportunity have been critical to economic growth, this year’s State of the Union address emphasized the need to restore the link between hard work and growing opportunity for every American: especially low- and middle-income individuals.

The President focused on a range of policy opportunities to provide more security for working families, including expanding access to affordable child care; lowering the taxes of working families; enhancing employment and education options; developing more robust worker training programs; and investing in infrastructure and energy innovations.

Since its launch in 2006, The Hamilton Project has released a range of targeted policy proposals that provide innovative, evidence-based approaches for addressing many of the policy priorities set forth in last night’s address. In this document, we highlight those that are most relevant to the goals and ideas explicitly promoted in the speech and reflective of the current policy context.

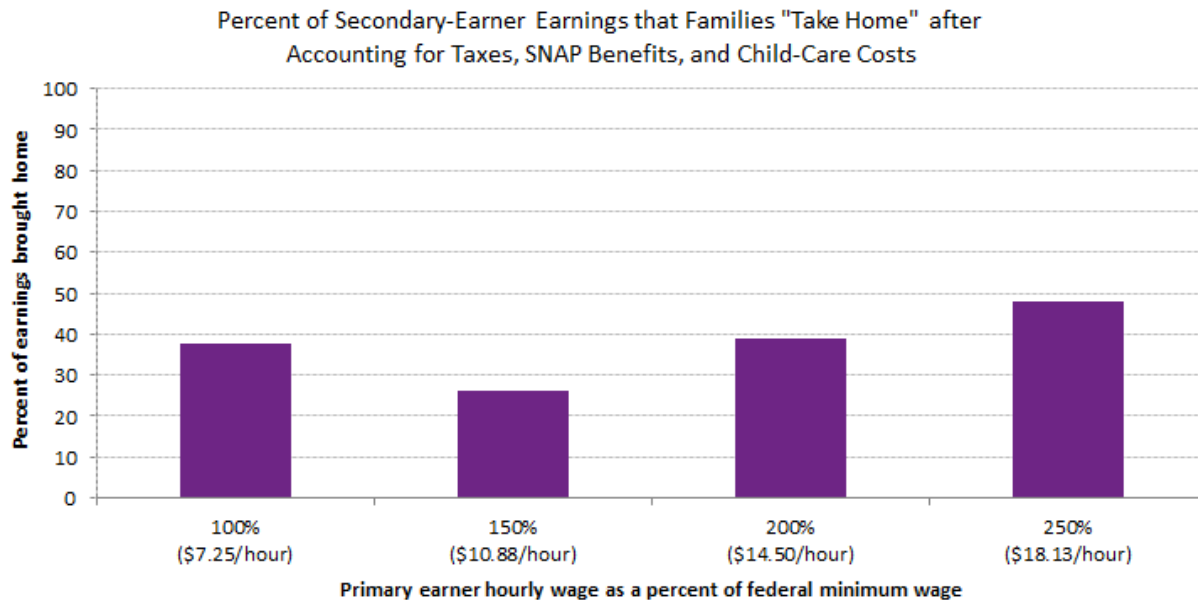
[A DOZEN FACTS ABOUT AMERICA’S STRUGGLING LOWER-MIDDLE CLASS](#)

This Hamilton Project policy memo provides a dozen facts on struggling lower-middle-class families and focuses on two key challenges: food insecurity, and the low return to work for these families who lose tax and transfer benefits as their earnings increase. This set of facts highlights the critical role of federal tax and transfer programs in providing income support to families struggling to remain out of poverty.

“We need a tax code that truly helps working Americans trying to get a leg up in the new economy, and we can achieve that together.” —President Barack Obama, 2015 State of the Union Address

Many families in America’s struggling lower-middle class live in economically precarious situations. Though not officially poor, these families experience limited economic security; one major setback in income could push them into poverty. In existing work, The Hamilton Project explores innovative tax proposals that boost individuals’ incentives to work and enhance their economic security, including: increasing the return to work for secondary earners within two-earner families, making child care more affordable, and expanding the Earned Income Tax Credit (EITC) to single individuals.

A full-time secondary earner in a low- or middle-income family takes home less than 50 percent of his or her earnings.



Source: Kearney and Turner 2013 using TAXSIM simulations.

Note: The bars represent take-home earnings after accounting for changes in taxes (payroll and federal), SNAP benefits, and child-care costs. Each bar represents a family of four (two adults, two children) headed by a full-time worker that earned between 100 and 250 percent of the federal minimum wage (i.e., \$15,080 to \$37,700 annually). The bars represent the take-home secondary-earner earnings generated from adding a second full-time worker with the same hourly wage to the household.



[GIVING SECONDARY EARNERS A TAX BREAK: A PROPOSAL TO HELP LOW-AND MIDDLE-INCOME FAMILIES](#) by Melissa Kearney and Lesley Turner

The authors propose a secondary-earner tax credit that would help make work pay for dual-earner families, in an effort to alleviate how the current tax system hampers low- and middle-income families who add secondary earners to the workforce to augment their primary breadwinner's income.

[SUPPORTING LOW-INCOME WORKERS THROUGH REFUNDABLE CHILD-CARE CREDITS](#) by James P. Ziliak

The author proposes converting the federal Child and Dependent Care Credit from a nonrefundable tax credit to a refundable one; and capping eligibility at an income of \$70,000, with the value of the credit depending on income, the age of the child, and utilization of licensed care facilities.

[EMPLOYMENT-BASED TAX CREDITS FOR LOW-SKILLED WORKERS](#) by John Karl Scholz

The author proposes an expansion of the Earned Income Tax Credit for low-income, childless taxpayers; and a targeted wage subsidy for low-wage workers who live in certain economically depressed areas. These proposals are designed to increase the return to work help families in low-income communities, where unemployment rates are high, incarceration rates of low-skilled men are high, and a large fraction of children are being raised in single-parent households.

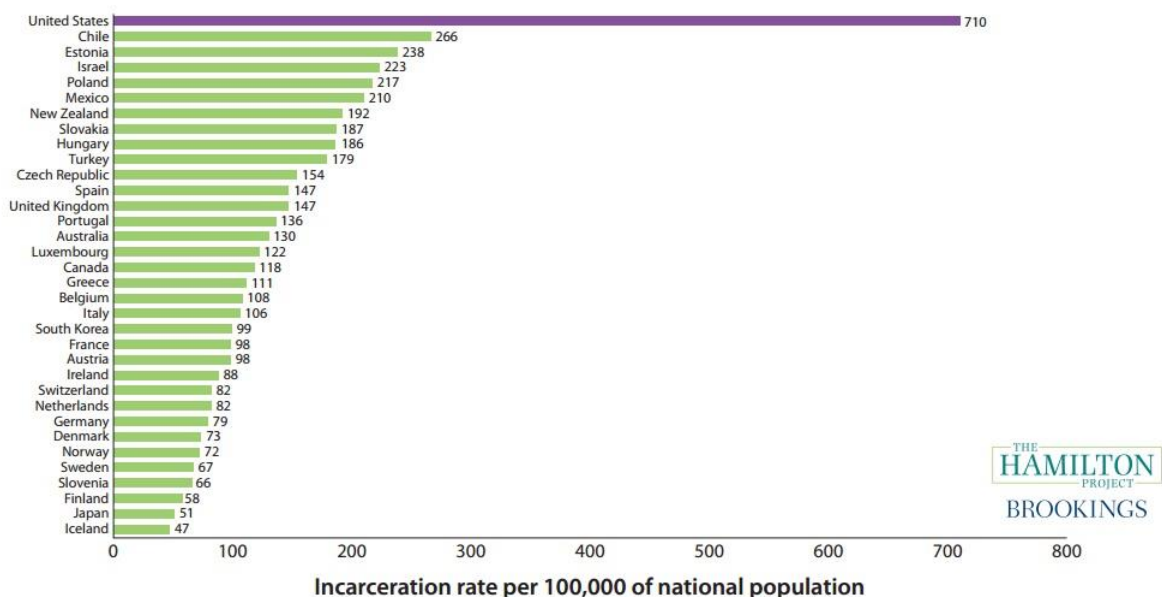
CRIME AND INCARCERATION

“Surely we can agree it’s a good thing that for the first time in 40 years, the crime rate and the incarceration rate have come down together, and use that as a starting point for Democrats and Republicans, community leaders and law enforcement, to reform America’s criminal justice system so that it protects and serves us all.” —President Barack Obama, 2015 State of the Union Address

High rates of crime and incarceration impose tremendous costs on society, with lasting negative effects on individuals, families, and communities. In the United States, roughly 710 out of every 100,000 American residents are incarcerated—a rate that vastly exceeds that of other developed countries and that largely reflects our nation’s sentencing policies. Although crime rates in the United States have been falling over the past two decades, crime still also constitutes a serious economic and social challenge. In existing work, The Hamilton Project has examined crime and incarceration in the United States through an economic lens.

Incarceration Rates in OECD Countries

With an incarceration rate of 710 inmates per 100,000 residents, the United States stands in stark contrast to the typical incarceration rate of 115 among OECD nations.



Source: [Ten Economic Facts about Crime and Incarceration in the United States](#), by Melissa S. Kearney, Benjamin H. Harris, Elisa Jácome, and Lucie Parker; originally from (1) Glaze, Lauren E., and Erinn J. Herberman. 2013. “Correctional Populations in the United States, 2012.” Bureau of Justice Statistics, Office of Justice Programs, U.S. Department of Justice, Washington, DC; and (2) Walmsley, Roy. 2013. “World Prison Population List (tenth edition).” International Centre for Prison Studies, London, United Kingdom.

[A NEW APPROACH TO REDUCING INCARCERATION WHILE MAINTAINING LOW RATES OF CRIME](#) by Steven Raphael and Michael Stoll

The authors offer reforms to lower the fraction of the U.S. population behind bars while maintaining historically low rates of crime. These reforms are intended to address large increases in the U.S. incarceration rate over the past three decades, which are costly in terms of both explicit expenditures and the collateral social consequences for those who serve time—and for the communities from which they come.

[THINK BEFORE YOU ACT: A NEW APPROACH TO PREVENTING YOUTH VIOLENCE AND DROPOUT](#) by Jens Ludwig and Anuj Shah

The authors propose a federal government scale-up of cognitive behavioral therapy (CBT) programming, which is intended to help disadvantaged youth recognize those situations in which their automatic responses could lead to trouble, and to help them slow down and act more deliberately. Evidence from four separate randomized controlled trials suggests that this effort could improve the long-term well-being of our nation's most disadvantaged young people, reduce crime, and improve school attainment.

[TEN ECONOMIC FACTS ABOUT CRIME AND INCARCERATION IN THE UNITED STATES](#)

This Hamilton Project policy memo provides a series of facts highlighting recent trends in crime and incarceration in the United States. Specifically, it explores the characteristics of criminal offenders and victims; the historically unprecedented level of incarceration in the United States; and evidence on both the fiscal and social implications of current policy on taxpayers and those imprisoned.

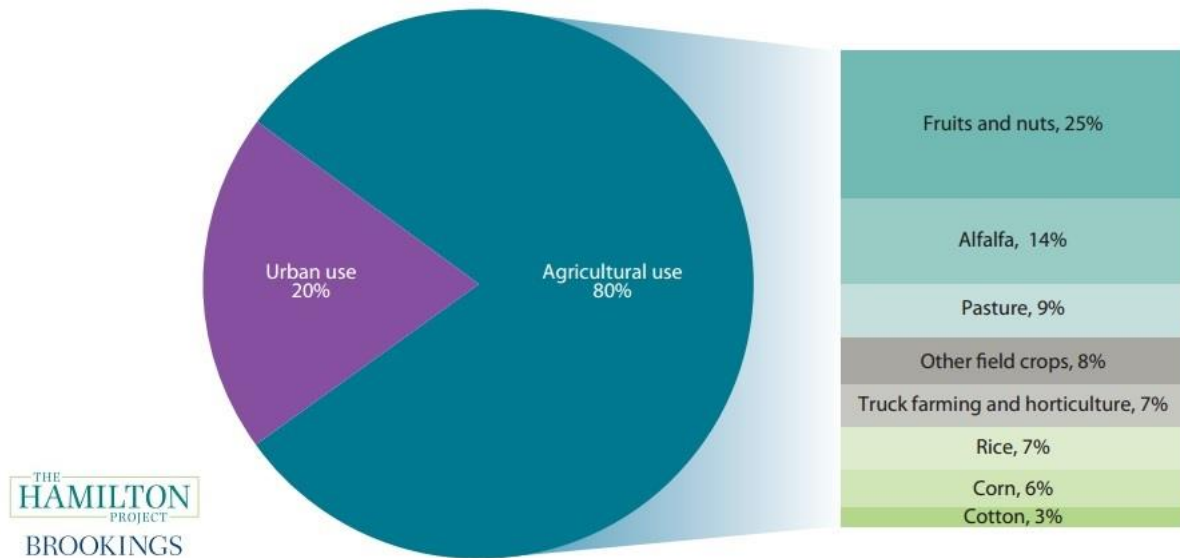
NATURAL RESOURCES

“That's why, over the past six years, we've done more than ever before to combat climate change, from the way we produce energy, to the way we use it. That's why we've set aside more public lands and waters than any administration in history...”—President Barack Obama, 2015 State of the Union Address

Water, oil, and gas are natural resources that are critical to America's social, economic, and ecological well-being. Yet, much of the western United States suffers from chronic droughts. Meanwhile, consensus has yet to be achieved on the most effective way to address the costs associated with climate change. In existing work, The Hamilton Project offers solutions for addressing the looming water and energy crises that our nation faces.

Freshwater Use in California by Sector and Crop, 2006–10

Almost 40 percent of California’s freshwater withdrawals are used for the production of fruits, nuts, and alfalfa.



Source: *In Times of Drought: Nine Economic Facts about Water in the United States*, by Melissa S. Kearney, Benjamin H. Harris, and Brad Hershbein; originally from Hanak, Ellen, Jeffrey Mount, and Caitrin Chappelle. 2014. “Just the Facts: California’s Latest Drought.” Public Policy Institute of California, San Francisco.

THE MANY BENEFITS OF A CARBON TAX by Adele Morris

The author proposes a carbon tax as a new source of revenue that could also help address climate change. In addition, the author suggests that a carbon tax would: reduce the buildup of greenhouse gasses; replace command-and-control regulations and expensive subsidies with transparent and powerful market-based incentives; and promote economic activity through reduced regulatory burden and lower marginal tax rates.

SHOPPING FOR WATER: HOW THE MARKET CAN MITIGATE WATER SHORTAGES IN THE AMERICAN WEST by Peter Culp, Robert Glennon, and Gary Libecap

The authors present five proposals to encourage the use of market mechanisms to increase flexibility and resilience in water management. Specifically, the authors propose that states: reform legal rules discouraging water trading to enable short-term water transfers; create basic market institutions to facilitate trading of water; use risk mitigation strategies to enhance system reliability; and protect groundwater resources. The authors also call for continued and expanded federal leadership to address this issue.

THE PATH TO WATER INNOVATION by Newsha Ajami, Barton “Buzz” Thompson, and David Victor

The authors suggest that solutions to the country’s growing water challenges lie, in part, with the development and adoption of new innovative technologies. Specifically, they present three recommendations to facilitate greater innovation in the water sector: pricing policies that would both better align with the full economic cost of supplying water and decouple revenues from the volume of water supplied; regulatory frameworks to create an open and flexible governance environment that is innovation friendly and encourages valuable new technologies; and financing and funding mechanisms, such as a public benefit charge on water, that can help raise sufficient funds to implement innovative solutions.

POST-SECONDARY EDUCATION

“Whoever you are, this plan is your chance to graduate ready for the new economy, without a load of debt... I want to spread that idea all across America, so that two years of college becomes as free and universal in America as high school is today.” —President Barack Obama, 2015 State of the Union Address

Community colleges serve a critical role in our nation’s system of higher education and post-secondary training. They provide—or have the potential to provide—crucial labor market skills to a wide and diverse set of students. For many, they also provide a pathway to a four-year degree. In existing work, The Hamilton Project has focused on ways to effectively address the challenges of making post-secondary education more affordable and accessible for a wider segment of the population.

[ADDRESSING THE ACADEMIC BARRIERS TO HIGHER EDUCATION](#) by Bridget Terry Long

The author proposes that school districts, community colleges, university systems, and state and federal governments reform the college remediation system by improving placement in remediation classes, providing better remediation services, and adopting measures to prevent the need for remediation. This proposal—targeted at disadvantaged, academically underprepared students in high school and college—aims to reduce the need for college-level remediation and to better match underprepared students with effective resources to equip them with the skills they need to succeed in college and in the workforce.

[REDESIGNING THE PELL GRANT PROGRAM FOR THE TWENTY-FIRST CENTURY](#) by Sandy Baum and Judith Scott-Clayton

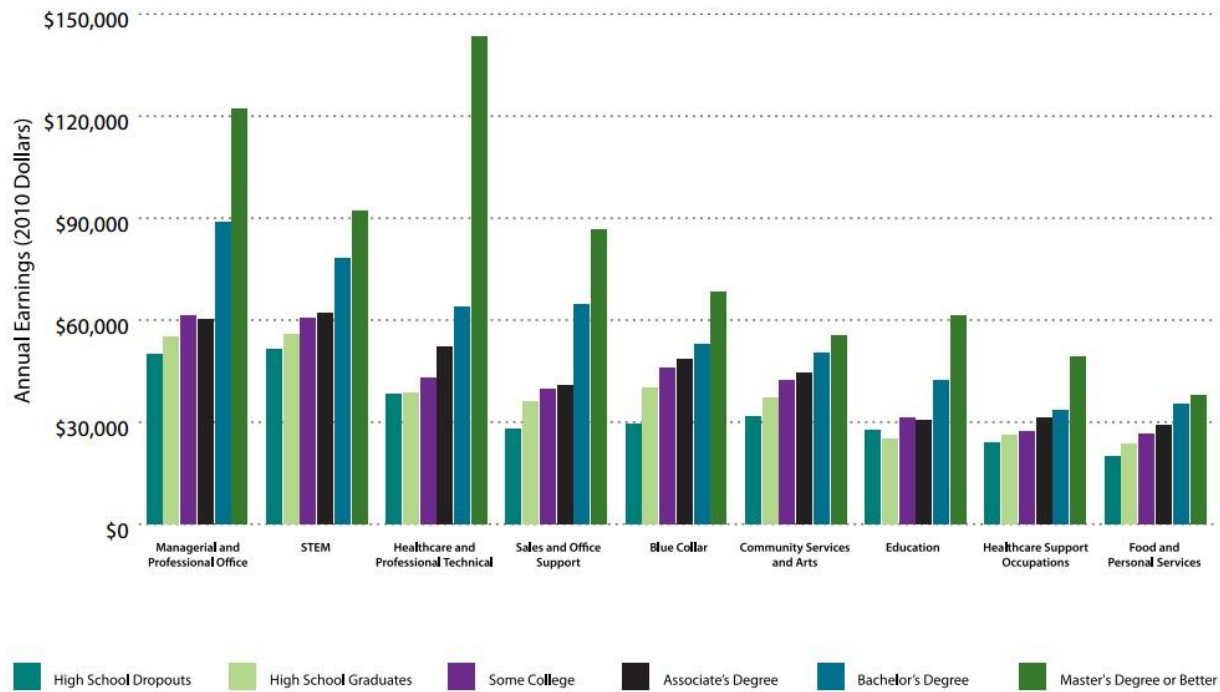
The authors propose three major structural reforms to fit the needs of a twenty-first-century economy and student population: augmenting Pell financial support with tailored guidance, simplifying the eligibility and application process, and strengthening incentives for student effort and on-time completion.

WORKFORCE TRAINING AND HIGHER EDUCATION REFORM

“Second, to make sure folks keep earning higher wages down the road, we have to do more to help Americans upgrade their skills.” —President Barack Obama, 2015 State of the Union Address

In a rapidly- changing global economy, the skills of some workers have become less valuable, while other skills are in short supply. However, through collaborations with industry partners and drawing on evidence about what works, training programs can better prepare workers for jobs in growing industries. In existing work, The Hamilton Project has emphasized that individuals who obtain post-secondary education, including vocational training, have notably higher earnings than those with lower levels of education, and are more prepared for the demands of today’s labor market.

Average Earnings of US Workers by Educational Attainment within Occupation/Industry Groups



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BROOKINGS

Source: [Raising Job Quality and Skills for American Workers: Creating More-Effective Education and Workforce Development Systems in the States](#) by Harry J. Holzer; originally from Carnevale, Anthony, Nicole Smith, and Jeff Strohl. 2010. Help Wanted: Projections of Jobs and Education Requirements Through 2018. Washington, DC: Georgetown Center on Education and the Workforce.

IMPROVING EMPLOYMENT OUTCOMES FOR DISADVANTAGED STUDENTS by Harry J. Holzer

The author proposes to create financial incentives for public colleges and university systems to offer classes in high-return fields and for employers to offer more training to their employees. Targeted at disadvantaged youth who have some academic preparation for higher education, this proposal, aims to generate better labor market outcomes and wage gains.

EXPANDING APPRENTICESHIP OPPORTUNITIES IN THE UNITED STATES by Robert I. Lerman

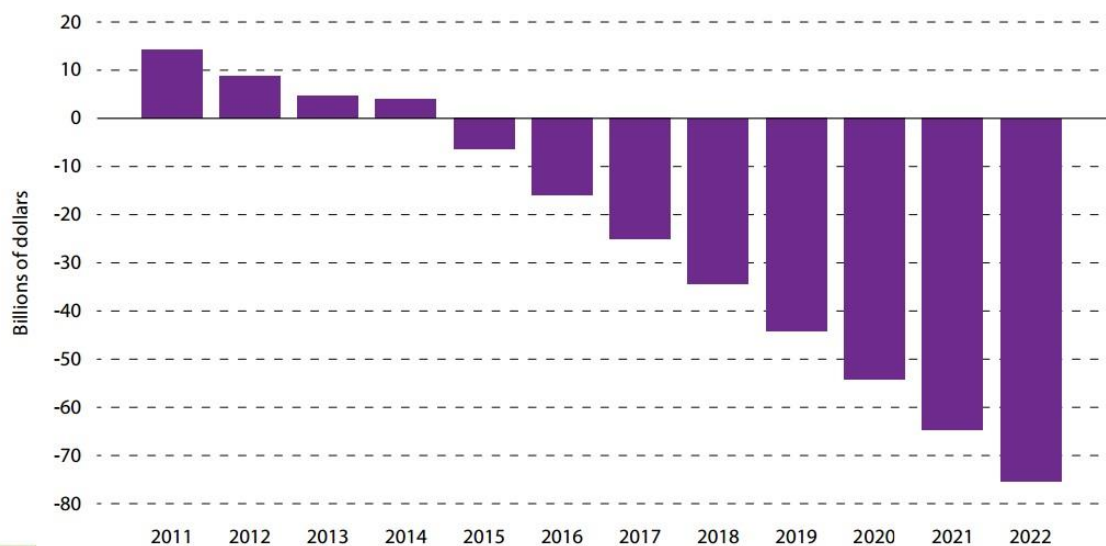
The author proposes a series of targeted federal and state-level initiatives to expand access to registered apprenticeship programs by creating marketing initiatives, building on existing youth apprenticeship programs, extending the use of federal subsidies, and designating occupational standards. Targeted toward at-risk youth and middle-skill adults in low-wage jobs, this proposal aims to improve human capital and raise earnings for apprentices.

INFRASTRUCTURE

“21st century businesses need 21st century infrastructure—modern ports, stronger bridges, faster trains and the fastest internet... Let's pass a bipartisan infrastructure plan that could create more than thirty times as many jobs per year, and make this country stronger for decades to come.” —President Barack Obama, 2015 State of the Union Address

Infrastructure investment has the potential to benefit the broader U.S. economy by increasing revenues, creating jobs, reducing congestion, and improving public safety. In existing work, The Hamilton Project examines structures for strengthening public-private collaboration and attracting private investment to build and improve roads, bridges, and ports to spur economic development.

Highway Trust Fund Projections



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BROOKINGS

Source: [Funding Transportation Infrastructure with User Fees](#) by Jack Basso and Tyler Duvall; originally from Congressional Budget Office (CBO). 2012. “How Would Fuel Economy Standards Affect the Highway Trust Fund?”

[FIX IT FIRST, EXPAND IT SECOND, REWARD IT THIRD: A NEW STRATEGY FOR AMERICA’S HIGHWAYS](#) by David M. Levinson and Matthew E. Kahn

The authors propose a reorganization of our national highway infrastructure priorities to preserve, maintain, and enhance existing infrastructure and the creation of the Federal Highway Bank to meet these goals.

[PUBLIC-PRIVATE PARTNERSHIPS TO REVAMP U.S. INFRASTRUCTURE](#) by Eduardo Engel, Ronald Fischer, and Alexander Galetovic

The authors propose a series of best practices for state and local governments to follow when using public-private partnerships to provide infrastructure. These include choosing partnerships for the right reasons, relying on flexible-term Present-Value-of-Revenue contracts, including partnerships on government balance sheets, and implementing good governance practices.

[FUNDING TRANSPORTATION INFRASTRUCTURE WITH USER FEES](#) by Jack Basso and Tyler Duvall

The authors recommend expanding the use of user fees and tolls to fund ground transportation. This would benefit the broader U.S. economy by increasing revenues, reducing congestion on major roadways, and reducing pollution.

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